



Building strong partnerships



SureserveGroup

Sureserve Group plc Annual Report 2019





Building strong partnerships with...

Employees

Communities

Governments

See how we are doing this on pages 06 – 07

See how we are doing this on pages 12 – 13

See how we are doing this on pages 18 – 19

Who we are

The Sureserve Group is a compliance and energy services group.

We make a difference to people's lives by delivering comprehensive and high quality services in a range of sustainable markets including social housing, public buildings, education, energy services and industrial and commercial buildings.

This year the Group has delivered its services in a totally carbon neutral status.

 Find more online at www.sureservegroup.co.uk

 View Sureserve at a glance on pages 02 – 03

Our divisions

Compliance

AaronServices
Part of the Sureserve Group

K&THeating
Part of the Sureserve Group

AlliedProtection
Part of the Sureserve Group

PrecisionLifts
Part of the Sureserve Group

H2ONationwide
Part of the Sureserve Group

SureMaintenance
Part of the Sureserve Group

Energy Services

Everwarm
Part of the Sureserve Group

Provider
Part of the Sureserve Group

Strategic review

01	2019 highlights
02	Sureserve at a glance
04	Executive Chairman's statement
06	Case study
08	Markets
10	Business model
12	Case study
14	Strategy
16	Key performance indicators
18	Case study
20	Operational review
26	Financial review
29	Principal risks and uncertainties
32	Sustainability

Governance

38	Board of Directors
40	Chairman's Corporate Governance report
46	Corporate Governance report
47	Nomination Committee report
48	Audit Committee report
50	Directors' remuneration report
55	Directors' report
58	Statement of Directors' responsibilities

Financial statements

59	Independent auditor's report
62	Consolidated statement of comprehensive income
63	Consolidated statement of financial position
64	Consolidated statement of changes in equity
65	Consolidated statement of cash flows
66	Notes to the consolidated Financial Statements
88	Company balance sheet
89	Company statement of changes in equity
90	Notes to the Company Financial Statements
IBC	Corporate directory



Alex Haughton (left) and Craig Lawrenson (right) are Dual Fuel Team Leaders at Providor, overseeing many of the 137,000 smart meter installations the business delivered this year.

2019 highlights

Operational highlights

- Compliance and Energy Services are well established, low risk divisions with good visibility and operational leverage, which together recorded revenue growth of 11% (2018: 5%)
- Outstanding record of 146 contract wins valued at £147.3m
- Operating cash conversion from continuing operations of 106% (2018: 60%). Cash conversion on a statutory basis was an inflow of 59% (2018: outflow of 71%)
- The Group achieved carbon neutral operations within the period
- Strategic and operational plans implemented
 - Operational improvement plan conducted through the year
 - Ongoing focus on smart metering and readiness for SMETS2 roll-out

Financial highlights

£212.1m

(2018: £190.8m, 11% growth)

Revenue

£9.4m

(2018: £8.0m, 16% growth)

Operating profit before exceptional items and amortisation of acquisition intangibles

£5.3m

(2018: £1.9m, 174% growth)

Profit before tax from continuing operations

£7.4m

(2018: £11.4m)

Year-end net debt

2.7p

(2018: 0.7p)

Earnings per share ('EPS') from continuing operations

Services to homes, businesses and communities

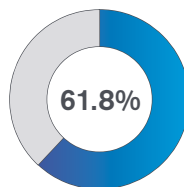
Compliance

The Compliance division comprises services in the areas of gas, fire and electrical, water and air hygiene and lifts. Services include planned and responsive maintenance, installation and repair.

 **Read about our Compliance businesses** on pages 21 – 22

2019 revenue

£133.1m*
(2018: £116.3m)*



Key business drivers

- Highly regulated markets
- Client requirements for multiple service lines on a national basis
- Mix of work (service, maintenance and project)
- Seasonal influences in gas and lift markets
- Reliability and performance of service
- Productivity and manpower efficiency

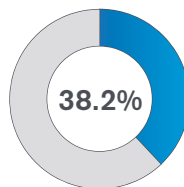
Energy Services

The Energy Services division comprises energy efficiency services, renewable technologies and smart metering services.

 **Read about our Energy Services businesses** on pages 23 – 25

2019 revenue

£82.1m*
(2018: £77.7m)*



Key business drivers

- Fuel poverty
- Compliance with claims submission process
- Scheduling of manpower, especially in smart metering
- Responsiveness to market changes and opportunities
- Client service
- Understanding subsidy regimes

* Divisional revenue figures include revenue from intercompany trading which accounts for a total of £3.1m in 2019 and £3.2m in 2018.

Our investment case

Our investment case is focused on delivering sustainable long term returns and creating value for our stakeholders.

1

Differentiated through our service offering in tightly regulated sectors

Our focus on quality differentiation and breadth of service attracts and retains core clients, positioning us for further growth in what is a fragmented and regional market.

2

Experienced leadership

Our management team has widespread and extensive experience in delivering successful results in our sector, and has developed a streamlined and focused organisational structure, strengthening our operations with an ongoing focus on operational efficiency and cost savings.

Our key inputs

Our vision is to be a unique and outstanding compliance and energy support services group, where we lead our market and innovate in our sectors.

To achieve this, we aim to use our expertise and our people's passionate commitment to excellence in ways that help keep individuals, families, communities and businesses across the UK warm, safe and sustainable, whilst also achieving carbon neutrality in the delivery of our operations.

We work across a number of markets – social housing, public buildings, energy services and industrial and commercial buildings.

The majority of our clients are housing associations, local authorities and other government bodies, private households and organisations.

We bring expertise in a range of key areas, including:

Energy Services

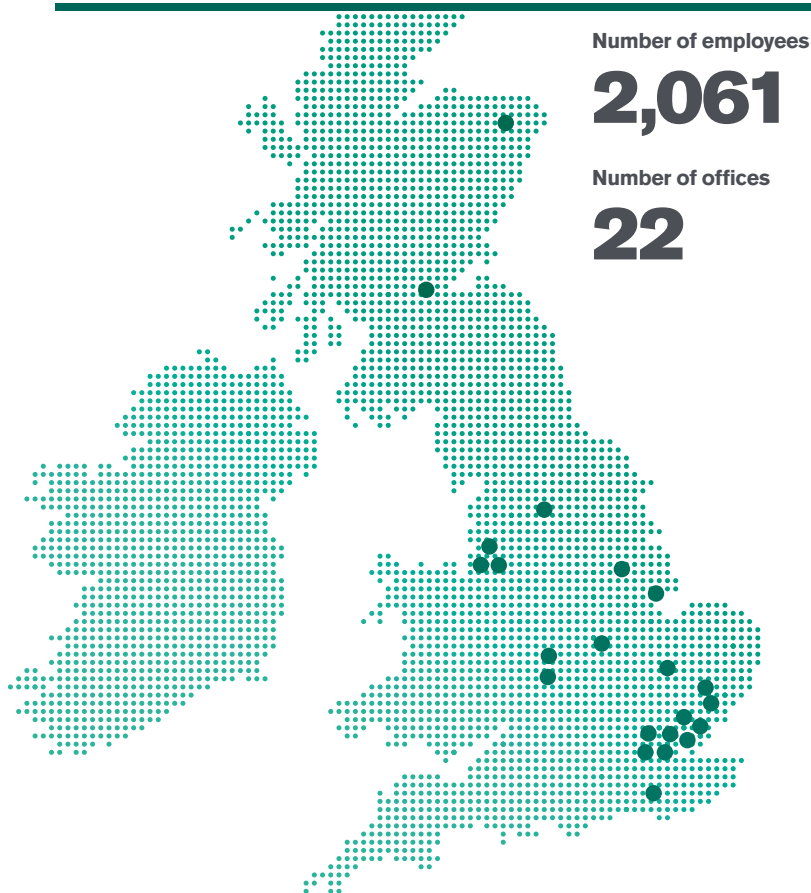
Insulation, heating systems, renewable technologies and smart metering.

Compliance

Gas, fire and electrical, water and air hygiene and lifts.

We underpin these services with a commitment to quality and building relationships through which we aim to be our clients' most trusted partner and first choice for their most important projects.

Our locations



Our key markets

Social housing

We have a wealth of experience, delivered over many years, providing asset management services to social housing clients, working with their residents and improving their communities.



Public buildings

We work closely with our clients and partners to deliver a range of services to public buildings that fulfil the diverse needs of modern communities.



Energy

A number of our specialist businesses work within the energy market delivering vital services to central government in Scotland and Wales, energy companies, businesses, landlords and homeowners.



Industrial and commercial

We are perfectly positioned to deliver a range of market leading services to clients in the industrial and commercial sectors.



3

Strong market positions

Leadership positions in non-volatile markets with recurring, predictable revenues, which in turn ensure long term sustainable growth. We hold long term contracts working with both the Scottish and Welsh Governments.

4

Strong performance and operational excellence

Successful implementation of our strategy to create a national service platform has led to a period of consistent growth in both revenue of 11% and profit before tax of 174%.

5

Growing geographical footprint

We have built a Group that is focused on delivering high quality services across the UK from regional offices using local workforces with continued expansion of our activities.

6

Strong brands and established reputation

For more than 30 years the Group has worked closely with clients, providing the services necessary for communities to thrive.



Wind in our sales

This is the first year of reporting without the impact of our previously divested companies in Construction and Property Services.

Introduction

I am pleased to report excellent progress with results ahead of both market expectations and our own internal targets. Our management teams have seized the opportunity to perform and we are pleased to report profitable and cash-generative growth.

Demand for the Group's services continues to be strong, on the back of its reputation for the delivery of quality services and market leading positions in the highly regulated public sector gas maintenance and energy management sectors. We operate across both the public and private sector markets which have seen difficult UK-wide trading conditions, and our performance against this is a demonstration of our ability to win new business on a profitable and cash-generative basis.

We continue to work through the legacy of the divested businesses and, having undertaken a full evaluation, believe that provisions for any outstanding liabilities which were fully provided for this time last year continue to be sufficient.

Both our Compliance and Energy Services divisions have continued to show a significant improvement year on year, and it is pleasing to see our smart meter installation business achieve profitability and we look to the future with a positive view on that business. The two operating divisions of today's streamlined and rationalised Group have strong market positions and a portfolio of leading brands built on the expertise and quality commitment of our people, ensuring our customers are willing to pay a premium for our service provision.

Trading performance

The Group made excellent trading and operational progress throughout the year and exceeded both internal and external trading forecasts. Indeed, four of our businesses, including all three of our gas businesses, reported record revenues and profits during the year. We continue to look to improve our performances across all businesses. Our cash management in the year was excellent, generating 106% operating cash conversion against EBITA. Having also funded some of the fully provided legacy costs, this sets up a strong platform for the strategy of reducing debt year on year and hitting our internal targets of 80% cash conversion. Our basic earnings per share from continuing operations increased to 2.7p from 0.7p in 2018 and our basic earnings per share from continuing and discontinued operations grew to 3.2p from a loss of 6.6p in 2018. If basic earnings per share from continuing operations were adjusted to exclude amortisation of acquisition intangibles and share-based payments, they would be 4.4p, up on 3.0p in 2018. Our bidding pipeline remains strong and, again, the year under review demonstrated the different dynamics of where we are now positioned. The Financial Review starting on page 26 gives a full review of these results.

Our growth trajectory

We believe we are the leading provider of gas installation and maintenance services to the public sector. In addition we hold long term joint venture contracts with both the Scottish and Welsh Governments. We have first class service level performance which has given the Group an enviable positioning when bidding for larger multi-location contracts for large regional and national property owners.

As I have already indicated, organic growth from continuing operations was strong during the year, with important contract wins significantly strengthening our presence across the UK. Please see pages 21 to 24 for a full report on the many wins by both our operating divisions. These include a contract extension to the Warmer Homes Scotland initiative for the Scottish Government until 2022, as well as a significant smart metering win with Octopus Energy worth up to £9.4m over an initial 18-month term.

We have now also concluded the mobilisation of the Arbed 3 programme for the Welsh Government via our joint venture with the Energy Saving Trust, which focuses on improvements to those households likely to be living in severe fuel poverty, and the contract is now progressing as planned. Increasingly, such contract wins are further strengthening the national platform on which we base our ability to deliver a high quality service at a local level. Aspiring to be this kind of business means we must be the supplier or partner of choice in all the markets where we operate.

In the year we successfully bid for and won a number of contracts in our gas services businesses including those with Adur and Worthing District Council, Grand Union Housing, Thurrock, Corby, Welwyn and Hatfield and Ipswich Borough Councils. Elsewhere we were awarded contracts with Tolcross Housing Association, Optivo, Wandle Housing Association, PureGym and the University of Sheffield.

The order book stands at £333.2m demonstrating a strong platform for future work, although a fall of 13.5% on the 2018 figure of £385.0m. This reduction is due to the Group's targeted efforts on those long term contracts that either currently make money or, in the case of frameworks, provide future opportunities to make money in our core areas. Alongside this, non-core, loss-making and high risk works have not been reproced. The average contract length increased to four years.

The Group is also very proud to announce that it has achieved carbon neutral operations. This achievement is thanks to the work undertaken by our energy services business Everwarm and the carbon savings it delivered through the work it undertook during the period, which more than offsets the total Group carbon usage.

Our people

Across the Group, training is an essential platform to further develop our workforce. It allows us to bridge the skills gaps in many of our operational specialisations, as well as provide structured progression opportunities for potential managers or leaders. Developing on the previous year's investments, the Sureserve Academy consolidated its activities across the Group in holding the first Sureserve Academy event and awards. We brought together 120 Group employees undertaking training of all types, along with senior management, to share a day of team building and discussion regarding the Academy's aims, strategies and developments. It also hosted the Sureserve Academy Awards, rewarding training excellence across the businesses. The Overall Group Winner Award went to Liam Botting, trainee engineer at K&T Heating, who displayed 'empathy, dedication and understanding in his job' and was considered by colleagues to be an exceptional member of staff. We continue to develop our online management development programme alongside the Sureserve Academy, providing both skills and management training modules. Please see our Sustainability Report on page 32 for details of this and other new training initiatives we launched during the year.

We saw a number of Board changes during the year. I would like to thank Michael McMahon, who stood down as Chief Operating Officer in October, for his commitment and invaluable contribution to the Sureserve Group over the years. I wish him every success. For the foreseeable future I have assumed the role of Chief Executive Officer.

I also welcome Peter Smith, who joined the Group as Chief Financial Officer in July following an extensive search process. Peter has held senior finance roles at companies such as Mitie, OCS Group, Balfour Beatty and British Gas over the past 13 years and I look forward to working with him as we roll out our growth strategy over the years ahead.

Building on our strategy

During the year we have continued with our growth strategy, focused on Compliance and Energy Services to maximise the opportunities provided by a stable base of regular recurring and predictable revenues and profits.

- **Operational excellence:** we achieve a high level of new contract awards and keep our existing clients happy
- **Geography:** working in sectors which have traditionally been predominantly regional we have achieved scale and geographical coverage
- **Focused divisions:** in our market we believe that focus is the key. We have focused businesses in the sectors we have targeted which means we have a profitable and cash-generative business that is understood by all stakeholders
- **Working together:** cross-selling has proved successful in the past and we have strong track record at delivering a number of services to the same client

Dividend

In accordance with the principles of sound financial management and good governance, the Board aims to maintain a dividend that both recognises shareholder needs and expectations while retaining sufficient capital to drive future growth. The Board proposes a final dividend payment of 0.5 pence. It is the Board's intention to continue to consider future dividend payments based upon the trading performance of the Group.

Outlook

I would like to re-emphasise my confidence that, in looking forward, we now have a considerable opportunity to achieve sustainable and consistent growth, both organically as well as through acquisition. Strong regulatory drivers continue to underpin demand leading to a strong order book and visibility of future earnings.

We are a stable, growing and cash-generative Group that delivers operational excellence and builds strong relationships in highly regulated sectors that deliver significant recurring revenues. We have good relationships with governmental contracting organisations throughout the UK and especially with staff who are ultimately responsible for contracting the services we provide.

The Group is positioned to further build on our market leading positions in gas compliance and energy services, and our goal is to build an even stronger organisation based on predictable, non-volatile revenue streams from activities across a growing national footprint, delivering all the stability and financial returns that our shareholders expect.

We will continue to invest in our growing and increasingly skilled workforce, ensuring that the residents and communities we serve are provided the best the market has to offer, as well as the comfort and safety necessary for their well-being.

I personally look forward to bringing you further good news in the future.

Bob Holt OBE
Executive Chairman
20 January 2020

"We believe we are the leading provider of gas installation and maintenance services to the public sector. In addition we hold long term joint venture contracts with both the Scottish and Welsh Governments."

Bob Holt OBE
Executive Chairman



“The work can be hard but the challenge makes up for it, and when you’ve spent your time trying to figure out the issues, and you find it, it’s a brilliant sense of achievement. There’s a constant learning curve because of the number of possible problems you might face, but if you enjoy those challenges then it doesn’t seem like work at all.”

Sophie Peano

Gas Engineer at Sure Maintenance since May 2019

Maintenance

Part of the Sureserve Group



Social housing

Building strong partnerships with...

Employees

Passion and ambition characterise so many of our employees, and none more so than Sophie Peano, Gas Engineer at Sure Maintenance ('Sure').

Sophie was inspired to enter the gas trade by her father and brother, who have both worked at Sure in the past and who encouraged her to study gas utilisation at college. Sophie went on to gain work experience at Sure working alongside her father, as well as many other supportive colleagues who made her feel at home in what is predominantly a male dominated trade. Sophie gained her CCN1 and Gas Safe qualifications, going on to work on the business' Six Town Housing Association contract, based in Greater Manchester, again being trained and supported by another experienced mentor who has motivated her to improve and grow as an engineer. Currently Sophie works as a service engineer on a call-out rota, meaning she is part of Sure's round-the-clock repair team which gives crucial support to residents during this time of the year. Sophie continues to work hard to become a more experienced and knowledgeable engineer and hopes to develop her career at Sure and become a breakdown engineer in the future.



Watch a video of the Sureserve Academy's conference and event, held to inspire and celebrate trainees across the Group.



Read more about our employees on pages 32 – 35

Potential to expand

Under our streamlined and focused operational structure, our two operating divisions serve predominantly public sector clients in the social housing, public buildings and energy services markets. We are also selectively increasing our work for clients in the industrial and commercial markets.

Primary customers

Compliance

Social housing providers and an expanding presence among industrial and commercial clients, with a national footprint. Our Gas Compliance business is the UK market leader in its sector. We believe our wider Compliance division is the strongest in our core public sector markets.

Energy Services

Private and social housing providers, public and commercial building owners, the 'Big Six' power companies, other key independent energy 'challenger' utility companies and both the Scottish and Welsh Governments. We provide energy efficiency products and services to our customers, while installing and often managing domestic smart meters for clients nationwide. We are well positioned to take advantage of new technologies and energy systems and are exploring opportunities provided by demand for battery storage and vehicle charging points.

Our key markets

Social housing

We have a wealth of experience, delivered over many years, providing asset management services to social housing clients, working with their residents and improving their communities.



Public buildings

We work closely with our clients and partners to deliver a range of services to public buildings that fulfil the diverse needs of modern communities.



Energy

A number of our specialist businesses work within the energy market delivering vital services to central government in Scotland and Wales, energy companies, businesses, landlords and homeowners.



Industrial and commercial

We are perfectly positioned to deliver a range of market leading services to clients in the industrial and commercial sectors.



What drives our markets?

Gas compliance

Working in tightly regulated markets, we help our clients to meet their legal and regulatory obligations. Gas compliance services are usually mandatory and driven by regulation or legislation. This creates predictable demand for these services, which allows us to plan and invest.

Energy and renewables

A recent Government report indicated that more than 2.5 million families continue to live in fuel poverty in England, which has remained consistent with previous reports and represents 11% of all English households. While there is no longer any consolidated overview of the UK figures, recent Scottish Government figures suggest 25% of households (over 600,000) are in fuel poverty.

Energy providers remain obliged to fund energy efficiency and heating measures under the Government's Energy Company Obligation ('ECO') policy. A number of other key funding schemes exist, such as the Home Energy Efficiency Programmes ('HEEPs') from the Scottish Government, and Arbed 3 strategic area-based fuel poverty scheme in Wales, both of which Sureserve has involvement in through its joint ventures.

The Government and local authorities across the UK are committed to carbon emissions savings targets, which we help to deliver for them through our work for utility companies. The usage of 'climate emergency' language is becoming increasingly regular and is likely to drive a focus on carbon neutral and more recently 'net zero' policies, which should continue to support and grow the range of energy efficiency works we undertake.



Billy Frost, Heating Engineer for Aaron Services, began working for the business in 2003 on its Ipswich Borough Council contract, where he continues to deliver repairs and maintenance for residents across the borough.

Building compliance

The increasing unaffordability of private housing is creating huge demand for social housing. The 2018 Autumn Budget promised additional funding for 650,000 homes, and the 2019 Spring Statement set out further steps to deliver the ambition to raise housing supply to its highest level since 1970, with reports this is on track to reach 300,000 a year on average. This will undoubtedly continue to increase pressures among social housing providers to offer creative solutions and make the most of existing properties.

Metering

The national smart meter roll-out is a £13bn programme to install 53 million meters in over 30 million premises (households and small businesses) across Wales, Scotland and England. This has now been extended to the end of 2024, following a recent Government decision giving more time to address the technical challenges relating to the roll-out of the meters. As installers, we have been responsible for nearly 1 million of the more than 15 million smart meters that have already been installed and are ongoing with the installation of second generation 'SMETS2' meters on behalf of our clients. Improving energy efficiency is an important and recurring Government objective, setting ambitions to reduce fuel poverty in a context of legal climate change targets and political pressures. The extension provides further certainty of delivery for future years and stricter installation targets for our clients should generate more predictable volumes, in what has generally been seen as a positive move for the industry.

Our Energy Services division provides energy efficiency measures to improve properties' environmental performance. We install smart meters to enable more accurate and visible consumption monitoring to improve the focus on energy efficiency, and we believe this will lead to further opportunities for market development.

Market outlook

Clients must comply with regulations

We expect client demand for our services to continue growing. Such demand is largely driven by regulation and legislation. Our strong position in both the compliance and energy services sectors presents us with significant growth opportunities across a range of adjacent services and geographic markets.

Continued demand for social housing

Demand for social housing continues to grow, but client organisations are implementing active cost reductions. This is creating significant holes in housing funding models when compared to consumer price inflation and has caused some clients to review their budgets. In addition, the political significance of fuel poverty remains high, and Government will need to continue tackling this key social issue.

Customers have environmental targets

One of our core sources of funding is the ECO ('ECO 3') scheme, running until March 2022 under the current version of the scheme applying from October 2018. The Group has a wealth of experience in this area. We are also on national and regional programmes with the Scottish Government's flagship HEEPS2 programme, which has now been extended to 2022, and are acting as delivery partner for the Welsh Government for its Arbed 3 programme until 2021, with the potential for a two-year extension.

A reliance on better technology

The smart meter roll-out was originally due to be completed in 2020, but as we expected and as noted above this has now been extended to 2024, which we believe is a positive for our Group as it provides increased certainty over the coming years around targets for our customers. We are confident in the future of our markets, as demand is there and funding is in place.

Building strong relationships

Our long term approach is reflected in the strength and depth of our relationships, based on the quality of our work with our clients, their customers, communities, financial partners, our employees, shareholders and suppliers.

With highly experienced management and an exceptionally skilled workforce, we look to build our business in regulated markets where revenues are predictable.

1 How we work

Predictable and recurring revenue streams

By their nature, compliance services generate steady revenue streams as such services are frequently mandatory for many of our clients and driven by regulation.

The regulatory environment has placed increasing obligations on local authorities and social housing landlords to maintain housing stock and public buildings to applicable safety standards and this, in turn, has led to the growth and development of the gas, fire, air and water, and lift safety industry from which the Compliance division continues to benefit.

Careful project selection

We carefully select projects on the basis of the value we can generate through undertaking them, for ourselves, our shareholders, our clients, their customers and other stakeholders.

Our strong customer relationships and market intelligence are critical, enabling us to understand our clients' challenges and requirements, which are crucial to a successful tender. This involves assessing risks, returns, strategic fit and our ability to deliver against client expectations.

Relevant industry accreditations and certifications

The eight businesses across the Group hold a number of relevant industry accreditations and certifications which are either a statutory requirement for tendering for, or carrying out, work or may be helpful in securing new contracts.

Examples of our certifications and accreditations include: ISO 9001, 14001, 18001 and 50001, Gas-Safe, BAFE, EXOR, CHAS, Safe Contractor, NICEIC and Green Deal.

Working with Governments

We support the Governments we work with in their delivery of national fuel poverty schemes. We help to enhance the quality of life of those in need and improve the energy efficiency of properties, making a difference to them financially and to a wider overall consumption as we work towards Government carbon neutral and similar targets.

By setting up independent joint venture entities which exist for the purpose of delivery for the Government, we engage with our clients, utilising the range of skillsets available to us and our partners to best service our clients and those in need.

By delivering and exceeding on client target service levels and improvements for properties and householders, we help build the case for either additional spending or contract extension to allow for continued work to be delivered.

2 The outcomes we aim to generate

Sustainable growth

With a broad service offering and extensive geographic coverage, we primarily seek to grow organically. We believe that every new contract award provides a potential case study for the next opportunity. We have also acquired businesses that reinforce our ability to grow organically by improving our service offering, customer base, geographic footprint or opportunities for entering new markets. We only make acquisitions when we can clearly improve the business.

Number of employees

19	2,061
18	1,989
17	2,002

 **Read the case study** on pages 06 – 07

Client relationships

We aim to build ever better and deeper relationships with our clients, leading to contract renewals and extensions and a continuous flow of attractive tender opportunities.

Average value for long term maintenance contracts

19	£2.8m
18	£2.5m

 **Read the case study** on pages 12 – 13

Enhanced reputation

It is important to us that our clients, their customers and the communities where we work regard us in a positive light, recognising us for the quality of our work, our consideration as a contractor, our status as an employer and our role in promoting sustainable practices.

Revenue

19	£212.1m
18	£190.8m
17	£181.5m

 **Read the case study** on pages 18 – 19

3 The value created for stakeholders

Our clients

We deliver high quality services with great efficiency, enabling our clients to meet their legal, regulatory and environmental obligations.

Our clients' customers

We provide safe, warm and well-maintained homes and buildings that improve their quality of life.

Communities

We deliver increased employment opportunities, skills and better infrastructure and provide leadership for community initiatives.

Financial partners

Our responsible business management reflects our deep understanding of risk versus returns.

People

We offer interesting, challenging careers in a well-managed and growing business that provides the opportunity for development and progression.

Shareholders

We operate in non-volatile trading environments with predictable recurring cash flows that should deliver growing revenues and profits.

Suppliers

We provide opportunities for national and local suppliers to grow their business by developing strong relationships with an expanding group.



Social housing

Building strong partnerships with... Communities

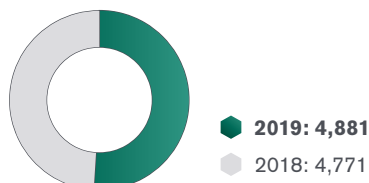
Aaron Services began delivering multi-fuel servicing, gas maintenance, repair and installations to the City of Lincoln Council's ('CLC') 8,000 domestic and commercial properties in 2006, and they celebrated their 13th year working together in April 2019.


The longevity of the partnership and the development of a close working relationship and 'one-team' approach has been underpinned by a commitment to prioritise Lincoln's residents, local people, businesses and local economy to meet Aaron's corporate social responsibility strategy and support CLC's Public Services (Social Value) Act 2012 commitment.

In addition to ensuring the success of the contract delivery, evidenced by 100% customer satisfaction (for repairs) and 100% statutory compliance, Aaron is proud of the 98% make-up of local workforce (within five miles). Together with CLC it has also facilitated 12 work experience placements including three for ex-military personnel, supports three new apprentices per annum and supports the CLC's apprentices with their courses. Aaron has also achieved an 85% local supply chain spend and has contributed over £40,000 to CLC's local community projects including schools, parks and local community groups.

Aaron Services, together with the City of Lincoln Council, are proud to have been nominated as finalists in the 'Collaboration of the Year' category at the H&V News Awards 2020.

Boilers installed by Aaron



 Read more about the communities we serve on page 36



“Working in these communities and coming from a business like ours, it gives you a chance to try to do more, make better connections and a bigger difference for the people you see every day.”

Steph Prince

Resident Liaison Officer at Aaron Services since 2014

Focused for growth

Our vision is to be the leader in the social housing and regulated sectors

How will we achieve this?

It is by continuously investing in our growth strategy that we aim to deliver strong growth, both organically and through acquisition.

Through our strategy, we are committed to delivering highly cash-generative services to organisations in stable, non-volatile growth markets that offer secure, predictable cash flows over the long term.

In delivering against our strategy, we focus on three key areas:

- **Differentiation through our service offering**

Unlike many of our competitors, we benefit from having specialist experience and expertise in a wide range of areas and a growing national footprint. This enables us to be selective about the tenders we pursue, focusing on those where we believe we have tangible quality and experience advantages. We have also developed a reliable supply chain comprising partner organisations on which we know we can rely for excellent technical support and high levels of client service

- **Doing business the right way**

We place our clients, their customers and communities at the heart of everything we do. No matter how challenging the conditions, we always focus on quality of service and delivery, and on observing the highest standards of behaviour and integrity. Our in-depth knowledge of the challenges our clients face enables us to anticipate and respond to their requirements and continuously improve our services

- **Delivering operational excellence**

We always aim to work with clients on terms that benefit each party. This means that we undertake to focus on operational excellence, both in service provision and in commercial management and financial discipline. We look to improve continually, in our services and in our efficiency through investments in systems, training, development and safety. A key aspect of this disciplined approach is ensuring that we focus on risks and target contracts with appropriate returns that drive profitability. We therefore aim to work with clients on terms of mutual respect, and in the understanding that being paid on time is as important as the level of profitability on each contract

Operational excellence

Why is this a priority?


Continuing changes in the workplace, in the markets we serve and in our clients' needs require that we maintain operational excellence through evolution and innovation to satisfy our customers and continue to win work.

Progress in 2019

Our operational and support management teams have continued to work hard to drive the Group to market leading positions in the markets they serve.

Outlook

We operate across both the public and private sector markets which have seen difficult UK-wide trading conditions, and our performance against this is a demonstration of our ability to win new business on a profitable and cash-generative basis.



Bradley Megson has worked as a Service and Call-Out Lift Engineer at Precision Lifts for six years, bringing a wealth of experience and knowledge to the business and his team.

Geography

Why is this a priority?

Working in sectors which have traditionally been predominantly regional we have achieved scale and geographical coverage.

Progress in 2019

The mobilisation of the Arbed 3 programme for the Welsh Government has seen growth in installation performance, and the two-year extension of our Warmworks joint venture delivering the Warmer Homes Scotland initiative for the Scottish Government takes us into 2022.

Outlook

As well as holding long term contracts with both the Scottish and Welsh Governments, we have first class service level performance which has given the Group an enviable position when bidding for the larger multi-location contracts for large regional and/or national property owners.

Focused divisions

Why is this a priority?

We believe focus is the key in regulated growing markets. We operate through two divisions and have focused businesses in the sectors we have targeted.

Progress in 2019

The repositioning of the Group to focus on Compliance and Energy Services and leveraging the strength of the Sureserve brand to capture new business is bearing fruit.

Outlook

The de-risked and refocused Group is making excellent progress and the underlying performance of Compliance and Energy Services is strong. With the trading environment pushing towards greater levels of regulation, there is a growing stimulus in demand for our compliance services expertise.

Working together

Why is this a priority?

Cross-selling has proved successful in the past and we have a strong track record at delivering a number of services to the same client.

Progress in 2019

In the year we successfully bid for and won a number of contracts and contract extensions and the average contract length increased to an average of four years in length.

Outlook

The Group is trading comfortably ahead of the previous year and we are well positioned for further growth.

Key performance indicators

We use the following key performance indicators to monitor the progression of the Group's strategy.

Financial indicators

Working capital (accrued income)	Revenue growth	Underlying EBITA	Order book	Operating cash conversion
£17.6m	11.2%	16.4%	£333.2m	106%
Accrued income (Group)	Revenue increase (Group)	Underlying EBITA increase (Group)	Order book at 30 September 2019	Underlying operating cash conversion
<p>The key elements of working capital are trade receivables, accrued income, trade payables and accruals. Accrued income is quoted above as a key indicator of the Group's overall working capital position.</p> <p>Relevance to strategy The level of working capital demonstrates our ability both to grow and manage risk within the Group.</p> <p>Performance Trade receivables decreased by 5.2% to £17.9m (2018: £19.0m), accrued income rose by 11.9% to £17.6m (2018: £15.7m), trade payables decreased by 14.2% to £21.1m (2018: £24.6m) and accruals rose by 1.4% to £8.0m (2018: £7.9m).</p>	<p>We operate primarily under service contracts and recognise revenue either at a point in time or over a period of time depending on the satisfaction of performance obligations.</p> <p>Relevance to strategy The level of revenue demonstrates our ability both to grow and manage portfolio risk within the Group, predominantly through organic means, but where relevant through carefully targeted acquisitions.</p> <p>Performance Group underlying revenue increased by 11.2% to £212.1m (2018: £190.8m), mainly reflecting an increase in underlying revenues in the Compliance division, whose underlying revenues increased by 14.4% to £133.1m (2018: £116.3m). Underlying revenues in Energy Services increased by 5.6% to £82.1m (2018: £77.7m).</p>	<p>EBITA is earnings before amortisation of acquisition intangibles, interest, tax and discontinued activities. Underlying EBITA is stated before exceptional items.</p> <p>Relevance to strategy The increase in underlying EBITA demonstrates our ability to grow our profitability, manage risk, deliver operational improvement and expand our margins.</p> <p>Performance Group underlying EBITA increased by 16.4% to £9.4m (2018: £8.0m), reflecting an increase in underlying EBITA in the Compliance division of 38.8% to £8.5m (2018: £6.1m) and an increase in underlying EBITA in Energy Services of 7.9% to £4.3m (2018: £4.0m).</p>	<p>The order book comprises our contracted revenues, together with prospective revenues from the frameworks we are on, where our experience of customers deploying their confirmed budgets means our revenue from the framework is foreseeable.</p> <p>Relevance to strategy The order book measures our success at securing the long term contracts and frameworks we bid for and makes our future revenue more predictable.</p> <p>Performance The order book decreased 13.5% to £333.2m (2018: £385.0m). This is due to the Group targeting its efforts on long term contracts that make money in our core areas or, in the case of frameworks, provide future opportunities to make money in our core areas. A number of long term contracts have ended during the period, a number of which we have not sought to reprocure as they did not produce work, and others we declined to extend as they were loss making.</p> <p>We currently have 72% visibility for the year to 30 September 2020 (like for like prior year: 86%).</p>	<p>Operating cash conversion is operating cash flow, adjusted for the cash impact of exceptional items and the impact of net change in working capital from discontinued operations (discussed further in notes 7 and 33) as a percentage of operating profit before exceptional items and amortisation of acquisition intangibles.</p> <p>Relevance to strategy A high level of underlying operating cash conversion demonstrates the quality of the profits we earn, as well as our ability to generate funds for reinvesting in our growth and paying dividends to shareholders.</p> <p>Performance Operating cash conversion in the year was at 106% (2018: 60%). Cash conversion on a statutory basis was an inflow of 59% (2018: outflow of 71%).</p> <p>We continue to target average operating cash conversion of 80% over the long term.</p>

Non-financial indicators

Group accident frequency rate ('AFR')	Carbon usage	Driver behaviour ratings	Training	Voluntary employee turnover
0.22	8,666t	93	142	14.3%
<p>Accident frequency rate ('AFR') RIDDOR</p> <p>19 0.22 18 0.14</p> <p>Accident frequency rate ('AFR') all accidents</p> <p>19 3.2 18 3.4</p>	<p>Carbon usage (tonnes)</p> <p>19 8,666t 18 11,107t</p> <p>We calculate our carbon footprint by considering energy use across the Group, including our vehicle fleet (both business and privately owned).</p> <p>Relevance to strategy Our customers, particularly in the public sector, want to engage responsible suppliers. Managing our environmental impact is therefore important for our ability to win work, as well as being socially responsible and more cost efficient for us.</p> <p>Performance Our carbon usage for this reporting year was 8,666 tonnes of CO₂, which shows a reduction of 22.0% on the 11,107 tonnes usage in 2018. This is equivalent to 40.9 tonnes per £m of revenue (2018: 58.2 tonnes).</p> <p>The reduction in carbon usage during the year is predominantly due to a range of improvements to our fleet, which accounts for approximately 80% of our energy consumption, including higher efficiency vehicles and improvements made to driver behaviour. This reduction, combined with Everwarm's carbon savings, leads the Board to believe that the Group was carbon neutral for each of the last two years.</p>	<p>Average driver behaviour rating</p> <p>19 93 18 92</p> <p>Using vehicle telematics we determine driver behaviour within each business, calculating risk ratings for each driver based on speed, braking and cornering metrics recorded each time they use the vehicle.</p> <p>Relevance to strategy By monitoring and improving our drivers' performances we can affect positively the Group's fuel consumption and wear and tear on vehicles and reduce the risk of road traffic incidents.</p> <p>Performance Our average driver behaviour rating this year was 93 out of 100 (92 in 2018), an improvement on the previous year which is due to improved reporting through management KPIs, which are followed up and actioned with the driver. Our target for the year remains at 95 and we remain committed to making improvements to fulfil our target.</p>	<p>Number of trainees across the Group as at 30 September 2019</p> <p>19 142 18 142</p> <p>Across the Group, training initiatives, including apprenticeships, upskilling and management development, are an essential platform to further enable and progress our workforce.</p> <p>Relevance to strategy Training opportunities can have a significant impact on retention and provide a great many professionals the skills and capability to be ever more effective and motivated in the workplace, in turn having a dual positive impact on both an employee and business result.</p> <p>Performance This is the first year reporting under the new comprehensive training structure delivered via the Sureserve Academy; therefore comparisons are unable to be made. The number of learners across the Group within the reporting period was 142, accounting for 6.9% of our workforce. This figure does not include self-funded trainees. As a continuing KPI we look to achieve a figure of 10% as a percentage of our workforce undergoing a course of training delivered through the Sureserve Academy.</p>	<p>Voluntary employee turnover</p> <p>19 14.3 18 17.7</p> <p>This figure indicates the number of employees leaving the Group not at the Group's instigation.</p> <p>Relevance to strategy Employees giving reasons on exit, including improved remuneration, career progression, dissatisfaction at work, management issues, working hours or travel considerations, are taken to have left the business despite our best efforts to retain them. Our future success is dependent on our ability to recruit, develop, engage and retain exceptional employees. Improvements in our ability to retain excellent people will in turn be evidenced by reductions in our voluntary employee attrition rate year on year.</p> <p>Performance Voluntary employee attrition decreased by 3.4 percentage points to 14.3% in the period, which is an improvement of 19.2% on 2018's figure of 17.7%. This demonstrates a positive change in our retention strategy through cultural and personnel-related initiatives during the year, and more than fulfils our target of a 5% reduction on the previous year's attrition rate.</p>
<p>The Group's AFR figures take into account near hits, Reporting of Injuries, Diseases and Dangerous Occurrences Regulations ('RIDDOR') data, accidents and environmental incidents. This allows us to set relevant and meaningful health and safety targets and objectives.</p> <p>Relevance to strategy Working in a safe environment allows our people to focus on delivering great service to our customers. Protecting our people also supports employee engagement and retention.</p> <p>Performance The AFR (RIDDOR) stood at 0.22 (2018: 0.14), which is slightly above last year's figure and the Group target of 0.11. This is because the target is relatively low in comparison to the size of our business/scope of works; this target has been reviewed to make it suitable moving forward. The AFR (all accidents) stood at 3.2 (2018: 3.4), substantially below the Group target of 5.0.</p>				



Energy

Building strong partnerships with... Governments

In 2016, the last year for which data is available, 11.1% of all households in England were in fuel poverty.

In Scotland, 26.5% of households experienced fuel poverty in 2016, in Wales that figure was 23%, and in Northern Ireland it accounted for 22% of all households.

Warmworks Scotland is a joint venture partnership between Everwarm, Energy Saving Trust and Changeworks. It was formed in 2015 to deliver the Scottish Government's Warmer Homes Scotland programme, the flagship national fuel poverty scheme designed to deliver energy efficiency improvements to households that are in or at risk of fuel poverty.

Everwarm has provided its extensive experience and exceptional quality of service and delivery to help change the lives of people in nearly 16,000 households across Scotland, using innovation and operational excellence to provide warmer, more fuel-efficient homes to those in need. Warmworks is contracted to deliver Warmer Homes Scotland until the end of August 2022, which is a two-year extension to the original five-year term based on exceptional contract delivery by the Warmworks team to date.

Arbed am Byth is a joint venture between Everwarm and Energy Saving Trust and was appointed by the Welsh Government in 2018 to arrange the installation of a suite of energy efficiency advice and measures to improve the energy performance in homes across Wales as part of the Arbed 3 scheme. The partnership will identify areas of fuel poverty in the areas of Wales where the greatest impact can be made, developing schemes and local relationships by working with local authorities and local supply chains.

Arbed 3 has targeted an investment of £54m over the lifetime of the project, targeting improvements in over 6,000 homes, and will work towards helping eradicate fuel poverty, reducing carbon emissions and boosting economic development in Wales. Arbed am Byth is contracted to deliver Arbed 3 until 2021.



3,818

Scottish households received assistance*
(total cost savings = £1.1m)



1,266

measures on average have been installed in Wales in 2018/19**



Read more about the communities we serve
on page 36

* 1 April 2018 to 31 March 2019.
Taken from Warmworks 2018/19 Annual Report.

** Taken from Arbed am Byth 2018/19 Annual Report.



Sean Brady, Contract Manager for Sure Maintenance, has been with the business for over four years and takes great pride in the excellent relationships his team has with the residents it serves.



From left to right, Bradley Megson, Service Engineer; Nadeem Shahriyar, Service Trainee; Tommy Cocks, Service Engineer; and Jamie Chatterton, Service Trainee, are all on the front line when it comes to lift repair and maintenance, having over 14 years of service at Precision Lifts between them.

A platform for growth

Business performance and delivery have been exceptional, demonstrating the continued effectiveness of our more streamlined and focused structure. We are also confident in the future with a strong order book value and good visibility on future earnings.

Introduction

In 2019 the Group has continued to focus on strengthening its position as a focused compliance and energy services group. The strategically important move to exit our Property Services and Construction divisions has, as expected, enabled us to concentrate on our cash-generative core growth areas of Compliance and Energy Services, both of which deliver more predictable, recurring and profitable revenue streams.

It is particularly pleasing to note that both divisions delivered in excess of our expected 5% EBITA margins. We were also delighted to announce that net debt fell following strong trading performance and cash management and we wish to continue to build on this success as a platform for continued future growth.

The experienced senior management team is set to continue to deliver profitable growth and performance with aspirations to further enhance the Group's positive reputation for the delivery of quality services and market leading positions in the highly regulated public gas maintenance and energy management sectors.

Financial performance

- Operating profit before exceptional items and amortisation of acquisition intangibles: £9.4m (2018: £8.0m)
- Revenue from continuing operations: £212.1m (2018: £190.8m, 11% growth)
- Profit before tax from continuing operations: £5.3m (2018: £1.9m, 174% growth)
- Year-end net debt: £7.4m (2018: £11.4m)

We are extremely pleased that our clear strategy for growth and the focused approach of a more streamlined organisation as previously articulated is proving successful, with the Group having grown both revenues and profitability in its continuing operations, without the significant losses in those now discontinued operations seen in previous years.

Looking forward

During the year, we saw strong continued growth within our two key divisions which underpin the future strategy of the Group, with the Compliance (revenues up 14.4%) and Energy Services (revenues up 5.6%) divisions both delivering strong performance. We will continue our focus on both moving forward.

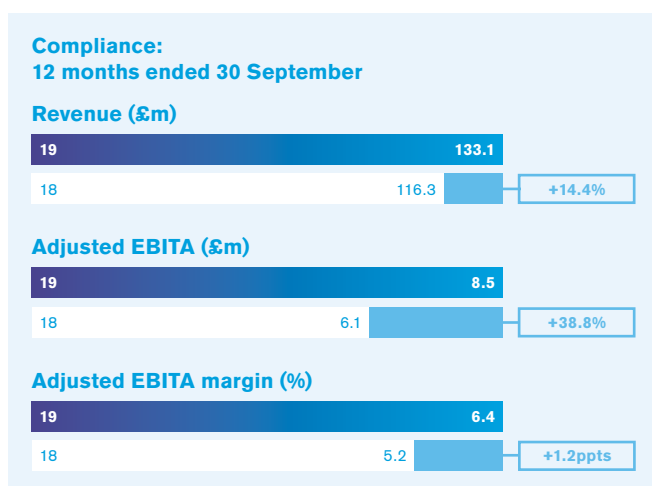
At the year end, we were participating in a total of 96 frameworks worth £592.7m (2018: 110 frameworks worth £637.7m) and had in place 144 maintenance contracts worth £409.6m (2018: 166 contracts worth £419.2m). This provides predictability of our future incomes and allows longer term planning to occur, which helps drive efficiency.

The Board is encouraged by the high bidding success rates continuing to be achieved by the Group with the year-end order book of £333.2m (2018: £385.0m). The reduction in the order book is due to the Group's targeted efforts on those long term contracts that either currently make money, or, in the case of frameworks, that provide future opportunities to make money in our core areas. The order book remains strong across our continuing business lines as we continue to focus on securing contracts with long term visibility and robust value.

This provides us with great certainty over future workstreams and we remain confident in the future growth and prospects for both of our divisions within the de-risked and focused structure of the Group.

Compliance division

The division comprises planned and responsive maintenance, installation and repair services delivered predominantly to local authority and housing association clients in the areas of gas, fire and electrical, water and air hygiene and lifts. These services provide for clients' social housing and public building assets, as well as industrial and commercial properties. The division is seeing the benefits of a wider pool of clients and a number of long term contract wins which underpin the revenue model, with increasing mandatory service requirements that provide significant future opportunities.



Our businesses

K&T Heating
Part of the Sureserve Group

Aaron Services
Part of the Sureserve Group

Sure Maintenance
Part of the Sureserve Group

Allied Protection
Part of the Sureserve Group

H₂ONationwide
Part of the Sureserve Group

Precision Lifts
Part of the Sureserve Group

The largest component of revenue growth was the Gas Compliance business with K&T delivering the most significant increase while seeing growth within Aaron and Sure, both of which achieved revenue in excess of £30m. Strong revenue growth was also delivered within fire and water, further supporting the positive overall positioning of the division.

Overall, revenue increased by 14.4% to £133.1m (2018: £116.3m). EBITA increased by 38.8% to £8.5m (2018: £6.1m), resulting in an underlying EBITA margin of 6.4%, up by 1.2ppts. Revenues increased in all Compliance businesses, with the exception of our lift operation. The increases reflected increased volumes of work and opportunities with clients driven by contract wins and extensions in addition to increasing regulatory demands in the sector. These revenues are often recurring and help support the size and scale we believe we have as a market leading gas provider. Furthermore, we saw a continuation into the second half of 2019 of some clients' focus on higher than expected installation works. These additional works provided further incomes and margin improvements through efficiencies in delivery, geographical reach and minimal change in business overhead.

The 2018 reduction in margins had reflected mobilisation costs and other items so an improvement this year was expected given the investment made. Furthermore, a growth in higher margin commercial works has increased overall profitability in 2019. Together these have resulted in better than expected performance and delivered increased margins.

In relation to the Building Compliance businesses, the reduction in our lift business revenues had been expected as we exited contracts, following a review of low margin and unprofitable work. Changes were made to the senior management team during the year; the benefit from these can take time to impact performance. Processes for costing and pricing are being improved. We are currently in that phase but remain confident for the future. The previous poor operational performance of our fire business has now turned around with strong revenue and profit delivery. The water hygiene business continued to show a pleasing performance with strong revenue and results significantly ahead of expectations. The senior management team is focusing on this business to ensure that its strong performance continues.

Gas Compliance

The three Gas Compliance businesses (Aaron Services, K&T Heating and Sure Maintenance) make up 70% (2018: 74%) of divisional revenues and built on the progress made in FY18 with another excellent year of revenue growth from recurring incomes and new works.

Aaron Services, delivering gas compliance solutions across East Anglia and the Midlands, followed up a successful 2018 with a number of new wins, offsetting lost contracts. The largest wins were noted in our interim reporting with Thurrock Council domestic and commercial gas servicing work worth £10.0m over an initial three-year term (with option to extend), and a £7.5m gas service and maintenance award with Welywn Hatfield over five years. Both increased the robustness of the forward order book.

Other significant wins include a four-year domestic maintenance contract renewal worth £5.1m with Ipswich Borough Council to provide domestic gas servicing, maintenance and repairs plus installation works, and four-year awards with E.ON (£2.0m estimated value from a national framework for heating installations, which our Sure business also participates in) and Nottingham City Council (£1.2m for electrical testing works).

K&T Heating's trading performance has been improving and it is now the largest of our three gas businesses following a period of successful wins in previous years and as reported in our interim review, which continues to support its growth. The business delivers gas compliance services across London and the South East. Wins previously reported include an £8.6m Poplar HARCA five-year gas service and repair contract, a £4.5m L&Q extension and further gas contracts ranging over one to four years and worth in excess of £10m with Hammersmith, Optivo, Red Kite and Moat HA.

Compliance division continued

Gas Compliance continued

Subsequent contract win successes have also included multi-year wins with Adur District and Runnymede Borough Councils (£2.2m and £1.2m respectively over five years), and a one-year domestic and commercial works contract with Hammersmith and Fulham for over 11,000 domestic properties, worth £2.7m over that initial period.

Sure Maintenance, which delivers gas compliance services across the UK, had the highest single value gas contract win with a 20-year, £16.0m value domestic and commercial heating service and maintenance contract with Clarion Housing Group. This had been a key target for the Group and expands our offering in the South West. Sure also won a four-year award worth up to £5.0m with Places for People for gas compliance services along with further multi-year awards with EN:Procure, with a value potential of £4.0m and which expanded our offering into Yorkshire, as well as a CHIC/ARK planned works contract worth an estimated £2.0m.

“Our growth continues to strengthen our position in the compliance sector, with a national reach and market leading Gas Compliance business.”

Bob Holt OBE
Executive Chairman

The three Gas Compliance businesses remain in the process of being unified onto a single operational platform. Two of the businesses are now fully or predominantly on that system, with an implementation review in progress within the third. We believe this will offer ever better internal comparability of performance and benchmarking, to allow the businesses to continue to improve their client service performance.

Building Compliance

Our Building Compliance businesses comprise Allied Protection, H2O Nationwide and Precision Lifts and make up 30% (FY18: 26%) of the divisional revenues.

Precision delivers lift installation and maintenance services to local authorities and social housing associations across the UK. Following a challenging 2019, the key award with Optivo gives us confidence for the future. The five-year award with Optivo is for the servicing and maintenance of 380 passenger lifts in London and the South East, with a value of £5.0m and an option to extend for a further five years.

Further wins with City West Homes (£1.7m of lift controller upgrades) and London Borough of Wandsworth (£1.0m lift refurbishment project) underpin our belief that the market opportunity remains strong and the business is in a position to deliver a range of opportunities across a number of clients.

Allied Protection remains the Sureserve Group's specialist provider of fire, electrical and sprinkler compliance services and has followed up a successful 2018 with further awards this year. These included £1.7m with Red Kite on a three-year contract with a potential two-year extension for fire alarms and emergency lighting servicing, £1.5m with East Kent for fire protection works and a further £1.0m with Hyde Housing Association to supply, install, remove and maintain fire alarm, detection and suppression systems over a four-year term. The business focus remains on compliance and effective service delivery as the business continues to perform strongly.

H2O is our water and air risk assessments specialist provider across the UK. Performance of the business has continued to be strong with a full order book and exceptional client delivery. The business has continued to drive efforts to grow and delivered a number of further wins in the period, the largest being a £1.0m contract for water systems risk assessment and maintenance works with South East Consortium over four years, and a £0.7m contract with London Borough of Havering for water hygiene and Legionella services over three years (with an option to extend to five years). These clients, in addition to ongoing works, will continue to support the growth aspirations of the business.

Our belief remains that the ongoing move towards higher levels of compliance requirements should continue to benefit the Compliance division in future periods. Our current levels of growth should increase our buying power further and improve our ability to deliver revenues with improved margins. Our H2O business is performing extremely well; management changes made in Allied over the past 12 months have resulted in a better service delivery for our clients, and there is an ongoing focus on operational improvements within Precision. Our demonstrable track record in delivering new wins gives us confidence as we continue to focus on securing contracts with long term visibility and robust value.

Looking forward

Our growth continues to strengthen our position in the compliance sector, with a true national reach and market leading Gas Compliance business. We believe we have built the strongest compliance business of its type, well positioned to grow further in what is a fragmented and regional market. The division is showing predictable and deliverable revenue growth and we remain confident that our leadership within this non-volatile sector provides a strong platform to continue our aims of further growth and cash generation.



Keith Jones has worked at Sure Maintenance as an Electrical and FM Supervisor for almost three years, leading a number of colleagues in the Commercial and Facilities Management departments.

Our Managing Directors continue to lead the Compliance businesses and as the business grows have been increasing their focus on working together to share best practice, drive efficiencies and support clients over multiple regions and service types. Each business is represented on the Executive Management Team which reviews and discusses matters including operational excellence. We believe continuity of key individuals and consistent growth have provided us with a stable platform to continue to deliver for our client base.

Energy Services division

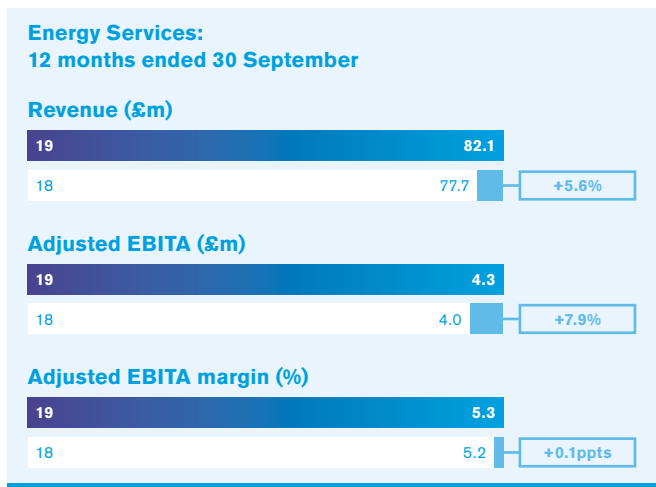
Our Energy Services businesses provide a range of energy efficiency services such as insulation, heating and renewable technologies for social housing and private homes through the Everwarm subsidiary. Everwarm also uses these services to deliver carbon emissions savings for utility companies enabling them to meet their legislative targets from measures delivered. The business also undertakes energy efficiency projects within non-domestic properties. Our Provider business

Our businesses

Everwarm
Part of the Sureserve Group

Provider
Part of the Sureserve Group

continues to deliver domestic smart metering installation and recurring asset management services to its utility client base. It is now well established as one of the market leaders and is experienced in the ongoing UK-wide Government roll-out, extended recently to 2024. The division also has an established presence in the installation of electrical vehicle charging points, a further growth sector in which our experienced management team is well placed to deliver. Along with ongoing solar PV work the Company has now commenced work involving newer technologies such as battery storage projects.



Each of our trained smart meter installation engineers can advise new users on how to track their energy usage, adapt it to their energy use habits and achieve the greatest impact on their bills.

Energy Services division continued

The Energy Services division remains within an active sector with a number of opportunities for delivery, with £371.4m of frameworks and £65.6m of long term contracts to provide confidence over future prospects.

Overall, revenue increased by 5.6% to £82.1m (2018: £77.7m). EBITA increased by 7.9% to £4.3m (2018: £4.0m), resulting in an underlying EBITA margin of 5.3%, up by 0.1ppts.

Providor saw a reduction in revenues based on a reduction in meter installation work due to the previously mentioned transition period in the UK-wide roll-out, which was more than offset by increased revenues in Everwarm. The increase in Everwarm's revenues was due to a mix of factors but predominantly reflected increased activity within all departments of the business with the notable exception of insulation, which has continued to be impacted by ECO3 challenges as we had noted in our interim reporting earlier in the year.

EBITA improved again to £4.3m (2018: £4.0m), with Providor recording profits, but with the Everwarm business seeing a regression in profit levels despite increased revenues. The challenges in the insulation department following the introduction in ECO3 measures have been sizeable and resulted in reduced profit from previous levels. Other elements of the business delivered largely offsetting results with our external wall insulation business subject to pressures on margin generally from pricing impacts and an increase in the levels of kitchen and bathroom work which has negatively impacted overall margin. Everwarm's gas and electrical services department has shown strong revenue growth in the year, which is pleasing and has positively impacted on profitability to mitigate some of the variances in other areas.

Results from the Warmworks and Arbed joint ventures are included within the Everwarm position. Warmworks delivers the flagship Warmer Homes Scotland initiative for the Scottish Government and saw continued strong performance during the full year with an ongoing level of operational excellence. As previously reported we were delighted that in April 2019 our contract was extended to 2022. This contract brings a diversified installation portfolio for Everwarm, focusing on central heating, boiler improvements and other energy efficiency installation measures.

“Although carbon pricing remains very important we believe the Government will remain committed to addressing funding for fuel poverty in this highly regulated sector.”

Bob Holt OBE
Executive Chairman

During the year the mobilisation of the Arbed 3 programme for the Welsh Government, via our joint venture with the Energy Saving Trust, was concluded. That operation is now fully focused on improvements to households likely to be living in severe fuel poverty. While monthly measure installation performance can be more variable depending on the specific timings of individual area schemes, the joint venture has now contributed a small profit for the full financial year and we expect volumes to continue into 2020 as we focus on positive delivery.

As we had previously reported at H1, carbon prices remained largely stable during the year. However, volumes were and remain impacted by the transition to ECO3, which has proved challenging due to changes in measure types and qualifying property. We continue to work through these challenges and believe we are well placed to deliver on behalf of our utility partners despite the initial difficulties, particularly given the volumes we are seeing in more recent months.

Everwarm

Everwarm continues to deliver strong trading performance with revenues for FY19 in excess of £60m. The business supports a range of clients in various energy efficiency projects. Our largest new win has been a £3.6m award with City of Edinburgh Council for a range of insulation and other measures. In addition to the Glasgow City (£1.9m) and Fife (£1.7m) wins mentioned in our half-year review, we have seen further wins with Tollcross Housing (£2.1m) over three-years minimum period and Moray Council (£1.4m) for gas heating works. In addition we won circa £2.1m of works with East Lothian Council for a combination of bathroom and shower installations plus external wall insulation works, under two separate awards, and £1.8m of insulation measures with Waverley Housing. These, along with other smaller delivery wins, support our ongoing ECO3 delivery frameworks and longer term contract works delivering for Warmworks until 2022 and Aberdeenshire on its four-year HIP works, as previously communicated.


Furthermore, the business continues to seek and explore new prospects as the sector continues to develop more efficient and newer forms of energy efficiency technology. These remain at earlier stages but we believe Everwarm is extremely well placed to deliver work where appropriate opportunities are present. Smaller wins in these new areas within the period include battery storage projects both with Warmworks (£0.2m) and Sheffield University (£0.1m), plus £0.2m of electric vehicle charging points with Scottish Fire and Rescue. We also look at areas where we can support our clients via services that can be delivered through other parts of the Sureserve Group, with some activity ongoing in fire protection using the expertise of Allied in delivery.

Providor

Providor remains focused on existing contract delivery; however, the intention, as clarity was provided on the Government smart meter roll-out, was that we would be in a position to assess new opportunities. This was important, particularly following commencement of SMETS2 meter technology installations, as volumes are expected to increase going forward. As reported at H1, we were and still are seeing a range of interest from a mix of 'Big Six' and smaller/'challenger' utilities companies. We were therefore pleased to win a contract with Octopus Energy for the delivery of SMETS2 installations and asset management earlier this year, with a total value estimated at £9.4m. Since then we have won a significant iSupply contract, for which initial estimates suggest a maximum potential value of £20.6m over the coming years through to the end of 2021, including installation and asset management services. We have also followed up the Octopus installation contract win above with a further £1.7m value asset management award. These agreements and other existing contracts and potential extensions give us confidence for Providor's future performance.

Looking forward

Everwarm's order book remains strong with future revenues underpinned by long term contracts, strong contractual agreements with several clients and key frameworks and also supported by joint venture arrangements with Warmworks and Arbed. Although carbon pricing remains very important, we believe that the Government will remain committed to addressing funding for fuel poverty in this highly



Eugene Barret, Air Conditioning Engineer at Sure Maintenance for almost three years, has covered the installation, service and maintenance of systems for both public and private buildings.

regulated sector. Everwarm's significant wealth of management experience and client relationships gives our business a market leading proposition in this area. We believe we have navigated the ECO3 transition positively and continue to service a number of 'Big Six' utility and other clients, so we are well placed to provide a quality service to our customers and deliver effectively for our stakeholders through this phase of the scheme until it ends in March 2022.

Providor experienced continued delays to the national smart meter roll-out, which has impacted installation volumes. The associated impact on engineer efficiency requires careful management, both with workforce and our contractual positions, and we continue to learn from our past experience in the sector and negotiate appropriate commercial protections, whilst continuing to seek to provide strong and secure employment for our engineers.

In September 2019 it was announced that the deadline for smart meter installation had been extended to 2024 to allow a more realistic timeframe for delivery. While an expected impact is that overall roll-out costs for the industry may continue to rise, we believe a benefit from this revised timetable will be seen in more consistent volumes which should allow us to agree deliverable installations with our client base. Where existing contracts require extension as a result of the new deadlines, we will continue to evaluate efficiency and cost factors in our pricing going forward. Our investment supporting the roll-out has been significant, but we are hopeful a new glidepath should allow the business to continue into a sustained phase of profitable delivery. This remains an area we will continue to monitor closely as we proceed.

Bob Holt OBE
Executive Chairman
 20 January 2020



Strong services

The Financial Review covers aspects of the consolidated statements of comprehensive income, financial position and cash flows.

Trading overview

The Group had a strong year posting an underlying EBITA of £9.4m from continuing activities (2018: £8.0m).

Group revenue increased by 11.2% to £212.1m (2018: £190.8m), mainly reflecting an increase in underlying revenues in the Compliance division, whose underlying revenues increased by 14.4% to £133.1m (2018: £116.3m). Underlying revenues in Energy Services increased by 5.6% to £82.1m (2018: £77.7m). These divisional revenue figures include revenue from intercompany trading which accounts for a total of £3.1m.

Group underlying EBITA increased by 16.4% to £9.4m (2018: £8.0m), reflecting an increase in underlying EBITA in the Compliance division of 38.8% to £8.5m (2018: £6.1m) and an increase in underlying EBITA in Energy Services of 7.9% to £4.3m (2018: £4.0m). Central costs were £3.5m (2018: £2.1m), of which the substantive movement related to share option charges and bonuses provided for in the year.

Underlying operating expenses rose to £24.0m in the year (2018: £19.6m) reflecting the growth in the business and associated central costs noted above.

We exclude exceptional items in calculating underlying EBITA to provide a more appropriate view of underlying operating performance.

We reported an operating profit from continuing operations of £6.4m (2018: £3.4m), after £0.2m of net exceptional costs (2018: £0.3m) and £2.7m of amortisation charges for acquisition intangibles (2018: £4.3m).

Interest expense was £1.1m (2018: £1.5m), taxation was £1.2m (2018: £0.8m) and post-tax profit within discontinued operations was £0.8m (2018: post-tax loss of £11.5m). The statutory profit after tax was £5.0m (2018: loss of £10.4m).

Exceptional items in the year reduced the Group's profit before tax by £0.2m (2018: £0.3m) and related to the following items:

	2019 £m	2018 £m
Acquisition costs	—	0.1
Restructuring and other costs	0.2	1.0
Exceptional costs	0.2	1.1
Release of provisions for deferred consideration	—	(0.8)
Net exceptional costs	0.2	0.3

Restructuring and other costs of £0.2m (2018: £1.0m) reflect restructuring costs during the year. The 2018 figure also includes a small number of legacy clean-up costs.

Release of provisions for deferred consideration was £nil (2018: £0.8m).

Amortisation of acquisition intangibles

Amortisation of acquisition intangibles was £2.7m for the year (2018: £4.3m); the reduction reflected the fact that we have taken amortisation charges in prior periods, meaning we are amortising a reduced base of intangible assets.

Finance expense

The total finance expense for the year represented the interest charged on our debt facilities (net of finance income), together with the amortisation of debt issue costs, which totalled £1.1m (2018: £1.4m).

The total finance expense of £1.1m (2018: £1.5m) included the unwinding of discounts on deferred consideration figure of £nil (2018: £0.1m).

Discontinued operations

Profits from discontinued operations amounted to £0.8m (FY18: loss of £11.5m) on associated revenues of £nil (FY18: £71.9m). This comprised losses up to date of disposal of £nil (2018: £5.2m) and profits on disposal of £0.8m (2018: losses on disposal of £6.3m). The associated cash outflow for the year was £nil (2018: £8.0m).

Discontinued activities represent the Group's Construction and Property Services divisions which were sold on 17 August 2018 and Orchard (Holdings) UK Limited which was sold in September 2017. The 2019 profits on disposal of discontinued operations comprise:

- £0.4m tax credit from settlement of amounts provided on disposal
- £0.4m profit on sale of Orchard (Holdings) UK Limited from reassessment of the fair value of consideration receivable

Lakehouse Contracts Limited went into administration and subsequent liquidation on 11 March 2019 and 6 August 2019 respectively. The Board has reviewed the position in detail and has not recognised any amounts potentially recoverable from Lakehouse Contracts Limited under the sale and purchase agreement. Post year end Mapps Group Limited, the acquirer of Lakehouse Contracts Limited and Foster Property Maintenance Limited, also went into liquidation.

No claims have been received from the liquidators to date and the Group has claims against MAPPS for amounts that exceed their best estimate of any amounts that may potentially be due to MAPPS under clauses in the sale and purchase agreement. The Board is in continuing dialogue with all parties.

Further details of discontinued operations are in note 11.

Tax

The tax charge on the profit before tax was £1.2m (2018: £0.8m), representing an effective rate of 21.6%, which compares with the statutory corporation tax rate of 19%. The difference was due to a combination of factors and relates in part to movements in provisions together with share option adjustments.

Our net cash tax payment for the year was £34,000 for continuing operations (2018: £0.2m). During the year, the Group has received part of the anticipated cash tax refund from HMRC which formed the corporation tax receivable on the 30 September 2018 balance sheet, with the remaining amount being received in December 2019. The Group has also made tax payments on account during the year.

The net deferred tax asset as at 30 September 2019 was £0.5m (2018: liability of £37,000), with the movement mainly relating to acquisition intangibles and short term timing differences. Further details are set out in note 25.

Earnings per share

Basic earnings per share from continuing operations were 2.7 pence (2018: 0.7 pence), based on profit after tax from continuing operations of £4.2m (2018: £1.2m).

Our statutory profit for the year was £5.0m (2018: loss of £10.4m). Based on the weighted average number of shares in issue during the year of 158.0m, this resulted in basic earnings per share of 3.2 pence (2018: loss per share of 6.6 pence).

Further details are contained in note 14.

Dividend

The Board has proposed a final dividend for the year of 0.5 pence per share. This represents a total dividend payable for the year of 0.5 pence (2018: 0.25 pence).

Subject to approval at the AGM on 18 March 2020, the final dividend will be paid on 30 April 2020 to shareholders on the register at the close of business on 31 January 2020.

Cash flow performance

Our adjusted operating cash flow from continuing operations for the year was an inflow of £9.9m (2018: £4.8m), discussed in note 33 and reflecting an operating cash conversion of 106% (2018: 60%). We calculate continuing operating cash conversion as cash generated from continuing operations, excluding the cash impact of exceptional items and amortisation of acquisition intangibles, divided by operating profit before exceptional items and amortisation of acquisition intangibles. We believe this measure provides a consistent basis for comparing cash generation consistently over time. On a statutory basis, we saw an operating cash inflow of £5.5m (2018: outflow of £5.7m), representing a cash conversion of 59% inflow (2018: outflow of 71%).

As we highlighted last year, the timing of revenues, method of contract delivery and customer contractual terms can all have an impact on working capital and, consequently, cash conversion.

The management of working capital is a continued focus. This includes accrued income, debtors and creditors. We manage these balances within our banking facilities around year end.

We expect to continue to target an average annual operating cash conversion of 80% over the long term.

Net debt

At 30 September 2019, the Group had net debt of £7.4m (2018: £11.4m). However, this represents a snapshot in time and the weighted average revolving credit facility drawdown in the year was £14.5m (2018: £18.7m).

Banking arrangements

We had drawn £10.0m (2018: £13.0m) under our revolving credit facility at the year end (excluding borrowing costs). At the date of issuing this report we had drawn £7.5m (excluding borrowing costs); National Westminster Bank ('NatWest') continues to be an excellent and supportive partner.

In December 2018, the Group renewed its bank facilities to provide an overdraft facility of £5,000,000 together with a revolving credit facility of £25,000,000, which runs to 31 January 2022.

We are confident that our banking facilities provide sufficient support in managing our corporate affairs and provide sufficient capacity to plan for future growth, particularly in bidding with confidence on new contracts.

Financial position

The principal items in our balance sheet are goodwill, borrowings and working capital.

There was a reduction of £3.3m in goodwill and other intangibles, due to £2.7m in amortisation of acquisition intangibles and a £0.6m decrease in goodwill in relation to the acquisition of Just Energy Solutions, in notes 15 and 16.

Net current assets (excluding cash and borrowings) stood at £7.8m (2018: £3.2m). We are continuing to focus on reducing working capital.

The principal movements are noted in the below table and reflect a continued focus on working capital.

	2019 £m	2018 £m
Trade receivables	17.9	19.0
Accrued income	17.6	15.7
Trade payables	(21.1)	(24.6)
Accruals	(8.0)	(7.9)

Provisions

Provisions as at 30 September 2019 stood at £3.6m (2018: £7.7m). During the year, £2.5m was paid for costs of disposal of Lakehouse Contracts and Foster Property Maintenance. A further £1.6m was also paid to the bond providers, which is being held on account while the claims are reviewed.

Risks

The Board considers strategic, financial and operational risks and identifies actions to mitigate those risks. Key risks and their mitigation are disclosed on pages 29 to 31.

Our year-end review included an assessment of accrued income, of which the balance was £17.6m at the reporting date (2018: £15.7m). As a Group we review regularly for impairment. Accrued income represents a balance sheet risk in our industry and we continue to ensure a balanced approach between risk and possible outcome on final invoicing.

We continue to manage a number of potential risks and uncertainties, including claims and disputes which are common to other similar businesses which could have a material impact on short and longer term performance. The Board remains focused on the outcome of a number of contract settlements on which there is a range of outcomes for the Group in terms of both cash flow and impact on the consolidated statement of comprehensive income.

In preparing our annual accounts, we have taken a view on the financial risk of pending claims and disputes and seek to provide in full for potential shortfalls, whilst pursuing all claims in full, such that we have a collectively balanced position of risk across all such matters.

Accounting standards

During the year we adopted IFRS 9 and IFRS 15. We will adopt IFRS 16 from 1 October 2019 under the modified retrospective approach. An implementation project has been carried out, with further details in note 1.

Going concern statement

The Directors acknowledge the Financial Reporting Council's 'Guidance on the going concern basis of accounting and reporting on solvency and liquidity risks' issued in April 2016. The Group's business activities, together with factors likely to affect its future development, performance and position, are set out in the Strategic Report as referred to on pages 1 to 37. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review, as part of the Strategic Report, on pages 26 to 28. In addition, note 31 to the consolidated Financial Statements within the 2019 Annual Report includes details of the Group's approach to financial risk management, its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk.

In assessing the Group and Company's ability to continue as a going concern, the Board reviews and approves the annual budget and three-year plan, particularly for the 16 months following year end, including forecasts of cash flows, borrowing requirements and covenant headroom. The Board reviews the Group's sources of available funds and the level of headroom available against its committed borrowing facilities and associated covenants. The Group's financial forecasts, taking into account possible sensitivities in trading performance, indicate that the Group will be able to operate within the level of its committed borrowing facilities and within the requirements of the associated covenants for the foreseeable future. NatWest remains supportive of the Group and in December 2018, the Group renewed its banking facilities to provide an overdraft facility of £5,000,000 together with a revolving credit facility of £25,000,000, which runs to 31 January 2022. The Directors have a reasonable expectation that the Group and Company have adequate resources to continue their operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Annual Report and Accounts.

Peter Smith
Chief Financial Officer

20 January 2020

Principal risks and uncertainties

We have a detailed and comprehensive risk management process, covering all aspects of business and operational risk.

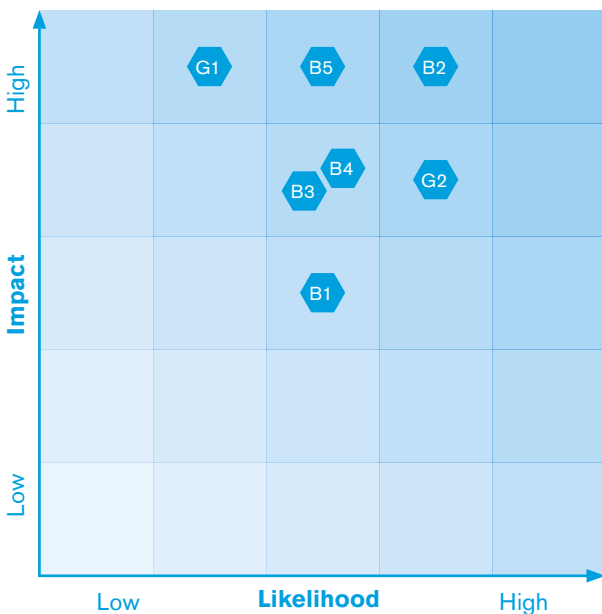
A key focus of our strategy is to reduce risk and build a sustainable and profitable business, with predictable revenues and increasing margins. We constantly review our control and monitoring processes and our systems and work closely with our clients to understand how our marketplace is changing and how it is likely to change in the future. The table herewith details the main risks we currently face, their potential impact on our business and how we mitigate them. The schematic sets out to the potential impact of each risk on our business prior to mitigation and its likelihood of occurring.

'B' items represent business risks.

'G' items represent general corporate risks.

Blue items represent existing risks.

More information about how we manage risk can be found in the Corporate Governance Report on pages 40 to 46.



B1

Changes in Government policy

The public sector and regulated industries provide some 98% of our revenue, so our business is heavily dependent on policies and programmes adopted by the UK, devolved national and local Governments.

Explanation of risk

Significant changes to policy, particularly in energy services around carbon pricing, could have a material impact on our results.

Policy, however, extends beyond legislation into client procurement methods; this includes the sudden withdrawal of confirmed budgets, changes in client staffing leading to alterations in priorities and difficulties in settling disputes and accounts for payment.

There is also governmental focus on housebuilding and a post-Grenfell prioritisation of budgets on infrastructure and remedial works.

As a UK-focused business, we are not exposed to the trade risks of international businesses, but there is a potential Brexit impact around the increases in commodity prices as suppliers pass on the costs of a weakened Pound and distraction within Government from core domestic policy.

Mitigation

Our diverse business has enabled us to manage the risks and focus our efforts on those markets where we feel there is the opportunity of earning a more predictable return.

We recognise the importance of operational delivery in giving confidence to clients and maintain high standards of service that allow us to set ourselves apart whilst generating a reasonable return on capital. We are proactive in seeking affordable solutions to budget challenges that enable us to work with clients to help them deliver the services expected of them.

We have also continued to invest in business development, through talented senior managers and experienced local leaders, aimed at building sustainable relationships with clients and securing long term contracts.

B2

Tendering for new work

We compete for work by tendering or negotiating directly with our clients. We are reliant upon our credibility as an organisation, so our reputation, experience, accreditations, pricing and relationships all affect our ability to win work.

We compete with local and international companies, some of which could have greater resources and capabilities.

Explanation of risk

This is an inherent business risk and if we do not compete effectively we may not be able to win enough work or retain existing contracts, affecting our revenues, profits and cash.

Mitigation

Our commitment to health and safety and a responsible business model and our focus on operational delivery are key to ensuring we submit high quality scores in our bid submissions.

We have an experienced internal bidding function, so we can submit the best possible bids and maximise our chance of success.

We listen to our clients and offer solutions that suit their needs, meaning we can be directly selected under existing frameworks or we can negotiate work that they are not required to put out to tender.

B3

Poor operational delivery

Poor operational delivery could lead to a local loss in trust and reputation with a client or customer, or financial loss in the event of a disputed contract settlement. A material loss of service or event could result in the loss of a framework.

Explanation of risk

Poor operational performance leads to reputational damage and weaker financial performance.

Mitigation

We mitigate this risk by having qualified, trained managers and operatives who are experienced in their roles. We closely monitor quality, progress and service using industry standard products and divisional KPIs to benchmark similar services. We have accredited processes and systems which are audited both internally and externally and reported to the accountable management teams. We have a robust approach to risk management from project level to Board, providing support and scrutiny to mitigate the risk. We have regular project audits and support visits by trained staff. Where we use supply chain partners, we work with the teams, monitoring performance and ensuring rapid resolution of issues as they arise.

B4

People

The success of our business depends on recruiting, retaining, motivating and developing the right people at all levels of our organisation.

Explanation of risk

If we do not have enough suitably skilled, experienced and engaged people we may not be able to deliver the service quality we have promised to our clients and customers or grow our business as quickly as we had planned.

Mitigation

We invest significant resources in developing our managers and training our employees including through the Sureserve Academy. We have an Employee Representative Council with members elected from all parts of the Group, ensuring that all of our people have a voice.

We work hard to make Sureserve a group that people want to be part of, with a positive culture and opportunities to develop and learn.

We are constantly assessing our training needs, listening to staff and developing innovative solutions such as our in-house online training products. We actively seek out rising stars in the business and recognise and celebrate achievement.

B5

Major health and safety incident

We provide our services in a range of potentially high risk environments: in homes, in public buildings, at height, with water, in lifts, with electrical and gas services and as lone operatives in vans.

Explanation of risk

There is potential for a major health and safety incident within the environment in which we work which could have significant impact on a person or people either directly, indirectly or not involved with the works we are undertaking.

We could incur reputational loss or civil and criminal costs due to a health and safety incident.

We are also faced with a significant rise in the perceived risk of the sector, with an increased nervousness of the insurance market around social housing contracting.

Mitigation

As a business we continually review our investment in high quality staff and our performance in health and safety. This is underpinned by internal auditing and accident incident analysis. The AFR is an important Group KPI, and all accidents and incident statistics are reported to the Board on a monthly basis. We have a health and safety culture which is owned by the Managing Directors of the divisions and driven by our skilled health and safety team.

Each business has a dedicated health and safety resource which has an open remit to attend any site at any time to offer support or audit. We have a robust UKAS-accredited health and safety management system which is administered by an independent centralised team with support provided at all stages.

We adhere to strict internal mandatory training standards driven by job roles with persons in place to monitor and maintain training standards. This is supported by our Online Learning Academy which acts as a base for our core mandatory health and safety training courses.

The SHEQ Forum is well established across the Group and meets annually to review overall business performance and drive new safety initiatives, all of which are supported by our senior management team.

G1

Financial liquidity

We rely on the continued support of our financial partners to ensure we have the necessary funds to trade on a day to day basis and pursue the Group's growth strategy. We have periods in the year where there is a peak in working capital needs, typically in the winter and around the timing of work instructed by our clients and/or arising from the circumstances of our contracts, which require short term funding.

Explanation of risk

Were funding support to be withdrawn, we could face cash shortfalls and a limitation of our ability to grow in the immediate term and, ultimately, an inability to settle our liabilities as they fell due if we could not secure funding from alternative sources. This risk would be exacerbated by poor financial performance of the Group.

If we were unable to provide financial bonds, we would be limited in our ability to tender for new work.

Mitigation

We maintain excellent relationships with our banking partners, maintaining regular dialogue on matters pertaining to trading and risk in the Group. We maintain a strict internal review process on covenant compliance to ensure we remain in line with the requirements of our banking documents. In December 2018 the Group renewed its banking facilities to provide an overdraft of £5,000,000 together with a revolving credit facility of £25,000,000 which runs to 31 January 2022.

We continue to maintain contact with a number of bonds providers to ensure we are in a position to satisfy the contractual needs of clients. Working capital is a key focus for senior management.

G2

ICT failure

Our business is 24/7 and relies on a robust ICT infrastructure and service.

Explanation of risk

An ICT failure could cause business interruption or loss of services which could impact local delivery and our reputation and ultimately have financial consequences.

Mitigation

We maintain a Group ICT strategy which is designed to support the existing business needs and provide an ICT infrastructure which is fit for purpose and supports the business' strategic direction.

We invest in resource and technology to ensure that the Group is protected, such as back-up and disaster recovery processes to ensure minimum disruption. The systems are reviewed continually and processes audited on a regular basis.

We have a dedicated security team in place to not only prevent the potential loss or misuse of data, but also to ensure compliance with the General Data Protection Regulation.



Bethany Compton, Helpdesk Administrator at Sure Maintenance, has worked for the business for four years, and prides herself on excellent customer service skills and having a great bunch of colleagues.

Building and maintaining... **Relationships**

It is vital to our success that we build and maintain a strong reputation as a responsible business and trusted partner to all our stakeholders.

This is why we go to great lengths to do business the right way, keeping our promises to our stakeholders, building positive relationships within our marketplace and minimising our impact on the environment.



Our people

The Sureserve Group is made up of 2,061 people, working in towns and cities across the UK, and each contributing to improvements and changes in almost half a million homes this year.

Our people, their abilities and their talents, along with their effect on our customers' lives, are central to our ongoing success and in realising our positive vision for the future of the Group.

Like any business in a competitive marketplace, we are committed to investing in our people to ensure we have a diverse, capable and motivated workforce that positively represents us in the markets where we operate.

The Sureserve Academy

Through an ongoing commitment to training, development and investment we make it clear to our people that in the long term we encourage them to grow and develop within their profession, developing their career in exactly the way they feel they want to. The Sureserve Academy is the central hub for all learning and development activity across the Group. We are creating visibility and promoting consistency in all training and upskilling undertaken within each of our businesses, whether that's apprenticeships, new recruits, employee development opportunities, mandatory training or our online learning management system. We believe the Academy has the potential to become the cornerstone of our resourcing and reputation within the industry.

The Academy's aim is to prepare the Group to meet both today's training demands and tomorrow's operational challenges. We are committed to developing and identifying talent within our business, to generate exciting career opportunities and a consistent quality talent pipeline to meet the market's growing demands and ensure the long term sustainability of our business.

In May this year we hosted our first Sureserve Academy event bringing together over 120 learners from across the UK to share their knowledge and experience with fellow trainees, managers and members of the Board. The day provided an opportunity to meet other colleagues from different parts of the Group and it highlighted the quality of people undertaking apprenticeships, upskilling and management training across the businesses. Attendees were invited to share a day of team building and discussions regarding the Academy's aims, strategies and developments. It was an opportunity for many of our people to meet for the first time and share their experiences of training within the Group, offering a valuable insight into the variety of paths to further development open to them.

A link to a video showcasing some of the trainees and team members at the event is available on page 7.

"It is fundamental that we hire the right people: those with both the required skillset and values that dovetail with the Sureserve Group values and ethics. In doing so, we can be confident of each member of the team's consistent, high quality contribution to each and every client, whilst ensuring the organisation's commitment to all our people at each stage of their ongoing development."

Maria McGettigan
Group HR Director

1,145

online courses completed this year

37

online courses available

Awarding excellence via the Sureserve Academy Awards

May 2019 saw the launch and introduction of the Sureserve Academy Awards, an opportunity for the Group to celebrate individuals who have achieved great things through their dedication to learning and development.

There were winners across all of the Group's businesses and the Overall Group Winner Award went to Liam Botting (pictured), a Trainee Wet Work Engineer with K&T Heating. Nominations for Liam included the following: 'throughout the duration of this individual's service, he has proved that he is a competent Engineer, carrying out his duties to an exceptional standard. His perseverance and eagerness to learn have made him an invaluable member of the team. He takes pride in his work, has great interpersonal skills and is always recommended to carry out complex repairs due to his diligent nature and passion for delivering exceptional service. He is a fantastic example of what we expect all employees to strive to become at K&T Heating.'

Liam's success is a testament to his ability and hard work throughout his time of study, and he is one of an ever-growing number of apprentices that have joined the Group and benefited from experienced mentoring, hands-on training and focused development, going on to accomplish great things for themselves and the businesses they work for.



Apprenticeships

The Sureserve Group has a long and proud history of recruiting and supporting apprentices into the business. Many of our people now in senior management began their careers as apprentices and the opportunity to learn whilst working alongside experienced professionals ensures that colleagues have pertinent up to date industry experience as soon as they pass the necessary qualifications.

Many of our core business activities would not be possible without apprentices and as such we are always looking at ways to improve our recruitment processes and encourage more individuals to join the Group to continue their professional development and establish their careers with us. Many apprentices just beginning their course of learning this year are the decision makers and team leaders of the future of the Group.

Management Excellence Programme

This year saw the launch of the Group Management Excellence Programme, a modular training course created to support our Future Leaders initiative, identifying and encouraging talent and potential in a variety of roles across the business. A combination of online and classroom-based training was specifically created to deliver focused learning to participants in areas such as legal risk, fraud prevention, corporate strategy and influencing and communication. The programme will continue to expand in scope and engagement and provide our people with a further route to advancement in their careers, as well as providing the Group with a valuable talent pool in the development of our management teams.

142

employees undertaking training in the year

 For information on our people visit www.sureservegroup.co.uk/sustainability/ourpeople

Working groups

Women in Business

Now in its second year of operating, the Women in Business working group continues to advocate for both short and long term goals in promoting diversity and resolving both operational and cultural challenges across the Group. With 15 Group-wide representatives working in a variety of specialisms, their work has continued to gain traction across all businesses, broadening the perspective of targets and objectives discussed and increasingly creating a positive reputation amongst our people.

One of the first actions from the group was to examine the gender imbalance within the Company, as it was recognised that females were under-represented in both senior roles and roles that have traditionally been held by males. Gender equality enhances employee engagement, boosts productivity, meets the diverse needs of customers and suppliers, and improves brand reputation. As such, the group reviewed the maternity provisions available to women, with an aim to make these more attractive for the recruitment and retention of staff, and to offer increased support to those employees already with the business.

Following a period of consultation with Board members and Managing Directors, the Group was happy to announce in March 2019 that a new maternity package, enhanced from the statutory level, would be available to all employees consisting of: 12 weeks' full pay, 20 weeks' half pay, 7 weeks' statutory maternity pay and 13 weeks unpaid. The enhancements represent a 56% increase in maternity pay to an employee on the average wage in the UK of £25,336, over the full 12-month period.

56%

enhancement in maternity pay*

* Based on the UK average wage for a woman of £25,336.

ERC

The Group's Employee Representative Council ('ERC') has continued to provide a valuable communication pathway for colleagues across all businesses directly to the Group's Executive Management Team. Direct reporting to the Directors and Executive Chairman ensures all issues receive the most senior of focus and, importantly, provides our employees with a direct route to highlight issues important to them.

One of the most significant initiatives introduced during the year from ERC activities is the Group's adoption of an Employee Assistance Programme, available to all of our colleagues across the Group, and providing 24-hour telephone advice offering a wide range of one-to-one private support as well as a dedicated online portal for users. The subsequent uptake and service review led to the ERC being instrumental in developing the scope for and distributing a Health and Well-Being Survey to all employees, which will be used to further our understanding of our colleagues' needs.

Female engineers

As part of the Sureserve Women in Business agenda, K&T Heating has been focusing its attention on celebrating and raising awareness of female engineers within the gas industry. As part of this, K&T is now a member of WIC, a not-for-profit organisation that promotes gender equality in construction with a view to changing the face of the industry, by normalising the role of women.

K&T has held a series of round table discussions with a number of its female Engineers and Directors, where it discussed ways in which the business and the Group can begin to make changes in the industry and promote equal opportunities.

Sureserve Legends

At the end of 2018 we launched the Sureserve Legends Awards, whereby every three months we ask our people to nominate the exceptional colleagues that they work with and tell us why they make such a difference to their working day. The overall winner is invited to attend the working group meetings being held during that quarter, sitting in on the Women in Business and ERC meetings and providing them an opportunity to have their voice heard and be at the centre of decision making.

Not only do we celebrate the overall winner, but each and every nominee too. We publish an excerpt from each person's nomination providing everyone a chance to read about some of the amazing things that colleagues think and say about each other and providing an opportunity for all our Sureserve Legends to be celebrated.

132

Sureserve Legends nominations across the Group this year

Health and safety

The Group reports monthly health and safety and environmental statistics to the plc Board, based on the following criteria:

- Near hits
- Minor accidents
- RIDDOR
- Gas RIDDOR
- Environmental accidents
- Carbon footprint

The Group AFR ('Accident Frequency Rate') is also calculated on a monthly basis; this is a method of measuring the accidents we have based on the category of accident which is reportable to the HSE.

In line with our Integrated Management System which includes ISO 18001, we have effective health and safety targets and objectives in place which are well maintained and communicated to senior management.

Across the Sureserve Group our highest priority is to protect the health, safety and well-being of our employees, customers, suppliers and pertinent members of the public. This is one of the core values that underpin our culture as a Group.

We are committed to continual improvement and do everything we can to ensure anybody affected by our work is kept safe, both during our operations and into the future. We operate an Integrated Management System which includes certification to ISO 18001 standard accreditation for Occupational Health and Safety Assessment. This enables us to underpin our Internal Management System and assist with driving regular performance reviews to consistently review and improve our processes and procedures.

When it comes to looking after our own people, we have clear core safety awareness training tailored to our business workstreams. We also enable employees to undertake core training when on the move, covering health and safety essentials such as working at heights and asbestos awareness. Delivered via our Online Learning Academy, an e-learning system from the Sureserve Academy (see above), this is always supported by instructor-led training.

We believe the ongoing health and well-being of our people is as important as their on-site safety and we are continually developing and delivering initiatives to support this. The Group Safety, Health, Environment and Quality ('SHEQ') Forum we created in 2015 continues to provide us with a framework for sharing best practice, introducing improvements and implementing risk reduction programmes to continually strengthen our health and safety culture. A key element of this initiative is the annual SHEQ Forum, which provides a platform for our highly trained and skilled health and safety specialists to share knowledge and launch new projects.

Alongside training, every year we look for new ways to improve our health and safety performance across the Group. These include reward and incentive schemes, awareness programmes and near-hit reporting.

The Group's AFR RIDDOR figure for 2019 stood at 0.22 (2018: 0.14), and the figure for all accidents was 3.2 this year (2018: 3.4), substantially below the Group target of 5.00. Details of our AFR KPI can be found on page 17.

Recruitment and retention

The performance of our business, our reputation amongst our stakeholders and industry, and our strategy going forward, together with our profitability, all rest firmly with the quality and ability of our people to deliver excellent work and, in turn, our ability to find and retain them.

Sector wide, businesses are facing challenges in finding the right people for the job and in keeping them owing to skills shortages impacting roles such as Service and Installation Engineers. For this reason it is so important that the Group invests in programmes and initiatives found within the Sureserve Academy in order to encourage the right people to remain with us following recruitment.

Ongoing training and personal development have an essential role to play in this area. We operate a Graduate Recruitment Programme identifying colleagues who can grow with us, ensuring that we have in place a talent pipeline to continue positively growing our business.

"We understand the value of investing in our people, and ensuring we have a fair and diverse workforce which feels motivated is of paramount importance to the Group. Enhanced maternity leave is just one of a number of initiatives the Group has developed which benefit existing employees, and help us find and attract the right people, encouraging them to build rewarding, long term careers with us."

Bob Holt OBE
Executive Chairman

Lesly Staber has worked as an Operations Support Assistant for Providor since July 2017, making sure that projects are delivered on time and within budget.



Market

We have built a Group that is focused on delivering a comprehensive and high quality service in the sustainable target markets of social housing, public buildings, education and energy services, together with industrial and commercial buildings.

Our clients

Every year we serve hundreds of thousands of end customers when we are contracted to deliver work schemes for public sector clients across the UK. As we know, providing our services means more than the installation and maintenance work we do in homes, public buildings and businesses, and an enormous part of our success is in the manner in which we interact with our customers and clients and how their experience and perception is formed on the quality of support they receive. Working hard to deliver customer excellence to all our clients and customers is key to the Group's success and in ensuring we consistently demonstrate our value throughout our quality services across the UK.

Annually we run the Sureserve Group Customer Excellence Awards which is an opportunity for people from across the Group to nominate a colleague who has excelled in their customer service during the year. Tracey Scott of Everwarm was chosen as this year's winner. Tracey has made a big impression on her colleagues at Bathgate and was chosen to be our winner for her 'exemplary customer service from the first day she started' and her 'vast knowledge and experience in providing a great customer service'.

Supply chain

Ethical purchasing is a priority for the Group, and we seek always to take social, environmental and economic factors into account when deciding what, where and how to buy. Our procurement team is highly skilled at achieving best value while positively discriminating in favour of suppliers with policies that complement our beliefs.

This includes fair payment terms and free or subsidised training for suppliers, helping to ensure that local businesses can access our supply chain and encouraging innovation among our suppliers. Every year, we provide training to around 700 of our suppliers' employees.

Community

Our purpose includes helping to create and sustain successful and cohesive communities where people want to live and work. And we are ideally positioned to help.

This means being involved in our communities beyond our immediate role as a provider of asset and energy support services. While some of our local authority customers require us to deliver social value through our contracts, such as by creating jobs or offering apprenticeships, we aim to do so wherever we work.

For example, we offer mentoring programmes and education partnerships, helping to increase the aspirations and skills of local young people. We offer residents access to apprenticeships, employment and skills development. And, whenever we can, we support initiatives that tackle social issues like crime, vandalism and other forms of anti-social behaviour. We also aim to promote social and digital inclusion, and health and well-being.

Sureserve Foundation

The Sureserve Group set up its very own independent charity, the Sureserve Foundation, back in May of this year, set up to help individuals, families and communities across the UK with the alleviation of fuel poverty, an issue that the Sureserve Group fully understands, due to the work it undertakes within social housing and the compliance and energy services sectors.

The foundation helps individuals, families and communities achieve fuel efficiency and, in turn, lessen the financial burden of high gas and electric bills. It is working with key industry partners, such as National Energy Action and the Energy Saving Trust, to achieve its charitable objectives and provide support through information, advice and guidance to combat fuel poverty and inefficient energy use, and the provision of intervention measures across our community network, to enhance energy savings in the home, via a charitable grant programme.

Fundraising began in May and, including the foundation's fundraising dinner in November 2019, has raised over £38,000, which will be instrumental in funding the projects which are being initiated in 2020 and beyond.

To find out more about the foundation and its work visit www.thesureservefoundation.org.

£38,626

Raised by the Sureserve Foundation in calendar year 2019 to help combat fuel poverty in the UK

"In seeking to support our team by providing a healthy and safe workplace, there is the obvious practical methodology of the day to day safe practices within each workplace together with the provision of an Employee Assistance Programme that all of our people have access to, should they so choose."

Maria McGettigan
Group HR Director



Environment

When planning, undertaking and delivering our work, how best to protect the natural environment and help sustain it for the future is always a key consideration for Sureserve. We believe that every business should carefully manage and measure its impacts, and doing so is a key part of our own Group strategy.

As part of this, we continuously monitor potential impacts, promote awareness and do everything we can to reduce risks. Our Environmental Management System, underpinned by ISO 14001 accreditation, ensures that we go further than simply meeting legal requirements. We aspire to set an example of best practice to our wider industry. We communicate this to all employees, ensuring that our commitments in this area inform and influence their everyday work.

As part of this, we measure all environmental risks and opportunities across the Group, all backed up by training, awareness and support. As a result, we understand the importance of conserving wildlife, protecting plants and trees and minimising the levels of pollution that our activities release into the environment.

The key environmental areas on which we focus are energy efficiency, carbon management and waste diversion. We monitor and analyse all these aspects, setting targets to ensure continuous improvement.

Waste management

In the waste management area, we strive to ensure that at least 90% of waste is diverted from landfill. We achieve this by partnering with highly regarded waste disposal companies that are committed to recycling and other acceptable forms of waste reduction.

Carbon usage

Achieving a substantial reduction in our use of energy is one of our core priorities as we strive to reduce our carbon footprint, both at a local level within each business unit and across the Group as a whole.

We calculate our carbon footprint in line with our ISO 50001 certification and we do so by determining our Significant Energy Uses ('SEUs') across the Group. These are identified as:

- Fleet for business use
- Electricity
- Gas

We hold the ISO 50001 standard for Energy Management Systems. We apply its guidance across the Group, not only to ensure we comply with all legal and other requirements but also to help us continually develop and improve our performance.

We monitor energy consumption at all our offices and use a fuel card system to do so for all our company vehicles. By analysing the data we collect in this way, we use it to set stretching but realistic annual reduction targets. We report Group consumption to the Board each month and create annual energy reviews and baseline reports to identify and highlight annual performance and improvement opportunities.



Jamie Moulding joined the team at Aaron Services as an apprentice back in 2016, and went on to secure a permanent position within the business working as a Heating Engineer.

Our carbon usage for this reporting year was 8,666 tonnes of CO₂, which shows a reduction of 22.0% on the 11,107 tonnes usage in 2018. This is equivalent to 40.9 tonnes per £m of revenue (2018: 58.2 tonnes).

This is due to several improvements to our fleet, which accounts for roughly 80% of our energy consumption. Improvements include the fact that all new vehicles are speed restricted and fitted with start/stop technology to reduce vehicle idling. We monitor our drivers' behaviour through telematic reporting to allow us to improve our drivers' driving styles, ensuring they are driving safely and efficiently at all times. We have been replacing our current fleet with the most up to date and efficient vehicles, with 72% of our current fleet now Euro 6 compliant and 28% Euro 5. We will continuously review the types of vehicles we acquire looking to adopt alternative fuel vehicles (hybrid, electric) wherever possible. It should also be noted that the Company has decreased in size in 2018 with the disposal of Lakehouse Contracts and Foster and this will have had an impact on the amount of carbon consumed.

The Group is very proud to announce that it has achieved carbon neutral operations thanks to the work undertaken by its energy services business Everwarm, and the carbon savings it delivered through the work they undertook during the period, which more than offsets the total Group carbon usage.

8,666 tonnes

CO₂ produced in 2019, a reduction of 22.0% on 2018

Strong leadership



Bob Holt OBE
Chairman

Appointment

Bob was appointed as a Director and Chairman in July 2016.

Committee membership

Member of the Nomination Committee.

Key strengths

Bob is an experienced manager and developer of service businesses. In a career in the service sector spanning over 35 years he has an extensive track record of growing businesses and turning around underperforming companies. Bob provides experienced executive leadership to navigate the business through challenging market conditions whilst setting a clear strategic direction for the Group for the medium term.

Experience, skills and qualifications

Bob currently serves as Chairman of Totally plc, and is a Director of a number of other businesses. Bob was awarded an OBE in January 2016.



Peter Smith
Chief Financial Officer

Appointment

Peter was appointed to the Board in July 2019.

Committee membership

None.

Key strengths

Peter has more than 13 years' experience in finance at Director level with widespread and successful experience in delivering results in areas such as facilities management, services, third party logistics, specialist recruitment, procurement, food service and manufacturing.

Experience, skills and qualifications

Some recent (non-board level) roles have included Finance Director of the Cleaning & Environmental Services division of Mitie Group, interim Finance Director of the Specialist Services division at OCS Group, interim Commercial Finance Director at the Post Office and interim Chief Financial Officer of Support Services at Balfour Beatty as well as Head of Finance Shared Services, Finance Systems and Process Improvement at British Gas.

Diversity, independence and experience

Gender



Tenure





Robert Legget
Senior Independent Director

Appointment

Robert was appointed to the Board in April 2016.

Committee membership

Chairman of the Nomination Committee, Chairman of the Remuneration Committee and a member of the Audit Committee.

Key strengths

Robert has extensive business and finance experience.

Experience, skills and qualifications

Robert co-founded Progressive Value Management Limited in 2000 and is Chairman. Progressive Value Management specialises in creating value and liquidity for institutional investors from illiquid holdings in underperforming companies. In this role he has had significant engagement with public company boards. Robert was formerly a Director of Quayle Munro Holdings plc and Foreign & Colonial Private Equity Trust plc. Robert is a member of the Institute of Chartered Accountants of Scotland.



Derek Zissman
Non-Executive Director

Appointment

Derek was appointed to the Board in November 2017.

Committee membership

Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

Key strengths

Derek has extensive business and finance experience.

Experience, skills and qualifications

Derek is currently a Director of three AIM listed companies and one fully listed on the Frankfurt Stock Exchange. He spent many years with KPMG, where he was a co-founder of the firm's Private Equity Groups in the UK and USA, and was Vice Chairman of KPMG UK. Derek is a Fellow of the Institute of Chartered Accountants in England and Wales.



Christopher Mills
Non-Executive Director

Appointment

Christopher was appointed to the Board in March 2019.

Committee membership

None.

Key strengths

Christopher has extensive business and finance experience.

Experience, skills and qualifications

Christopher is Chief Executive and Investment Manager of North Atlantic Smaller Companies Investment Trust ('NASCIT'), appointed in 1984. He is currently a member and Chief Executive of Harwood Capital Management.

In addition he is a Non-Executive Director of numerous UK companies which are either now or have in the past five years been publicly quoted.

Board composition



Sector experience





Strong Governance

I am pleased to introduce the Company's 2019 Corporate Governance Report.

The Board recognises that good Corporate Governance is fundamental to effective management of the business and delivery of long term shareholder value and is for the wider benefit of the Company, its employees, customers and suppliers.

The Board is committed to ensuring that a strong Governance framework operates throughout the Group since this provides an essential foundation on which to build the future success of the Group.

The Company applies the governance principles of the Quoted Companies Alliance Corporate Governance Code 2018 ('QCA Code'), on the basis that it is the most appropriate governance code for the Group, having regard to its strategy, size, stage of development and resources.

The QCA Code is based around 10 principles and a set of disclosures. Details of how the Group complies with each of the 10 principles of the QCA Code may be found in the explanations below, within the Board

Committee reports and on the Company's website at www.sureservegroup.co.uk/investors/corporate-governance.

Board composition has changed during the year with the appointment of Christopher Mills as an additional Non-Executive Director in March 2019 and the appointment of Peter Smith as Chief Financial Officer in July 2019. At the very end of the financial year Michael McMahon resigned as Chief Operating Officer of the Group and I took on the role on an interim basis. The structure of the Board will be further reviewed in the coming months.





















Having exited our construction interests last year, I am pleased to report that the Group's continuing interests remain tightly focused on Compliance and Energy Services.

Bob Holt OBE
Executive Chairman

20 January 2020

Statement of compliance with the QCA Corporate Governance Code

The Board has adopted the QCA Corporate Governance Code and in the table below we set out how we comply with the principles of the Code.

	Governance principles	Compliant	Further reading
Deliver growth	1. Establish a strategy and business model which promote long term value for shareholders	✓	 Pages 10 – 11 and 14 – 15  https://www.sureservegroup.co.uk
	2. Seek to understand and meet shareholder needs and expectations	✓	 Pages 40 – 45  https://www.sureservegroup.co.uk/investors/corporate-governance
	3. Take into account wider stakeholder and social responsibilities and their implications for long term success	✓	 Pages 32 – 37 and 42  https://www.sureservegroup.co.uk/sustainability  https://www.sureservegroup.co.uk/news-media/press-releases
	4. Embed effective risk management, considering both opportunities and threats, throughout the organisation	✓	 Pages 29 – 31 and 42
Maintain a dynamic Management Framework	5. Maintain the Board as a well functioning, balanced team led by the Chair	✓	 Pages 38 – 39 and 42 – 43  https://www.sureservegroup.co.uk/about-us/board-directors
	6. Ensure that between them the Directors have the necessary up to date experience, skills and capabilities	✓	 Pages 38 – 39 and 43 – 44  https://www.sureservegroup.co.uk/about-us/board-directors
	7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	✓	 Page 44
	8. Promote a corporate culture that is based on ethical values and behaviours	✓	 Pages 01 – 37 and 44  https://www.sureservegroup.co.uk
	9. Maintain governance structures and processes that are fit for purpose and support good decision making by the Board	✓	 Pages 44 – 45  https://www.sureservegroup.co.uk/investors/corporate-governance
Build trust	10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	✓	 Pages 01 – 58  https://www.sureservegroup.co.uk/investors/regulatory-news  https://www.sureservegroup.co.uk/investors/results-and-presentations

Principle 1 – Establish a strategy and business model which promote long term value for shareholders

Sureserve is a leading compliance and energy support services group that performs critical functions in homes and public and commercial buildings, with a focus on clients in the UK public sector and regulated markets, which remain our key sustainable target markets. Services are delivered through two divisions: Compliance and Energy Services. Sureserve Group's strategy is explained fully within our Strategic Report which is contained within pages 01 to 37 of this Report and Accounts. The principal risks and uncertainties to the business, together with mitigating factors that the Board has identified, are detailed on pages 29 to 31 of this Report and Accounts.

Principle 2 – Seek to understand and meet shareholder needs and expectations

The Board recognises the importance of active shareholder dialogue with both institutional and private shareholders, and this is led by the Chairman and Chief Financial Officer. How the Company addresses these matters is fully detailed within the Principle 2 note in the Corporate Governance section of the website, at www.sureservegroup.co.uk/investors/corporate-governance.

Following both the annual and interim results announcements, meetings are held with analysts, private investors and institutional investors of the Company. The Company's website also has details of public announcements, Annual and Interim Reports and investor presentations.

The Annual General Meeting of the Company gives the Directors the opportunity to meet with shareholders and to provide an opportunity to give an update on the Company's performance. It also provides shareholders with the opportunity to ask questions of the Directors, either in the formal AGM proceedings or informally after the event.

Principle 3 – Take into account wider stakeholder and social responsibilities and their implications for long term success

The Board is conscious of the impact that the Company's business activities may have on the environment and society more generally. The Company acknowledges its responsibilities to all stakeholders and encourages all feedback via the Contact Us section of the Company website at www.sureservegroup.co.uk.

Employee engagement is focused on regular Group-wide communication with all employees and enhanced by the work of the ERC ('Employee Relationship Council'), which meets on a regular basis throughout the year. The Company actively supports the Women in Business forum.

The Sureserve Academy acts as a central hub for all learning and development activities across the Group, including for the 142 apprenticeships which are in place across the Group.

Regular dialogue is maintained with suppliers, including to ensure that compliance is maintained with all central legislation around Bribery and Corruption and Modern Slavery.

The Sureserve Foundation was established during the year to reinforce the Group's support for the communities in which the business operates, and is particularly focused on alleviating fuel poverty.

Full details of our Corporate Social Responsibility activities may be found in the relevant report on pages 32 to 37.

Principle 4 – Embed effective risk management, considering both opportunities and threats, throughout the organisation

Details of the risks and uncertainties faced by the Group, and their mitigation, can be found in the Principal Risks and Uncertainties section of this Report and Accounts on pages 29 to 31.

The Board has responsibility for ensuring that effective risk management is in place across the Group. Clear strategic goals are set and risks to the achievement of these objectives are monitored through regular dialogue with operational management in each of the businesses. This takes place on an as required basis, but as a minimum full reviews are undertaken on a monthly basis.

The Audit Committee also provides robust, independent challenge to matters of risk management.

Post year end the Group has also reinstated an Internal Audit function with the appointment of an internal auditor to help the Board monitor risks and ensure compliance with Group policies and procedures. The internal auditor reports to the Chairman of the Audit Committee.

Formal risk registers are in place at plc and operating company level and are reviewed and monitored by the Audit Committee.

Risk management is a core focus of the Board and this is reviewed in depth at each Board meeting. Detailed feedback is obtained from each operating subsidiary, together with external regulatory bodies, for discussion at these meetings. Operational risk and any newly identified risk to the business are reviewed on a regular basis by the Board.

The Group maintains appropriate levels of insurance cover.

Principle 5 – Maintain the Board as a well functioning, balanced team led by the Chair

The Board, led by the Chairman, is responsible for the overall management of the Group including the approval and implementation of the Group's objectives and strategy, budgets and operational performance along with the maintenance of sound internal control, corporate governance and risk management procedures. Whilst the Board may delegate day to day management to the Executive Directors, subject to formal delegated authority limits, certain matters are reserved for full Board approval. Details of matters reserved for the Board may be found at www.sureservegroup.co.uk/investors/corporate-governance.

Currently the Board consists of two Executive Directors and three Non-Executive Directors. Details of the Directors, including brief biographies, Committee membership, key strengths and experience, skills and qualifications, can be found on pages 38 to 39 of this Report and Accounts.

All Directors are subject to re-election at each Annual General Meeting of the Company.

Robert Legget and Derek Zissman are both considered to be Independent Non-Executive Directors of the Group. Because of his management responsibility for Harwood Capital Management, the Group's largest shareholder (19.2%), Christopher Mills is not considered to be independent as a Non-Executive Director of the Group.

Directors during the year	Role	Independent/non-independent	Date of appointment
Bob Holt	Executive Chairman and Interim Chief Executive Officer	Not independent	July 2016
Michael McMahon ¹	Chief Operating Officer	Not independent	Joined the Group in April 2014 following the acquisition of Everwarm. Appointed Chief Operating Officer in February 2017
Jeremy Simpson ²	Chief Financial Officer	Not independent	April 2014
Robert Legget	Non-Executive Director Senior Independent Director	Independent	April 2016
Peter Smith ³	Chief Financial Officer	Not independent	July 2019
Derek Zissman	Non-Executive Director	Independent	November 2017
Christopher Mills ⁴	Non-Executive Director	Not independent	March 2019

1. Michael McMahon resigned on 30 September 2019.
2. Jeremy Simpson resigned on 14 October 2018.
3. Peter Smith was appointed on 29 July 2019.
4. Christopher Mills was appointed on 18 March 2019.

The Board is supported in its work by Audit, Remuneration and Nomination Committees which are chaired by the Independent Non-Executive Directors.

The table below summarises the membership of the Board, the Board Committees and the attendance record of Directors.

Director	Board scheduled meetings	Audit	Remuneration	Nomination
Executive Directors				
Bob Holt	14/14	—	—	2/2
Jeremy Simpson ¹	1/1	—	—	—
Michael McMahon ²	12/14	—	—	—
Peter Smith ³	2/2	—	—	—
Non-Executive Directors				
Robert Legget	14/14	3/3	2/2	2/2
Derek Zissman	14/14	3/3	2/2	2/2
Christopher Mills ⁴	5/5	—	—	—

Notes

1. Jeremy Simpson resigned on 14 October 2018.
2. Michael McMahon resigned on 30 September 2019.
3. Peter Smith was appointed on 29 July 2019.
4. Christopher Mills was appointed on 18 March 2019.

All Directors are required to commit sufficient time to their roles in order to adequately discharge their duties.

Principle 6 – Ensure that between them the Directors have the necessary up to date experience, skills and capabilities

As at 30 September 2019, the Board comprised an Executive Chairman, one further Executive Director and three Non-Executive Directors. Details of each Director, including a brief biography, Committee membership, key strengths and experience, skills and qualifications, are detailed on pages 38 to 39 of the Report and Accounts. The Board considers that there is the necessary mix of operational, financial and public company experience and skills within the current Board Directors. These skills are seen as being relevant to the sectors in which the business operates.

The Directors are mindful of the importance of gender balance within the Board and this aspect continues to be kept under review.

All Directors are required to commit sufficient time to their roles in order to adequately discharge their duties. Training is maintained through regular business updates from the Executive Directors and briefings from external advisers.

Supporting the work of the Board are three Board Committees, all with formally delegated powers – an Audit Committee, a Remuneration Committee and a Nomination Committee. All are chaired by and comprise the Non-Executive Directors.

Each of the Directors is subject to either an Executive Service Agreement or a letter of appointment. The Company's Articles of Association require all of the Directors to retire at every Annual General Meeting.

Principle 6 – Ensure that between them the Directors have the necessary up to date experience, skills and capabilities continued

Non-Executive Directors are appointed for terms of three years, which may be renewed, subject to the particular Director being re-elected by shareholders, for up to a normal maximum of three terms (nine years).

During the year advice was received from external professional advisers regarding the appointment of a new Chief Financial Officer (Nomination Committee) and the establishment of a new Executive Share Option Scheme (Remuneration Committee). In addition advice was taken regarding the establishment of a further SAYE Scheme for employees.

Principle 7 – Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

In order to ensure the effective operation of the Board and the Committees, and in line with QCA Code Guidelines, an evaluation of the Board was undertaken by an external, independent consultant. The process of appointing an external consultant was overseen by the Senior Independent Director and the Company Secretary.

The evaluation was concluded post the end of the previous reporting period and the results of the Board evaluation were presented to the Board on 10 January 2019. The Board evaluation process included an observed Board meeting, confidential questionnaires and individual interviews of Board members. The questionnaire included sections relating to the compliance principles of the Quoted Companies Alliance Code.

The conclusions of the report presented on 10 January 2019 consider the areas that the Directors identified for improvement and set out a way in which they will be addressed. These include Board strategy beyond the turnaround, the quality of Board interaction, governance and structure, and succession and diversity. Specifically, the Board will:

- Conclude the appointment of a new Finance Director (now concluded)
- Update the Company strategy
- Address Board structure and diversity, including the appointment of a further Non-Executive Director to chair the Remuneration Committee
- Provide regulatory and technical board updates
- Continue high quality Board interactions, informed by the report

The Board was unanimous in its agreement with the evaluation assessment that the Board, its Committees and individuals continue to be effective. The Board valued the independence of the external evaluator and the approach taken.

It was agreed to follow up the Board evaluation with the external assessor and this review took place in December 2019, post the financial year end. The external assessor undertook a follow-up review and concluded that most of the recommendations had been implemented successfully. The follow-up review identified further areas for development and the Board has agreed to implement them.

Principle 8 – Promote a corporate culture that is based on ethical values and behaviours

Our culture evolves through our working together agenda which achieves shared stakeholder value for our clients, clients' customers, communities, financial partners, employees, shareholders and suppliers. The culture is driven by the Board and implemented by our Group Responsible Business Lead. The Company has adopted a share dealing code for the Directors and applicable employees of the Group for the purpose of ensuring compliance by such persons with the provisions of the AIM Rules relating to dealings in the Company's securities (including, in particular, Rule 21 of the AIM Rules).

The Directors consider that this share dealing code is appropriate for a company whose shares are admitted to trading on AIM.

Whistleblowing

The Company has established procedures by which employees may, in confidence, raise concerns relating to danger, fraud, or other illegal or unethical conduct in the workplace. The whistleblowing policy applies to all employees of the Group, and also consultants, casual workers and agency workers. The Audit Committee is responsible for monitoring the Group's whistleblowing arrangements and the policy is reviewed periodically by the Board.

Compliance with laws

The Group has systems in place designed to ensure compliance with all relevant laws and regulations and all relevant codes of business practice. This includes:

- Taking all appropriate steps to comply with the provisions of the Market Abuse Regulation
- A copy of the Group's anti-slavery and human trafficking policy statement in relation to the Modern Slavery Act 2015, which can be found on the Company website
- The Company's Code of Conduct – available on the Company website
- An anti-corruption policy and Group whistleblowing policy, both of which relate to compliance with the Bribery Act 2010, can also be found on the Company website
- The Group has complied with the provision of statutory information relating to the gender pay gap legislation and payment practices regime
- The Energy Savings Opportunity Scheme ('ESOS'), offering full cooperation during audits of the Group's energy use

Principle 9 – Maintain governance structures and processes that are fit for purpose and support good decision making by the Board

There were 14 Board meetings held during the year.

Within the annual calendar of Board meetings there is normally an annual budget presentation at which the Executive team presents its budget for the forthcoming year. The Non-Executive Directors are encouraged to attend visits to the individual operating businesses to discuss performance and other issues with the management teams.

The Company Secretary works closely with the Chairman and the Chairmen of the Board Committees to ensure that Board procedures, including setting agendas and the timely distribution of papers, are complied with and that there are good communication flows between the Board and its Committees, and between senior management and Non-Executive Directors.

There is a formal agenda at each Board meeting which includes an operational update from the Chief Operating Officer and financial updates from the Chief Financial Officer. Both reports cover all business units within the Group and also cover new business opportunities. Health and safety and strategic issues are dealt with at each Board meeting by the Chairman.

During the course of the year, other matters considered by the Board include annual and half-year results announcements, principal risks and uncertainties, corporate social responsibility, AGM resolutions, shareholder communications and management incentivisation.

Board papers are circulated to the Directors at least three clear business days in advance of meetings to enable proper consideration of the content of the papers.

The Chairman maintains regular contact with the Non-Executive Directors outside of formal Board meetings.

The roles of all Board members during the year were as detailed below:

Position	Name	Responsibilities
Executive Chairman ¹	Bob Holt	Leads the Board and sets Company strategy. Ensures an effective link between shareholders and the Board.
Chief Operating Officer	Michael McMahon ²	Assists the Chairman to develop strategy. Implements policies and strategies agreed by the Board and manages the business.
Chief Financial Officer	Jeremy Simpson ³ Peter Smith	Develops, implements and monitors financial strategy of the business.
Non-Executive Directors	Robert Legget, Derek Zissman and Christopher Mills	Provide constructive challenge to the Executive Directors. Monitor delivery of agreed strategy.

1. Post the year end and the resignation of Michael McMahon as Chief Operating Officer, Bob Holt assumed the role of Interim Chief Executive Officer.

2. Michael McMahon resigned on 30 September 2019.

3. Jeremy Simpson resigned on 14 October 2018 and Peter Smith was appointed on 29 July 2019.

All Directors have access to the support and advice of the Company Secretary as required. Directors are also able to take independent professional advice at the Company's expense in the furtherance of their duties where considered necessary.

Position	Name	Responsibilities
Group Company Secretary	John Charlton	Provides guidance on all matters of Corporate Governance. Ensures a good flow of information within the Board and its Committees.

Board Committees

The Board has established three Board Committees, all with formally delegated powers – an Audit Committee, a Remuneration Committee and a Nomination Committee. All are chaired by and comprise the Non-Executive Directors; Bob Holt also attends Nomination Committee.

The terms of reference for all Board Committees are reviewed regularly and can be found on the Company website at www.sureservegroup.co.uk/investors/corporate-governance.

Committee Chairmen attend the Company AGM and are available to answer any questions from shareholders regarding the activities of the Committees.

Principle 10 – Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

In the year to 30 September 2019 the Executive Directors and members of the Board met and had dialogue with a large number of shareholders and investors.

The Company aims to maintain an active dialogue with key stakeholders, including institutional investors, to discuss issues relating to the performance of the Group, including strategy and new developments. The Senior Independent Director is available to discuss any matter shareholders might wish to raise and attends meetings with investors as required.

The Company's website includes a specific investor relations section containing all RNS announcements, share price information, annual documents available for download and similar materials at www.sureservegroup.co.uk/investors. The website also provides details for contacting the Company on any issues.

The AGM remains a valuable opportunity for the Board to engage with shareholders and to answer any questions which shareholders may have. This year's AGM will be held on 18 March 2020 and full details of the venue and resolutions proposed may be found in the Notice of Meeting enclosed with these accounts or on the Company website.

Approved by order of the Board

Bob Holt OBE
Executive Chairman
20 January 2020



The Board

Leadership, strategy and development

Nomination Committee	Audit Committee	Remuneration Committee
<p>Chairman Robert Legget</p> <p>Members Bob Holt Derek Zissman</p> <p>Key responsibilities Providing a formal, rigorous and transparent procedure in respect of appointments to the Board.</p> <p>Evaluating the structure, size and composition of the Board.</p> <p>Reviewing leadership of the Group and giving consideration to succession planning.</p>	<p>Chairman Derek Zissman</p> <p>Members Robert Legget</p> <p>Key responsibilities Reviewing and monitoring the integrity of the Financial Statements.</p> <p>Ensuring an effective system of internal controls is maintained.</p> <p>Monitoring accounting policies.</p> <p>Liaison/oversight of internal and external auditors.</p>	<p>Chairman Robert Legget</p> <p>Members Derek Zissman</p> <p>Key responsibilities Proposing the overarching principles, parameters and governance framework of the Group's remuneration policy.</p> <p>Determining the remuneration and benefits packages of the Executive Directors.</p>
<p>More information Nomination Committee Report, page 47.</p>	<p>More information Audit Committee Report, pages 48 – 49.</p>	<p>More information Remuneration Committee Report, pages 50 – 54.</p>



Executive Management Team

<p>Members</p> <ul style="list-style-type: none"> ▪ Chairman/Interim Chief Executive Officer ▪ Chief Financial Officer ▪ Managing Directors of Compliance and Energy Services businesses ▪ Company Secretary ▪ Group Human Resources Director ▪ Commercial Director ▪ Group Financial Controller ▪ Group Commercial Finance Director 	<p>Key responsibilities Assist the Chairman in the performance of his duties, including development and implementation of the strategic plan. Deal with all executive business of the Group not specifically reserved to the Board or its Committees, including operational management of the business and the implementation of appropriate systems and controls.</p>
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Robert Legget
Senior Independent Director
Chairman of the Nomination Committee

This is the Nomination Committee Report for the year to 30 September 2019.

Key responsibilities

The key responsibilities of the Nomination Committee are to:

- Review the structure, size and composition of the Board, including the skills, knowledge, experience and diversity of Directors
- Give full consideration to succession planning for Directors and other senior Executives
- Keep under review the leadership needs of the organisation
- Identify and nominate for the approval of the Board candidates to fill Board vacancies

The terms of reference of the Nomination Committee are available to view at www.sureservegroup.co.uk/investors/corporate-governance.

Membership of the Nomination Committee and attendance during the year

The Nomination Committee comprises Non-Executive Directors of the Company and the Chairman. Robert Legget, Derek Zissman and Bob Holt were the members of the Committee during the year. Derek Zissman joined the Nomination Committee during the financial year. Details of attendance records during the period can be found on page 43.

Following the disposal of the Group's Property Services and Construction activities in August 2018, it was agreed to give further consideration to the appointment of an additional Non-Executive Director of the Group. A number of candidates were considered for the role but, finally, agreement was reached to appoint Christopher Mills as a Non-Executive Director. Christopher Mills is Chief Executive of Harwood Capital Management and Chief Executive and Investment Manager for North Atlantic Smaller Companies Investment Trust.

The Board acknowledges that diversity extends beyond the boardroom and supports the management efforts to build a diverse organisation. When considering the optimum composition of the Board, it is believed all appointments should be made on merit, whilst ensuring an appropriate balance of skills and experience within the Board.

As a result of the resignation of Jeremy Simpson, the Chief Financial Officer, effective 14 October 2018, the Committee initiated the search for a new Finance Director, and this process concluded in July 2019 with the appointment of Peter Smith as Chief Financial Officer. The new appointment reflects the different scale of the business following the disposal of the Group's interests in Property Services and Construction during August 2018.

The Senior Independent Director and the Company Secretary concluded the Board evaluation process undertaken by an external evaluator. The evaluation report was presented to the Board on 10 January 2019. The conclusion of the report, in that it was considered that there was an effective Board and Committee structure in place, was welcomed by the Board. It was agreed that a follow-up review by the evaluator would be undertaken and this took place post year end. Further details of the evaluation and the areas identified for improvement are included in the Chairman's Report on Corporate Governance on pages 40 to 45. At the follow-up evaluation the assessor concluded that the majority of the previous recommendations had been implemented effectively, further areas for development were identified and the Board agreed that these should be implemented.

Action plan for 2019/20

The focus for the Committee during the coming financial year will be:

- To oversee the implementation of the recommendations from the follow-up Board evaluation Report and to monitor progress made to implementing the improvements recommended in the original evaluation
- To review the Executive Board structure following the departure of the previous COO
- To review succession planning within the Company and the membership of the Executive Management Team which supports the Executive Directors
- To review the Executive/Non-Executive balance of the Board
- The Board is mindful of the requirement to evidence diversity in the workforce

Approved on behalf of the Board by:

Robert Legget
Senior Independent Director
Chairman of the Nomination Committee
20 January 2020



Derek Zissman
Non-Executive Director
Chairman of the Audit Committee

This is the Audit Committee Report for the year ended 30 September 2019.

The Committee is chaired by Derek Zissman with Robert Legget as a member. Both are Independent Non-Executive Directors of the Group.

Committee meetings

The Committee met three times during the year. The meetings are attended by Committee members and, by invitation, the Chief Financial Officer, senior management and representatives from the external and internal auditors. Once a year, the Committee meets separately with the external auditor without management being present.

Roles and responsibilities

The primary function of the Audit Committee is to assist the Board in discharging its responsibilities with regard to financial reporting and the external and internal controls, including:

- Reviewing and monitoring the integrity of the Group's annual and interim financial statements and accompanying reports to shareholders and Corporate Governance statements
- Reporting to the Board on the appropriateness of the accounting policies and practices
- In conjunction with the Board, reviewing and monitoring the effectiveness of the Group's internal control and risk management systems, including reviewing the process for identifying, assessing and reporting all key risks (see the Principal Risks and Uncertainties Review on pages 29 to 31)
- Reviewing the effectiveness of the Group's internal audit process and approving the forward audit plan

- To make recommendations to the Board in relation to the appointment and removal of the external auditor and to approve its remuneration and terms of engagement
- To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements
- Reviewing and monitoring the extent of the non-audit work undertaken by the Group's external auditor, taking into account relevant professional and regulatory requirements
- Reviewing the adequacy and effectiveness of the whistleblowing and anti-bribery policy and procedures
- Reviewing the Group's risk management procedures and monitoring actions taken in the year

The Committee's terms of reference are available to view at www.sureservegroup.co.uk/investors/corporate-governance.

The Committee is comprised of financially literate members with the requisite ability and experience to enable the Committee to discharge its responsibilities. Derek Zissman and Robert Legget were the members of the Committee during the period under review. The Chairman of the Audit Committee during this period, Derek Zissman, is a Fellow of the Institute of Chartered Accountants in England and Wales whilst Robert Legget is a member of the Institute of Chartered Accountants of Scotland.

Activities of the Committee

During the course of the year the Committee undertook the following:

- Reviewed the key accounting considerations and judgements reflected in the Group's results for the six-month period ended 31 March 2019
- Reviewed and agreed the external auditor's audit plan in advance of its audit for the year ended 30 September 2019
- Discussed the report received from the external auditor regarding its audit in respect of the year ended 30 September 2019, which includes comments on its findings on internal control and a statement on its independence and objectivity
- Worked with the Board and external professional advisers on the appointment of a new Chief Financial Officer. This work was concluded with the appointment of Peter Smith on 29 July 2019
- Worked with the Chief Financial Officer in the appointment of a new Internal Auditor, who was appointed post the year end, as well as the setting up of a Risk Committee
- Reviewed and approved the non-audit assignments undertaken by the external auditor in the year to 30 September 2019
- Considered, together with the Board, the Principal Risks and Uncertainties Review

External auditor

The Group's external auditor – RSM UK Audit LLP – is subject to annual reappointment by shareholders.

The Board is very aware that the effectiveness and independence of the external auditor is central to ensuring the integrity of the Group's published financial information. During the year the Audit Committee took the following steps to ensure that auditor independence was not compromised:

- The Committee annually reviews the Company's relationship with its auditor and assesses the level of controls and procedures in place to ensure the required level of independence and that the Company has an objective and professional relationship with RSM
- The Audit Committee reviews all fees paid for the audit and all non-audit fees with a view to assessing the reasonableness of fees, and any independence issues that may have arisen or may potentially arise in the future

The Board is satisfied with the effectiveness and independence of RSM UK Audit LLP as our external auditor.

Risk management and internal controls

The Audit Committee is responsible for monitoring the financial reporting process and for reviewing the effectiveness of the Group's system of internal controls. The system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and the Board can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has established a clear organisational structure with defined authority levels. The day to day running of the Group's business is delegated to the Executive Directors of the Group, who meet with both operational and financial management in each business area on a monthly basis. Key financial and operational measurements are reported on a monthly basis and are measured against both budget and reforecasts.

The Group maintains a Group risk register and risk registers for each business within the Group which outline the key risks faced by the Group, including their impact and likelihood and relevant mitigation controls and actions. The Group and business risk registers are reviewed and updated by management on a semi-annual basis to ensure the key strategic, operational, financial and accounting risks are captured and prioritised and to identify the risk management activities for each risk. The risk registers for each business area are used to update the Group risk register and a summary of the key risks is presented to the Audit Committee semi-annually.

The risks and uncertainties which are judged currently to have the most significant impact on the Group's long term performance and prospects are set out on pages 29 to 31.

Internal audit

The Group Internal Audit function was reviewed following the resignation of the Internal Auditor in June 2018 and the disposal of the Construction and Property Services divisions in August 2018. Whilst it is considered that the disposal of the Construction and Property Services divisions reduces significantly the risks seen within the Group, the importance of an Internal Audit function is well recognised. The appointment of a new Internal Auditor was concluded in November 2019.

Future structure of the Finance team

Peter Smith was appointed as Chief Financial Officer in July 2019. Following his appointment a review of the Finance function was undertaken and a new role of Group Commercial Finance Director was created to work alongside the Group Financial Controller.

Following the year end, the Committee has met to approve the Group's Annual Report and Financial Statements.

Derek Zissman
Non-Executive Director
Chairman of the Audit Committee
 20 January 2020

Directors' remuneration report

Remuneration Committee

Chairman's annual statement



Robert Legget
Senior Independent Director
Chairman of the Remuneration Committee

This is the Directors' Remuneration Report for the year to 30 September 2019.

The Annual Report on Remuneration on pages 50 to 54 provides details of each Director's pay and benefits in the year to 30 September 2019.

The Committee is chaired by Robert Legget with Derek Zissman as a member. Both are Independent Non-Executive Directors of the Group.

Responsibilities and role of the Remuneration Committee

The primary function of the Remuneration Committee is to review the remuneration of the Executive Directors and to monitor the remuneration of the Group's senior managers. The remuneration strategy and policy for all staff is also reviewed annually by the Committee.

The full terms of reference of the Committee are available on the Company website at www.sureservegroup.co.uk/investors/corporate-governance.

The Remuneration Committee tries to ensure that a Director's remuneration encourages, reinforces and rewards the growth of shareholder value and promotes the long term success of the Company. The Directors' Remuneration Policy for Executive Directors is intended to support the business needs of the Company and to ensure it has the ability to attract, motivate and retain senior leaders of a high calibre, remains competitive and provides appropriate incentive for good performance. The Executive Directors' remuneration should also:

- Align executives with the best interests of the Company's shareholders and other relevant stakeholders through a significant weighting on performance-related pay
- Be consistent with regulatory and Corporate Governance requirements
- Be straightforward and transparent and support the delivery of strategic objectives
- Be consistent with the Group's risk policies and systems to guard against inappropriate risk taking

The Committee reviews the Company's executive remuneration arrangements taking external advice on current market practice, as appropriate, and implements incentive arrangements to align the interests of executives with shareholder value.

Membership of the Committee

Membership of the Committee during the financial year comprised two Independent Non-Executive Directors, with the Executive Chairman in attendance as required:

- Robert Legget
- Derek Zissman

The Committee met twice during the year with both members attending each meeting. As the members of the Committee are the Independent Non-Executive Directors, they are recognised by the Board as bringing independent judgement to the matters considered by the Committee.

This report is split into:

- Components of Executive remuneration for 2018/19
- Proposed remuneration for 2019/20
- Details of the Company's remuneration policy

Components of Executive remuneration

The following section summarises how remuneration arrangements operated during the 2018/19 financial year.

Salary and benefits

The table below sets out the annual salary of each of the Executive Directors in the year to 30 September 2019 and the proposed 2019/20 salary for each of their current roles.

	2018/19 salary	2019/20 salary	% change in basic salary
Bob Holt ¹	£75,000	£75,000	0%
Michael McMahon ²	£260,000	Nil	0%
Jeremy Simpson ^{2,3}	£296,000	Nil	0%
Peter Smith ⁴	£34,000	£180,000	0%

- In addition to a salary of £75,000, Bob Holt is available to provide consultancy services to the Company and other Group companies. These services are provided by a consultancy company of which Bob Holt is a shareholder. Such services are provided for two days per week over 47 weeks per year at a total cost of up to £150,000 p.a. (plus VAT), which was the sum paid in the year. Post the year end, following the resignation of Michael McMahon, Bob Holt has taken on the role of Interim Chief Executive Officer. These additional services are also provided through the consultancy company and represent a further two days per week at a cost of up to £150,000 p.a (plus VAT).
- Benefits paid to Michael McMahon and Jeremy Simpson include car allowance, private healthcare and life assurance. Company contributions to the Executive Directors' retirement benefits remain at a fixed rate equivalent to 15% of salary. In the year to 30 September 2018 the Board agreed that Executive Directors and other senior employees may elect to receive the retirement benefit as an additional salary payment in lieu. Jeremy Simpson elected during the year to take £18,000 of retirement benefits as additional salary, with an annualised impact of £36,000.
- Jeremy Simpson resigned on 14 October 2018.
- Peter Smith was appointed with effect from 29 July 2019.

Annual bonus

A performance bonus of £200,000 will be paid to Michael McMahon at the end of March 2020 in respect of performance for the financial year 2018/19. This reflects agreed bonus arrangements in respect of EBITA target performance for the financial year 2018/19. Payment will be made following publication of the Group's audited annual accounts for the period and is subject to standard clawback arrangements for a three-year period including in respect of any financial misstatement of accounts.

Peter Smith was appointed as Chief Financial Officer on 29 July 2019 and has been awarded a pro-rata bonus in respect of the EBITA performance since appointment.

Performance Share Plan ('PSP') and Share Incentive Plan ('SIP')

No awards were made to Executive Directors under the PSP or SIP schemes during the financial year.

Special Incentive Award Plan ('SIAP')

Performance targets for awards under the Lakehouse plc Special Incentive Award Plan ('SIAP') were not achieved at the relevant exercise date of 31 January 2019, and as such the awards to Bob Holt, Michael McMahon and Jeremy Simpson fell away.

The Sureserve Group plc Special Incentive Award Plan (2019) was established during the year and approved by shareholders at the AGM in March 2019. Full details of the Plan may be found in the 2019 Notice of Annual General Meeting at www.sureservegroup.co.uk. Awards under the Plan were made during the year to Bob Holt and Michael McMahon, both of whom were awarded options over 800,000 shares each. There is the ability to make further awards to eligible employees under the Plan of no more than 180,000 shares.

Long Term Incentive Plan (2019) ('LTIP')

The Sureserve Group plc Long Term Incentive Plan (2019) was established during the year. The Plan was established to recognise the importance in retaining certain key individuals to drive the transition of the business into a compliance and energy support services focused business. It also reflects the key input of certain individuals and that the previous Special Incentive Award Scheme had not vested. Awards of 1,153,846 shares to Bob Holt and 250,000 shares to Michael McMahon were made under the Scheme. Shareholders approved the LTIP arrangements at the AGM in March 2019. Full details of the Plan arrangements can be found in the 2019 Notice of Annual General Meeting at www.sureservegroup.co.uk. Both individuals exercised their awards during the financial year.

A summary of SIAP, PSP and SIP share awards granted to Executive Directors

The table below sets out details of the Executive Directors' outstanding option awards under the SIAP, PSP and SIP plans.

Name of Director	Scheme	Number of options at 1 October 2018	Granted during the period	Lapsed during the period	Exercised during the period	Number of options at 30 September 2019	Date from which exercisable	Expiry date
Bob Holt	SIAP ¹	2,307,692	—	2,307,692	—	—	(Note 1)	(Note 1)
	SIAP ²	—	800,000	—	—	800,000	15 November 2020	15 May 2021
	LTIP ³	—	1,153,846	—	1,153,846	—	(Note 3)	
	Total	2,307,692	1,953,846	2,307,692	1,153,846	800,000		
Michael McMahon	PSP ⁴	220,580	—	220,580	—	Nil	31 December 2018	31 December 2026
	SIP ⁵	216	2	—	—	218	(Note 5)	(Note 5)
	SIAP ¹	500,000	—	500,000	—	—	(Note 1)	(Note 1)
	SIAP ²	—	800,000	800,000	—	—		
	LTIP ³	—	250,000	—	250,000	Nil		
Total	720,796	1,050,002	1,520,580	250,000	218			
Jeremy Simpson	PSP ⁴	286,754	—	286,754	—	Nil	31 December 2018	31 December 2026
	SIP ⁵	216	2	—	—	218	(Note 5)	(Note 5)
	SIAP ¹	500,000	—	500,000	—	Nil	(Note 1)	(Note 1)
	Total	786,970	2	786,754	—	218		

Notes

- In relation to the SIAP award granted to Bob Holt no consideration is payable in order to exercise the award as set out above. The award will normally become capable of exercise on the day after the first to occur of (i) 31 January 2019 or (ii) the date that the audited financial results for the financial year ended 30 September 2018 are published ('Vesting Date') and will cease to be capable of exercise (and lapse) on the day immediately before the second anniversary of such Vesting Date. If the maximum performance is achieved under the SIAP award Bob Holt will be entitled to acquire 4,615,384 shares.
During the year awards to both Michael McMahon and Jeremy Simpson under the SIAP Scheme were made. Both Michael McMahon and Jeremy Simpson were awarded options over 500,000 ordinary shares structured as a nil-cost option, and subject to the terms of the Lakehouse plc Special Incentive Award Plan ('SIAP'). If all performance conditions set out in the Plan are satisfied then the maximum award to Michael McMahon and Jeremy Simpson would be 1,000,000 shares each.
Performance criteria for the award were not met and the awards to Bob Holt, Michael McMahon and Jeremy Simpson lapsed in January 2019.
- The Sureserve Group plc Special Incentive Award Plan (2019) was established during the year and approved by shareholders at the AGM in March 2019. Full details of the Plan may be found in the 2019 Notice of Annual General Meeting at <https://www.sureservegroup.co.uk/investors/shareholder-information/meeting-and-voting>. Awards under the Plan were made during the year to Bob Holt and Michael McMahon, both of whom were awarded options over 800,000 shares each. There is the ability to make further awards to eligible employees under the Plan of no more than 180,000 shares.
- The Sureserve Group plc Long Term Incentive Plan (2019) was established during the year. The Plan was established to recognise the importance in retaining certain key individuals to drive the transition of the business into a compliance and energy support services focused business. It also reflects the key input of certain individuals and that the previous Special Incentive Award Scheme had not vested. Awards of 1,153,846 shares to Bob Holt and 250,000 shares to Michael McMahon were made under the Scheme. Shareholders approved the LTIP arrangements at the AGM in March 2019. Full details of the Plan arrangements can be found in the 2019 Notice of Annual General Meeting at www.sureservegroup.co.uk. Both individuals exercised their awards during the financial year.
- In relation to the PSP award granted to Jeremy Simpson no consideration is payable in order to exercise the awards set out above. In relation to the award granted to Michael McMahon, an exercise price of 10p per share (being the nominal value of an ordinary share in the capital of the Company) is payable in order to exercise such award. In normal circumstances each award will not be capable of being exercised prior to the Vesting Date.
The performance criteria for the PSP award which became exercisable on 31 December 2018 were not met, and the options under the awards to Jeremy Simpson and Michael McMahon have lapsed.
- On 2 April 2015 each of the Executive Directors were granted an award over 199 ordinary shares of the Company under the terms of the Lakehouse plc Share Incentive Plan ('SIP'). In each case the award was made as an award of free shares by Yorkshire Building Society in its capacity as the trustee of the SIP. In accordance with the rules of the SIP, no consideration was payable for the award of free shares granted to them. In the year to 30 September 2019 an additional award of two shares was made to Jeremy Simpson and Michael McMahon following the reinvestment of the Company's 2016 final dividend (2017: three shares).

Directors' remuneration report continued

Proposed remuneration for 2020

For the current financial year to 30 September 2020 the Remuneration Committee is proposing the following elements for the remuneration of the Chief Financial Officer:

- No increase in annual salary is being proposed for the Chief Financial Officer in his current role for the new financial year
- The annual bonus potential for Executive Directors remains unchanged
- There are clear financial targets based on the achievement of adjusted profit and return of capital measures. The Committee is satisfied that these are challenging and, in order for the maximum bonus to be earned, will demonstrate significant improvement in the profit performance of the business
- The Remuneration Committee will review the opportunity to make awards under either a PSP or CSOP Scheme to Executive Directors and Senior Managers.

Single total figures of remuneration (audited information)

The table below reports the total remuneration received in respect of qualifying services by each Director during the year.

Details of the Company's remuneration policy

2019	Total salary and fees ¹ £'000	Taxable benefits ² £'000	Annual bonus ³ £'000	Long Term Incentive ⁴ £'000	Pensions related benefits £'000	Compensation for loss of office £'000	Total £'000	2018 Total remuneration £'000
Executive Directors								
Bob Holt ⁵	75	—	—	329	1	—	405	76
Jeremy Simpson ⁶	11	1	—	—	—	—	12	630
Michael McMahon	260	16	200	71	39	158	744	316
Peter Smith ⁸	34	—	55	—	5	—	94	Nil
Non-Executive Directors								
Robert Legget	50	—	—	—	—	—	50	50
Derek Zissman	45	—	—	—	—	—	45	38
Christopher Mills ⁷	11	—	—	—	—	—	11	Nil

Notes:

1. Total salary and fees — the amount of salary/fees received in the year.
2. Taxable benefits — the taxable value of benefits received in the year (i.e. car allowance and private medical insurance).
3. Annual bonus — the cash value of the bonus earned in respect of the year.
4. Share gain in respect of 2019 LTIP award granted and exercised during the financial year.
5. Bob Holt was appointed to the Board as Chairman on 21 July 2016. In addition to a salary of £75,000, Bob Holt is available to provide consultancy services to the Company and other Group companies. These services are provided by a consultancy company of which Bob Holt is a shareholder. Such services are provided for two days per week over 47 weeks per year at a total cost of up to £150,000 p.a. (plus VAT), which was the sum paid in the year.
6. Jeremy Simpson resigned from the Board with effect from 14 October 2018.
7. Christopher Mills was appointed as a Director on 18 March 2019.
8. Peter Smith was entitled to two bonus payments during the year: £30k in respect of agreed bonus on appointment as Chief Financial Officer and £25k being the relevant portion of the annual performance-related bonus in respect of EBITA achievement for the year, pro-rated for the period of employment.

Long term incentive vesting

During the year awards were made to Bob Holt and Michael McMahon under the Sureserve Group plc Long Term Incentive Plan (2019). These awards were approved by shareholders at the 2019 AGM.

Other directorships

The Chairman, Bob Holt, was also a Director of Totally plc during the period. This appointment was held prior to Bob Holt joining the Company.

Shareholder dilution

In accordance with the investor guidelines and the rules of the Company's share schemes, the Company can issue a maximum of 10% of its issued share capital in a rolling 10-year period to employees to satisfy vesting under all its share plans. Of this 10%, the Company can issue 5% to satisfy awards under discretionary or Executive plans such as the Performance Share Plan. The Sureserve Group operates all its share plans within these guidelines.

Incentive plan discretions

The Committee will operate the annual bonus plan, the Deferred Share Bonus Plan, the Performance Share Plan, the Special Incentive Award Plan and the HMRC-approved share schemes according to their respective rules and the policy set out above. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these plans.

Any use of the above discretions would, where relevant, be explained in the Directors' Remuneration Report and may, as appropriate, be the subject of consultation with the Company's major shareholders.

Legacy arrangements

For the avoidance of doubt, any remuneration or for loss of office payments that are not in line with this policy may be made if the terms were agreed before the approval of this policy. In addition, authority is given to the Company to honour any commitments entered into at a time when the relevant employee was not a Director of the Company.

Illustrations of application of remuneration policy

The Sureserve Group remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of short term and long term goals that are aligned with the Company's key strategic objectives and the creation of sustainable returns to shareholders.

The Committee has considered the potential amount payable to Executive Directors in different performance scenarios and is comfortable that the amounts payable are appropriate in the context of the performance delivered and the value added for shareholders.

Service contracts and letters of appointment

The table below summarises the service contracts of the Executive Directors and Non-Executive Directors.

Name	Date of contract/ letter of appointment	Notice period by Company	Notice period by Director
Executive Directors			
Bob Holt	21 July 2016	6 months	6 months
Michael McMahon	17 February 2015	12 months	6 months
Jeremy Simpson	17 February 2015	12 months	6 months
Peter Smith	29 July 2019	6 months	6 months
Non-Executive Directors			
Robert Legget	19 April 2016	1 month	1 month
Derek Zissman	27 November 2017	1 month	1 month
Christopher Mills	18 March 2019	1 month	1 month

Non-Executive Directors

All Non-Executive Directors have letters of appointment with the Company for an initial period of three years, subject to annual reappointment at the AGM. Appointments are terminable by either party on one month's written notice. The appointment letters for the Non-Executive Directors provide that no compensation is payable on termination, other than accrued fees and expenses.

All Executive Directors' service agreements and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office at Unit 1, Yardley Business Park, Lucky Lane, Basildon, Essex SS14 3BZ.

Remuneration in the wider Group

Throughout the Group, base salary and benefit levels are set taking into account prevailing market conditions. Differences between Executive Director pay policy and other employee terms reflect the seniority of the individuals and the nature of responsibilities. The key difference in policy is that for Executive Directors a greater proportion of total remuneration is based on performance-related incentives. The Committee has oversight of incentive plans operated throughout the Group. The long term incentive arrangements for the senior management immediately below Board level align with the long term interests of the business and, where appropriate, objectives may be tailored to individual business areas.

When setting the policy for the remuneration of the Executive Directors, the Committee pays regard to the pay and employment conditions of employees within the Group. However, the Committee does not use comparison metrics or consult directly with employees when formulating the remuneration policy for Executive Directors. The Committee reviews salary increases and pay conditions within the business as a whole to provide context for decisions in respect of Executive Directors.

Shareholder engagement

We are committed to active engagement with our shareholders. As and when necessary, the Committee will consult with leading shareholders prior to any material change in the way we operate the Directors' Remuneration Policy or when a new policy is being proposed.

Robert Legget

Senior Independent Director

Chairman of the Remuneration Committee

20 January 2020

The Directors present their Annual Report and the audited Financial Statements for the Group for the year ended 30 September 2019.

General information

The Company was incorporated as a public company limited by shares in England and Wales on 28 January 2015 with registered number 09411297 and traded as Lakehouse plc until the Company changed its name to Sureserve Group plc on 1 October 2018, following the divestment of the Group's Construction and Property Services divisions. It is domiciled in the UK. The Company is listed on the AIM market of the London Stock Exchange. The Company's registered address is Unit 1, Yardley Business Park, Luckyn Lane, Basildon, Essex SS14 3BZ.

Principal activities

Sureserve is a leading compliance and energy support services group that performs critical functions in homes, public and commercial buildings, with a focus on clients in the UK public sector and regulated markets. Services are delivered through two divisions: Compliance and Energy Services.

Results and dividends

The results for the year are set out in the consolidated statement of comprehensive income on page 62. The Directors recommend the payment of a final dividend of 0.5 pence per share on 30 April 2020 subject to approval at the Annual General Meeting on 18 March 2020 with a record date of 31 January 2020.

Directors and Directors' interests

The Directors who held office during the year and to date were as follows:

Bob Holt OBE
 Michael McMahon (resigned 30 September 2019)
 Jeremy Simpson (resigned 14 October 2018)
 Peter Smith (appointed 29 July 2019)
 Robert Legget
 Derek Zissman
 Christopher Mills (appointed 18 March 2019)

Biographical details and Committee membership details for Directors appear on pages 38 and 39.

All Directors are required to retire annually, in line with the Articles of Association.

The Directors who held office during the financial year had the following interests in the shares of the Company:

	Beneficial/ non-beneficial	At 1 October 2018 (or date of appointment)	Movement in year	At 30 September 2019	At 30 September 2019 Percentage
Michael McMahon ¹	Beneficial	5,463,890	250,000	5,713,890	3.59%
Jeremy Simpson ²	Beneficial	342,606	—	342,606	0.22%
Bob Holt	Beneficial	100,000	1,153,846	1,253,846	0.78%
Peter Smith ³	Beneficial	—	—	—	0.00%
Robert Legget	Beneficial	—	—	—	0.00%
Derek Zissman	Beneficial	100,000	—	100,000	0.06%
Christopher Mills ⁴	Non-beneficial	30,165,000	400,000	30,565,000	19.23%

1. Michael McMahon resigned on 30 September 2019.

2. Jeremy Simpson resigned on 14 October 2018.

3. Peter Smith was appointed on 29 July 2019.

4. Christopher Mills was appointed on 18 March 2019. He is a Director and shareholder of Harwood Capital LLP and entities for which Harwood LLP acts as investment manager.

Details of Directors' emoluments and interests in share options are disclosed in the report of the Board to the shareholders on Directors' remuneration on pages 50 to 54.

No Director has had a material interest in any contract of significance in relation to the business of the Company, or any of its subsidiary undertakings, during the financial year or had as such at the end of the financial year.

Substantial shareholdings and share capital

As at 10 January 2020, being the latest practical date prior to the publication of this document, the Company has been advised of the following interests in 3% or more of the Company's ordinary share capital:

	Number of shares	Percentage held (%)
Harwood Capital LLP	30,565,000	19.23
Estate of Steve Rawlings	17,409,196	10.95
Slater Investments	15,996,982	10.06
Downing LLP	9,130,104	5.74
Legal & General Investment Management	8,825,898	5.55
Michael McMahon	5,713,890	3.59
Carol King	5,337,929	3.36
Sean Birrane	4,806,114	3.02

The Company has one class of share in issue, being ordinary shares with a nominal value of 10 pence each. As at 30 September 2019, there were 158,947,467 shares in issue.

Directors' indemnity

The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for Directors and officers of the Company and the Group in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liability relating to the defence of any proceedings brought against them which relate to anything done or omitted, or alleged to have been done or omitted, by them as officers or employees of the Company and the Group.

Directors' and officers' liability insurance cover is in place in respect of all the Company's Directors.

Directors' powers

As set out in the Company's Articles of Association, the business of the Company is managed by the Board which may exercise all powers of the Company.

Our people

The Group's policy is to consider all job applications on a fair basis free from discrimination in relation to age, sex, race, ethnicity, religion, sexual orientation or disability not related to job performance. Every consideration is given to applications for employment from disabled persons, where the requirement of the job may be adequately covered by a disabled person. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development wherever appropriate.

The Group places considerable value on the involvement of its employees and encourages the development of employee involvement in each of its operating companies through formal and informal meetings. It is the Group's policy to ensure that all employees are made aware of significant matters affecting the performance of the Group through the operation of employee forums, information bulletins, informal meetings, team briefings, internal newsletters and the Group's website and intranet.

Key performance indicators

Details of the Group's key performance indicators can be found on pages 16 and 17.

Risks and uncertainties

Details of the risks and uncertainties faced by the Group can be found in the Strategic Review on pages 29 to 31.

Financial instruments

An explanation of the Group's treasury policies and existing financial instruments is set out in note 2 of the Financial Statements.

Donations

The Group made charitable donations in the year of £20,826. Information on the Group's resources, relationships and sustainability is set out on pages 32 to 37. The Group made no political donations during the year.

Annual General Meeting

A separate notice convening the Annual General Meeting of the Company to be held at The City of London Club, 19 Old Broad Street, London EC2N 1DS, on 18 March 2020 will be sent out with this Annual Report and Financial Statements.

Corporate Governance

The Company's statement on Corporate Governance can be found in the Corporate Governance Report on pages 40 to 54. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference.

Independent auditor

The auditor, RSM UK Audit LLP, has indicated its willingness under section 489 of the Companies Act 2006 to continue in office and a resolution that it be reappointed will be proposed at the Annual General Meeting.

Statement as to disclosure of information to auditor

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- In so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware
- The Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

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

By order of the Board

John Charlton
Group Company Secretary
20 January 2020

Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and have also chosen to prepare the parent company Financial Statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for the period.

In preparing the parent company Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the Financial Statements
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

In preparing the Group Financial Statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- Provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance
- Make an assessment of the Group's ability to continue as a going concern

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- The Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- The Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy

This responsibility statement was approved by the Board of Directors on 20 January 2020 and is signed on its behalf by:

Bob Holt OBE
Chairman

Peter Smith
Chief Financial Officer

Independent auditor's report

To the members of Sureserve Group plc

Opinion

We have audited the financial statements of Sureserve Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 September 2019 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of changes in equity, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group and parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Group key audit matters

Goodwill and intangible asset impairment

At 30 September 2019, the Group had goodwill totalling £42.4 million (2018: £42.9 million) and other intangible assets totalling £2.1m (2018: £4.9 million) as disclosed in notes 15 and 16 in the consolidated financial statements. Management assess goodwill for impairment using discounted cash flow ("DCF") models to estimate the value in use of the group's cash generating units ("CGUs") and compare this to the goodwill, acquisition intangibles and other assets of the relevant CGU. The use of DCFs requires management to make estimates involving judgement, including forecasts of revenue and profitability and application of appropriate discount rates and as a result the matter was considered to be one of most significance in the group audit and therefore determined to be a key audit matter.

Our response to the risk included:

- Audit of management's sensitivity analysis and check of model arithmetic
- Corroboration of inputs to the DCF models to relevant financial information and challenge of management assumptions
- Comparison of forecast financial performance to post year end trading to assess reliability of forecasting
- Comparison of growth and discount rate assumptions to comparable companies
- Challenge of forecasts focussed on CGU for which the DCF models showed lowest headroom
- Audit of the disclosures in the financial statements and consideration of their completeness, accuracy and appropriateness

Independent auditor's report continued

To the members of Sureserve Group plc

Group key audit matters continued

Revenue recognition

The group's revenue from continuing operations increased in the year to £212.1m (2018: £190.8m). The group has adopted IFRS 15 "Revenue from contracts from customers" in the year and the revenue recognition accounting policies are described in note 2 in the consolidated financial statements. The policies and associated audit risks vary by division and sector and depending on how the various businesses in the group contract with their customers. There is a risk that the financial statements could be misstated if the appropriate revenue recognition policies are not selected and applied appropriately and consistently and as a result the matter was considered to be one of most significance in the group audit and therefore determined to be a key audit matter.

Our response to the risk included:

- Audit of revenue recognition policies and discussion of the policies with management to check that they are appropriate based on the service supplied, contractual terms and relevant accounting standards
- Review of the report prepared by a management's expert into the impact of IFRS 15, consideration of the findings identified and discussion with management of the steps they have been taken to satisfy themselves that the standard has been implemented appropriately
- Audit of the adoption of IFRS 15 "Revenue from contracts from customers" and the related disclosures
- Performance of analytical review procedures, tests on control and tests of detail on revenue transactions in the year
- Specific testing of cut-off through the selection of a sample revenue transactions recognised either side of the year end and corroboration of the period in which the service was provided

Provisions and contract disputes and legal claims

The financial statements include provisions for legal and other costs of £3.6 million (2018: £7.7 million), as disclosed in note 24 in the consolidated financial statements. The amounts provided, and the completeness of provisions are areas that involve a high degree of management judgement and as a result the matter was considered to be one of most significance in the group audit and therefore determined to be a key audit matter.

Our response to the risk included:

- Obtaining confirmation from management of the completeness of all actual and potential claims
- Requesting confirmation from the group's solicitors regarding the status of known claims and completeness of claims
- Reviewing correspondence from the group's solicitors in respect of actual and potential claims and holding discussions with management regarding their judgement over the existence and valuation of required provisions, or lack thereof
- Consulting an auditor's expert in respect of provisions and contingent liabilities relating to the disposal in the prior year of Lakehouse Contracts Limited and Foster Property Maintenance Limited
- Corroboration of key assertions made by management to supporting documentation
- Audit of the disclosures made in respect of contingent liabilities for which no provision has been made

Parent company key audit matters

The only parent company key audit matter is the risk of impairment of investments in subsidiaries of £12.4m (2018: £12.4m) as disclosed in note 40 and amounts due by group undertakings of £67.3m (2018: £66.6m) as disclosed in note 43. Our response to risk is as set out in the goodwill and intangible asset impairment key audit matter above, where relevant to the balances in the parent company balance sheet.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Materiality for the group financial statements as a whole was calculated as £863,000 and materiality for the parent company financial statements as a whole was calculated as £400,000 which were not significantly changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £43,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The audit was scoped to ensure that we obtained sufficient and appropriate audit evidence in respect of:

- the significant business operations of the Group
- other operations which, irrespective of size, are perceived as carrying a significant level of audit risk whether through susceptibility to fraud, or for other reasons
- the appropriateness of the going concern assumption used in the preparation of the financial statements

The audit was scoped to support our audit opinion on the company and group financial statements of Sureserve Group plc and was based on group and individual component materiality and an assessment of risk at group level.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 58, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

GRAHAM RICKETTS (Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP

Statutory Auditor

Chartered Accountants

25 Farringdon Street

London

EC4A 4AB

20 January 2020

Consolidated statement of comprehensive income

For the year ended 30 September 2019

	Notes	2019 £'000	2018 £'000
Continuing operations			
Revenue	4	212,066	190,750
Cost of sales		(179,188)	(163,380)
Gross profit		32,878	27,370
Other operating expenses		(23,953)	(19,558)
Share of results of joint venture		429	226
Operating profit before exceptional items and amortisation of acquisition intangibles	4, 5	9,354	8,038
Exceptional costs	7	(225)	(1,048)
Exceptional income	7	—	757
Amortisation of acquisition intangibles	16	(2,735)	(4,325)
Operating profit		6,394	3,422
Finance expense	8	(1,051)	(1,475)
Profit before tax from continuing operations	4	5,343	1,947
Taxation	12	(1,154)	(782)
Profit after taxation from continuing operations		4,189	1,165
Discontinued operations			
Profit/(loss) for the year from discontinued operations	11	848	(11,520)
Profit/(loss) for the year attributable to the equity holders of the Group		5,037	(10,355)
Earnings per share from continuing operations			
Basic	14	2.7p	0.7p
Diluted	14	2.6p	0.7p
Earnings/(loss) per share from continuing and discontinued operations			
Basic	14	3.2p	(6.6p)
Diluted	14	3.2p	(6.6p)

The accompanying notes are an integral part of this consolidated statement of comprehensive income.

Consolidated statement of financial position

At 30 September 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Goodwill	15	42,357	42,923
Other intangible assets	16	2,171	4,927
Property, plant and equipment	17	1,344	1,474
Interests in joint venture	18	732	865
Deferred tax asset	25	467	—
		47,071	50,189
Current assets			
Inventories	19	3,059	4,222
Trade and other receivables	20	42,068	42,618
Corporation tax receivable		—	769
Cash and cash equivalents		2,452	1,705
		47,579	49,314
Total assets		94,650	99,503
Current liabilities			
Trade and other payables	21	36,698	39,334
Loans and borrowings	22	—	12,926
Finance lease obligations	26	54	83
Provisions	24	415	5,102
Income tax payable		242	—
		37,409	57,445
Net current assets/(liabilities)		10,170	(8,131)
Non-current liabilities			
Trade and other payables	21	—	269
Loans and borrowings	22	9,755	—
Finance lease obligations	26	—	60
Provisions	24	3,195	2,593
Deferred tax liability	25	—	37
		12,950	2,959
Total liabilities		50,359	60,404
Net assets		44,291	39,099
Equity			
Called up share capital	27	15,895	15,753
Share premium account	29	25,318	25,314
Share-based payment reserve	28, 29	538	776
Own shares	29	(290)	(290)
Merger reserve	29	20,067	20,067
Retained earnings	29	(17,237)	(22,521)
Equity attributable to equity holders of the Company		44,291	39,099

The Financial Statements of Sureserve Group plc (registered number 09411297) were approved by the Board of Directors and authorised for issue on 20 January 2020. They were signed on its behalf by:

P D M Smith
Director

The accompanying notes are an integral part of this consolidated statement of financial position.

Consolidated statement of changes in equity

For the year ended 30 September 2019

	Attributable to equity holders of the Group						
	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Own shares £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
At 1 October 2017	15,753	25,314	776	(290)	20,067	(11,378)	50,242
Loss for the year	—	—	—	—	—	(10,355)	(10,355)
Dividends paid (note 13)	—	—	—	—	—	(788)	(788)
At 30 September 2018	15,753	25,314	776	(290)	20,067	(22,521)	39,099
Profit for the year	—	—	—	—	—	5,037	5,037
Dividends paid (note 13)	—	—	—	—	—	(394)	(394)
Issue of shares (exercise of options)	142	4	—	—	—	(141)	5
Share-based payments	—	—	544	—	—	—	544
Reserve transfer	—	—	(782)	—	—	782	—
At 30 September 2019	15,895	25,318	538	(290)	20,067	(17,237)	44,291

Consolidated statement of cash flows

For the year ended 30 September 2019

	Notes	2019 £'000	2018 £'000
Cash flows from operating activities			
Cash generated from/(used in) operations	33	5,539	(5,682)
Interest paid		(914)	(1,058)
Taxation		(34)	(152)
Net cash generated from/(used in) operating activities		4,591	(6,892)
Cash flows from investing activities			
Payment of deferred consideration on prior year acquisitions		—	(1,245)
Proceeds of prior year disposals		910	—
Purchase of property, plant and equipment		(631)	(430)
Purchase of intangible assets		(403)	(449)
Sale of property, plant and equipment		86	65
Net cash used in investing activities		(38)	(2,059)
Cash flows from financing activities			
Proceeds from issue of shares		5	—
Dividend paid to shareholders		(394)	(788)
Repayment of bank borrowings		(3,000)	(14,500)
Repayments to finance lease creditors		(89)	(183)
Finance issue costs		(328)	(2)
Net cash used in financing activities		(3,806)	(15,473)
Net increase/(decrease) in cash and cash equivalents		747	(24,424)
Cash and cash equivalents at beginning of year		1,705	26,129
Cash and cash equivalents at end of year		2,452	1,705

The accompanying notes are an integral part of this consolidated statement of cash flows.

Notes to the consolidated Financial Statements

For the year ended 30 September 2019

General information

Sureserve Group plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is Unit 1, Yardley Business Park, Luckyn Lane, Basildon, Essex SS14 3BZ.

The consolidated Financial Statements are presented in Pounds Sterling because that is the currency of the primary economic environment in which the Group operates.

1. Basis of preparation

Basis of accounting

The Group's consolidated Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. The Financial Statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The principal accounting policies adopted are set out below.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's Financial Statements except as noted below.

Adoption of new and revised standards

The accounting policies adopted are consistent with those of the previous financial year except for the following new and revised standards and interpretations which have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these Financial Statements.

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Amendments to IFRS 2 Classification and Measurement of Share-Based Payment Transactions

IFRS 9 Financial Instruments became effective for the Group from 1 October 2018 and replaces the requirements of IAS 39 Financial Instruments: Recognition and Measurement. The main changes introduced by the new standard are new classification and measurement requirements for certain financial assets, an 'expected credit loss' ('ECL') model for the impairment of financial assets, revisions to the hedge accounting model and amendments to disclosures.

With regard to impairment of financial assets, IFRS 9 replaced the 'incurred loss' model in IAS 39 with an 'ECL' model. The Group, from 1 October 2018, measures loss allowances for trade receivables and accrued income contract assets at an amount equal to lifetime expected credit losses, estimated using a combination of historical experience and forward-looking information.

The adoption of IFRS 9 has not had a material impact on the Group's Financial Statements, comparatives have not been restated and there is no adjustment required to opening retained earnings.

Implementation of IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 'Revenue from Contracts with Customers' with effect from 1 October 2018. IFRS 15 provides a single, principles-based approach to the recognition of revenue from all contracts with customers. It focuses on the identification of performance obligations in a contract and requires revenue to be recognised when or as those performance obligations are satisfied.

The Group has applied IFRS 15 using the Cumulative Catch-Up method (adopting all practical expedients); therefore, comparative information has not been restated. IFRS 15 did not have a material impact on the amount or timing of recognition of reported revenue and there is no adjustment required to opening retained earnings.

New standards and interpretations not applied

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee ('IFRIC') have issued the following standards and interpretations for annual periods beginning on or after the effective dates as noted below:

IAS/IFRS standards		Effective for accounting periods starting on or after
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

IFRS 16 Leases

IFRS 16 'Leases' was issued in January 2016 and is effective for accounting periods beginning on or after 1 January 2019. It will be applied by the Group from 1 October 2019 under the modified retrospective approach, applying the short term and low value lease exemption.

Under IFRS 16, leases will be recognised as a right of use asset, and a financial liability. This will have a material impact on the Group's consolidated statement of financial position.

In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. By applying the new standard and using a discount rate of 4.01%, the Group will see an increase in right of use assets and lease liability of circa £8.2 million. The discount rate used was calculated as the borrowing rate for the Group as at 1 October 2019.

1. Basis of preparation continued

IFRS 16 Leases continued

Under IFRS 16 the Group expects to see a reduction in operating costs related to lease rentals, as payments of principles will instead be reflected as a reduction in the corresponding lease liability. There will conversely be an increase in depreciation and interest on finance lease obligations. The Group estimates in FY20 the result will be an increase in operating profit of circa £0.2 million, and an increase in finance expenses of circa £0.3 million, resulting in a net decrease in profit in the year of application of the standard of £0.1 million.

The debt covenants on the Group's borrowing facility will be unaffected by the application of IFRS 16 as the covenant calculations are based on the accounting principles in place at the date the agreement was entered into.

2. Significant accounting policies

Basis of consolidation

The consolidated Financial Statements incorporate the assets, liabilities, income and expenses of the Group. The Financial Statements of the subsidiaries are prepared for the same financial reporting period as the Company. Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring the accounting policies used into line with those used by the Group. Intercompany transactions, balances and unrealised gains and losses transitions between Group companies are eliminated on consolidation.

As a consolidated statement of comprehensive income is published, a separate profit and loss account for the parent company is omitted from the Financial Statements by virtue of section 408 of the Companies Act 2006.

Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The Directors regard the foreseeable future as no less than 12 months following publication of its annual Financial Statements, so in practical terms, 16 months from the reporting date. The Directors have considered the Group's working capital forecasts and projections, taking account of reasonably possible changes in trading performance and the current state of its operating market, and are satisfied that the Group should be able to operate within the level of its current facilities and in compliance with the covenants arising from those facilities. In December 2018, the Group renewed its bank facilities to provide an overdraft facility of £5,000,000 together with a revolving credit facility of £25,000,000, which runs to 31 January 2022. Accordingly, they have adopted the going concern basis in preparing the financial information. Please see further information in the Strategic Report.

Operating segments

The Directors regard the Group's reportable segments of business to be Compliance and Energy Services. Costs are allocated to the appropriate segment as they arise with central overheads apportioned on a reasonable basis. Operating segments are presented in a manner consistent with internal reporting, with inter-segment revenue and expenditure eliminated on consolidation.

Business combinations

Acquisitions of subsidiaries are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquired company and the equity interest issued by the Group in exchange for control of the acquired company. Acquisition-related costs are recognised as non-trading exceptional costs in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and liabilities assumed are recognised at their fair value. Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes an asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with IFRS 9 or IAS 37 as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Acquisition costs

Management believes that acquisition costs are exceptional in nature and they are presented as such in the income statement, so as not to distort presentation of the underlying performance of the Group.

Discontinued operations

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations,
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations
- Is a subsidiary acquired exclusively with a view to resale

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2019

2. Significant accounting policies continued

Goodwill

Goodwill is initially recognised and measured as set out above.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which the goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight line basis over their useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The estimated useful life for each asset type is set out below.

Computer software — three years

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Intangible assets are recognised if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using suitable valuation techniques.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The estimated useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life	Valuation method
Contracted customer order book	Remaining period of the contract	Expected cash flows receivable
Customer relationships	Five years	Expected cash flows receivable
Non-compete agreements	Five years	With or without method

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. The gain or loss from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit or loss when the asset is derecognised.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is calculated so as to write off the cost of a tangible asset, less its estimated residual value, over the estimated useful economic life of that asset on the following bases:

Leasehold improvements	—	over the period of the lease
Plant and equipment	—	15% to 33% per annum on a straight line basis
Fixtures and fittings	—	20% to 33% per annum on a straight line basis
Motor vehicles	—	25% per annum on a straight line basis

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal, or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of tangible and intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

2. Significant accounting policies continued

Impairment of tangible and intangible assets excluding goodwill continued

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Exceptional items

Items which are significant by their size and/or nature require separate disclosure and are reported separately in the statement of comprehensive income. Details of exceptional items are explained in note 7.

Revenue

Revenue recognition is determined according to the requirements of IFRS 15 'Revenue from Contracts with Customers'. All revenue is considered revenue from contracts with customers as defined by IFRS 15.

IFRS 15 prescribes a five-step model of accounting for revenue recognition which includes identifying the contract, identifying performance obligations, determining the transaction price, allocating the transaction price to different performance obligations and the timing of recognition of revenue in connection with different performance obligations.

For contracts with multiple components to be delivered such as lift maintenance, servicing and repairs, management applies judgement to consider whether those promised goods and services are: (i) distinct – to be accounted for as separate performance obligations; (ii) not distinct – to be combined with other promised goods or services until a bundle is identified that is distinct; or (iii) part of a series of distinct goods and services that are substantially the same and have the same pattern of transfer to the customer.

At contract inception the total transaction price is estimated, being the amount to which the Group expects to be entitled and has rights to under the present contract. This includes the fixed price stated in the contract and an assessment of any variable consideration resulting from variation orders, discounts, rebates, refunds, performance bonuses, penalties and service credits. Variable consideration is estimated based on the expected value or the most likely outcome method and is only recognised to the extent that it is highly probable that a subsequent change in its estimate would not result in a significant revenue reversal.

Once the total transaction price is determined, the Group allocates this to the identified performance obligations in proportion to their relative stand-alone selling prices and recognises revenue when (or as) those performance obligations are satisfied.

For each performance obligation identified in the contract, the Group determines if revenue will be recognised over time or at a point in time.

Performance obligations satisfied over time

The Group recognises revenue over time on contracts where any of the following criteria is met;

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs it
- The services provided create or enhance an asset that the customer controls

- The services provided do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date

The Group typically recognises revenue on an over time basis for the following:

- Certain energy services
- Gas services
- Fire services
- Water and air hygiene services
- Lift services

For each performance obligation to be recognised over time, the Group applies a revenue recognition method that faithfully depicts the Group's performance in transferring control of the goods or services to the customer. This decision requires assessment of the real nature of the goods or services that the Group has promised to transfer to the customer. The Group applies the relevant output or input method consistently to similar performance obligations in other contracts.

Performance obligations satisfied at a point in time

If the criteria for satisfying a performance obligation over time are not met, revenue is recognised at the point in time when control of the goods or services transfers to the customer. This will be at the point when the jobs are completed and there is a right to invoice.

The Group typically recognises revenue on a point in time basis for the following:

- Smart metering or
- Certain energy services

(i) Schedule of Rates ('SOR') contracts

SOR contracts are set based on predetermined rates for a list of services and duties required by the customer.

For short term jobs usually completed within a few days, the right to consideration is considered to correspond directly with the value of performance completed to date as measured by the amounts specified for each job set out on the rate card. Revenue is recognised when the jobs are completed or invoiced. Where deemed appropriate, the Group will utilise the practical expedient within IFRS 15 and recognises revenue in line with amounts invoiced. Contract fulfilment costs are expensed as incurred.

For longer term jobs, the Group applies the relevant output or input revenue recognition method for measuring progress that depicts the Group's performance in transferring control of the goods or services to the customer. Contract fulfilment costs are expensed as incurred.

Certain longer term jobs use the output method based upon surveys of performance completed or milestones reached which allow the Group to recognise revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services under the contract.

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

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2019

2. Significant accounting policies continued

Revenue continued

(ii) Fixed price (or lump sum) service contracts

Certain contracts, in particular for gas servicing and maintenance, are procured on a fixed price basis. Revenue qualifies for recognition over time as the customer receives and consumes the benefits from the service as it is being provided. Revenue for maintenance/reactive activities is recognised on a straight line basis over the term of the contract. Where servicing and maintenance activity is expected to take place evenly throughout the performance period, revenue is recognised on a straight line basis over the contract term. Where activity is more aligned to periodic service events, then revenue is allocated to those events and recognised over the contract term when those events take place. Contract fulfilment costs are expensed as incurred.

(iii) Accrued income and deferred income

The Group's customer contracts include a diverse range of payment schedules which are often agreed at the inception of longer term jobs under which it receives payments throughout the term of the contracts.

Where revenue recognised at the period end date is more than amounts invoiced, the Group recognises an accrued income contract asset for this difference. Where revenue recognised at the period end date is less than amounts invoiced, the Group recognises a deferred income contract liability for this difference.

Employee benefits

Retirement benefit costs

The Group contributes to the personal pension plans of certain employees of the Group. The assets of these schemes are held in independently administered funds. The pension cost charged in the Financial Statements represents the contributions payable by the Group in accordance with IAS 19.

Share-based payments

The Company has issued equity-settled share-based awards and free shares to certain employees. The fair value of share-based awards with non-market performance conditions is determined at the date of the grant using a Black-Scholes model. The fair value of share-based awards with market-related performance conditions is determined at the date of grant using the Monte Carlo model. Share-based awards are recognised as expenses based on the Company's estimate of the shares that will eventually vest, on a straight line basis over the vesting period, with a corresponding increase in the share option reserve.

At each reporting date the Company revises its estimates of the number of options that are expected to vest based on service and non-market performance conditions. The amount expensed is adjusted over the vesting period for changes in the estimate of the number of shares that will eventually vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves. Options with market-related performance conditions will vest based on total shareholder return against a selected group of quoted market comparators. Following the initial valuation, no adjustments are made in respect of market-based conditions at the reporting date.

Employee Benefit Trust

The Company established an Employee Benefit Trust upon its IPO, whose remit is to hold Sureserve Group plc shares on behalf of its employees. The Trust is wholly funded by the Group and although legally independent is deemed to be controlled by the Group as the trust relies on it for funding and the Company is able to remove and appoint the trustees. The assets and liabilities of the trust are therefore consolidated with those of the Group.

Finance income and costs

Interest receivable and payable on bank balances is credited or charged to the statement of comprehensive income as incurred.

Finance arrangement fees and issue costs are capitalised and netted off against borrowings. All other borrowing costs are written off to the statement of comprehensive income as incurred.

Notional interest payable, representing the unwinding of the discount on long term liabilities, is charged to finance costs.

Costs incurred in raising finance

Costs incurred in raising finance are capitalised and amortised through the profit and loss account over the term of the funding as a trading item. In the event that the associated finance product is refinanced prior to its expiring, the unamortised costs are treated as an 'Other item' on the face of the statement of comprehensive income, to the extent that they are replaced with fees and costs associated with raising the new finance.

Taxation

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

The current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's asset for current tax is calculated using tax rates prevailing at the year end.

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

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

2. Significant accounting policies continued

Taxation continued

Deferred tax is calculated at the tax rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. When current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Inventories

Inventories and work in progress are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where appropriate, labour and overheads which have been incurred in bringing the inventories and work in progress to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made, where appropriate, to reduce the value of inventory to its net realisable value.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, and where it is probable that the Group will be required to settle that obligation and the amount can be reliably estimated. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the time value of money is material). Details of material provisions are disclosed unless it is not practicable to do so or where it could be expected to prejudice seriously the position of the entity.

Contingent liabilities

Where a provision or accrual is deemed to be required it has been included within the consolidated statement of financial position. For contingent liabilities where an economic outflow is possible, it is often not practicable to estimate the financial effect due to the range of estimation uncertainty. For contingent liabilities where the possibility of economic outflow is remote, disclosure of the estimated financial effect is not required.

Contingent liabilities acquired in a business combination are initially valued at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with IAS 37 and the amount initially recognised.

Joint venture

Under IFRS 11 joint ventures are accounted for under the equity method of accounting. A joint venture is a joint arrangement whereby the parties have joint control of the arrangement and have rights to the net assets of the arrangement. Loans receivable and investments in joint venture entities are reviewed for impairment at each year end.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Group are as follows:

(a) Trade and other receivables

Trade and other receivables are recognised initially at fair value and measured subsequently at amortised cost less any provision for impairment losses including expected credit losses. In accordance with IFRS 9 the Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and accrued income contract assets, estimated using a combination of historical experience and forward-looking information.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with a maturity of three months or less. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

(c) Trade and other payables

Trade and other payables are not interest bearing and are stated initially at fair value and subsequently held at amortised cost.

(d) Bank and other borrowings

Interest-bearing bank and other loans are recorded at the fair value of the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for at amortised cost and on an accruals basis in the statement of comprehensive income using the effective interest method. Interest is added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

(e) Derivative financial instruments

Derivatives are initially recognised at fair value on the date that the contract is entered into and subsequently remeasured in future periods at their fair value. They are held at fair value through profit or loss and are remeasured at each reporting date with the movement being recognised in the statement of comprehensive income.

(f) Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations rather than the financial instrument's legal form. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(g) Equity instruments

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

Operating leases

Amounts due under operating leases are charged to the statement of comprehensive income in equal annual instalments over the period of the lease.

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2019

2. Significant accounting policies continued

Finance leases

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Nature and purpose of each reserve in equity

Share capital is determined using the nominal value of shares that have been issued.

Share premium represents the difference between the nominal value of shares issued and the fair value of the total consideration receivable at the issue date.

Equity-settled share-based employee remuneration 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 has been created in relation to the Group reorganisation under IFRS 3, in which Sureserve Group plc replaced Sureserve Holdings Limited as the Group's ultimate parent company.

3. Critical accounting judgements and key sources of uncertainty

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. These estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions 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 the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

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

Revenue and profit recognition

Revenue is recognised based on the stage of completion of job or contract activity. Certain types of service provision pricing mechanisms require minimal estimation and judgement; however, service provision lump sum and longer term contracts do require judgements and estimates to be made to determine the stage of completion and the expected outcome for the individual contract. A sum will be recognised in relation to accrued income on the statement of financial position, details of which are described in note 20. The accrued income balance as at 30 September 2019 was £17.6m (2018: £15.7m).

The Group recognises revenue from maintenance contracts on a straight line basis over the life of the contract. The Directors consider that this is the most appropriate basis for these contracts that contain a 'stand-ready' obligation as the timing of the provision of the underlying service cannot be reliably estimated.

These assessments include a degree of uncertainty and therefore, if the key judgements and estimates change, further adjustments of recoverable amounts may be necessary. Following the disposal of Lakehouse Contracts Limited and Foster Property Maintenance in the prior year, the Directors consider the risk of material adjustments arising from a revision of estimates to have reduced. Revenue from continuing operations is generated from a large number of contracts with customers, such that there is limited sensitivity to material revisions arising from changes in estimates on individual contracts.

Provisions for legal and other claims

The Group continues to manage a number of potential risks and uncertainties, including claims and disputes, which are common to other similar businesses and which could have a material impact on short and longer term performance. The Board remains focused on the outcome of a number of contract settlements on which there is a range of outcomes for the Group in terms of both cash flow and impact on the statement of comprehensive income.

In quantifying the likely outcome for the Group, the key judgements and estimates will typically include:

- The scope of the Group's assessed responsibility
- An assessment of the potential likelihood of economic outflow
- An estimation of economic outflow (including potential likelihood)
- A commercial assessment of potential further liabilities

Estimates of amounts provided take account of legal advice where sought. Details of specific cases are not disclosed due to potential commercial sensitivity. Provisions at 30 September 2019 includes £0.8m (2018: £4.9m) in respect of the disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited – see notes 11 and 24 for details of the basis of estimation used.

The total carrying value of provisions as at 30 September 2019 was £3.6m (2018: £7.7m) – see note 24 for further details.

Impairment of intangible assets and goodwill

The Group assess whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 15.

Critical accounting judgements

The Group did not make any critical accounting judgements in the year, other than the judgements involving estimates set out above within key sources of estimation and uncertainty.

4. Operating segments

The Group's chief operating decision maker is considered to be the Board of Directors (the 'Board'). The Group's operating segments are determined with reference to the information provided to the Board in order for it to allocate the Group's resources and to monitor the performance of the Group.

The Board has determined an operating management structure aligned around the two core activities of the Group, with the following operating segments applicable:

- **Compliance:** focused on gas, fire, electrics, air, water and lifts where we contract predominantly under framework agreements. Services comprise the following:
 - Installation, maintenance and repair-on-demand of gas appliances and central heating systems
 - Compliance services in the areas of fire protection and building electrics
 - Air and water hygiene solutions
 - Service, repair and installation of lifts
- **Energy Services:** we offer a range of services in the energy efficiency sector, including external, internal and cavity wall insulation, loft insulation, gas central heating, boiler upgrades and other renewable technologies. The services are offered under various energy saving initiatives including Energy Company Obligations ('ECO'), Green Deal and the Scottish Government's HEEPs ('Home Energy Efficiency Programme') Affordable Warmth programme. Clients include housing associations, social landlords, local authorities and private householders and we have trading relationships with all of the 'big six' utility suppliers and many of the leading utility challengers. We also provide metering services involving the installation, servicing and administration of devices and associated data

The accounting policies of the reportable segments are the same as those described in the accounting policies section.

All revenue and profit is derived from operations in the United Kingdom only.

The profit measure the Board used to evaluate performance is operating profit before exceptional items and amortisation of acquisition intangibles, as outlined in note 7 and on the face of the income statement.

The Group accounts for inter-segment trading on an arm's length basis. All inter-segment trading is eliminated on consolidation.

The following is an analysis of the Group's revenue and operating profit before exceptional items and amortisation of acquisition intangibles by reportable segment:

	2019 £'000	2018 £'000
Revenue		
Compliance	133,051	116,275
Energy Services	82,081	77,734
Total segment revenue	215,132	194,009
Inter-segment elimination	(3,066)	(3,259)
Total continuing revenue	212,066	190,750

Revenue 2019	Revenue recognised		
	Over time £'000	At a point in time £'000	Total £'000
Gas services	99,929	—	99,929
Fire and electrical services	15,098	—	15,098
Water and hygiene services	6,913	—	6,913
Lift services	11,111	—	11,111
Compliance segment revenue	133,051	—	133,051
Energy services	50,934	11,594	62,528
Smart metering	—	19,553	19,553
Energy segment revenue	50,934	31,147	82,081
Inter-segment elimination	(3,066)	—	(3,066)
Total continuing revenue	180,919	31,147	212,066

Revenue 2018	Revenue recognised		
	Over time £'000	At a point in time £'000	Total £'000
Gas services	87,452	—	87,452
Fire and electrical services	11,538	—	11,538
Water and hygiene services	5,074	—	5,074
Lift services	12,211	—	12,211
Compliance segment revenue	116,275	—	116,275
Energy services	40,735	14,575	55,310
Smart metering	—	22,424	22,424
Energy segment revenue	40,735	36,999	77,734
Inter-segment elimination	(3,259)	—	(3,259)
Total continuing revenue	153,751	36,999	190,750

Reconciliation of operating profit before exceptional and amortisation of acquisition intangibles to profit before taxation from continuing operations

	2019 £'000	2018 £'000
Operating profit before exceptional and amortisation of acquisition intangibles by segment		
Compliance	8,470	6,104
Energy Services	4,341	4,025
Central	(3,457)	(2,091)
Total operating profit before exceptional and amortisation of acquisition intangibles	9,354	8,038
Amortisation of acquisition intangibles	(2,735)	(4,325)
Exceptional costs	(225)	(1,048)
Exceptional income	—	757
Finance costs	(1,051)	(1,475)
Profit before taxation from continuing operations	5,343	1,947

Only the Group consolidated statement of financial position is regularly reviewed by the chief operating decision maker and consequently no segment assets or liabilities are disclosed here under IFRS 8.

None of the Group's major clients account for more than 10% of Group revenue for 2019 or 2018.

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2019

5. Profit before taxation

Profit before taxation is stated after charging/(crediting):

	2019 £'000	2018 £'000
Amount of inventories recognised as an expense	57,532	57,133
Depreciation of property, plant and equipment (note 17):		
– owned	602	678
– held under finance leases	91	180
Amortisation of intangible assets (note 16)	3,159	4,668
Staff costs (note 9)	78,665	84,822
Operating lease rentals:		
– land and buildings	816	933
– other	3,778	4,027
Profit on disposal of property, plant and equipment	(40)	(52)

6. Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2019 £'000	2018 £'000
Fees payable to the Company's auditor and its associates for audit services to the Group:		
– the audit of the Company's annual accounts	88	54
– the audit of the Company's subsidiaries	172	186
Total audit fees	260	240
Fees payable to the Company's auditor and its associates for other services to the Group:		
– agreed upon procedures on interim results	28	23
Total non-audit fees	28	23

7. Exceptional items

	2019 £'000	2018 £'000
Acquisition costs	–	34
Restructuring and other costs	225	1,014
Total exceptional costs	225	1,048
Release of provision for deferred consideration	–	(757)
Total net exceptional costs	225	291

Exceptional items in the year decreased the Group's profit after tax by £0.2m (2018: £0.3m) and relate to the following items:

Restructuring and other costs of £0.2m (2018: £1.0m) reflect restructuring costs during the year. The 2018 figure also includes a small number of legacy clean-up costs.

Release of provisions for deferred consideration of £nil (2018: £0.8m) reflects in 2018 the release of provision on the final settlement remaining of deferred consideration due to Aaron Heating Services Limited and Precision Lift Services Limited.

Exceptional items are considered non-trading because they are not part of the underlying trade of the Group.

8. Finance expenses

	2019 £'000	2018 £'000
Interest payable on bank overdrafts and loans	1,044	1,355
Unwinding of discount on financial liabilities	–	82
Other interest payable	7	38
	1,051	1,475

9. Information relating to employees

The average number of employees, including Directors, employed by the Group during the year was:

	2019 Number	2018 Number
Direct labour and contract management	1,554	1,716
Administration and support	570	612
	2,124	2,328

The aggregate remuneration was as follows:

	2019 £'000	2018 £'000
Wages and salaries	69,486	75,586
Social security	7,112	8,012
Pension costs – defined contribution plans	1,523	1,224
Equity-settled share-based payments	544	–
	78,665	84,822

10. Retirement benefit obligations

The Group contributes to the personal pension plans of certain employees of the Group. The assets of these schemes are held in independently administered funds. From 1 February 2014 the Group contributes to a new workplace pension scheme for all employees in compliance with the automatic enrolment legislation. The Group paid £1,523,000 in pension contributions in the year ended 30 September 2019 (2018: £1,224,000). At the reporting date, £460,000 of contributions were payable to the funds (2018: £252,000).

11. Discontinued operations

Discontinued activities represent the Group's Construction and Property Services divisions (the 'Activities') which were sold on 17 August 2018. In determining the classification of the Activities as discontinued at 30 September 2019, the Board had regard to the conditions that needed to be met under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

	2019 £'000	2018 £'000
Revenue	–	71,949
Expenses	–	(78,371)
Loss before tax	–	(6,422)
Taxation	–	1,220
Loss after tax from discontinued operations	–	(5,202)
Profit/(loss) on disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited	470	(7,476)
Profit on disposal of Orchard (Holdings) UK Limited	378	1,158
	848	(11,520)

11. Discontinued operations continued

Profit from discontinued operations amounted to £0.8m (2018: loss of £11.5m) on associated revenues of £nil (2018: £71.9m). The associated cash outflow for the year was £nil (2018: £8.0m), discussed also in note 33.

The 2019 profits on disposal of discontinued operations comprise:

- £0.5m tax credit from settlement of amounts provided on disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited
- £0.4m profit on sale of Orchard (Holdings) UK Limited from reassessment of the fair value of consideration receivable

The 2018 result from discontinued operations comprised:

- Disposal costs of Lakehouse Contracts Limited and Foster Property Maintenance Limited (including professional fees) of £1.0m
- Provisions for liabilities relating to the disposal of £4.5m net of tax of £0.4m
- £2m loss on disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited representing net assets at date of disposal – no consideration receivable has been recognised
- Losses of Lakehouse Contracts Limited, Foster Property Maintenance Limited and Orchard (Holdings) UK Limited prior to disposal of £5.2m
- £1.2m profit on sale of Orchard (Holdings) UK Limited from reassessment of the fair value of consideration receivable

Lakehouse Contracts Limited went into administration and subsequent liquidation on 11 March 2019 and 6 August 2019 respectively. The Board have reviewed the position in detail and have not recognised any amounts potentially recoverable from Lakehouse Contracts Limited under the sale and purchase agreement. Post year end Mapps Group Limited, the acquirer of Lakehouse Contracts Limited and Foster Property Maintenance Limited, also went into liquidation.

As at 30 September 2019, the group has provisions for liabilities relating to the disposal of £0.6m, net of tax of £0.2m (2018: £4.5m net of tax of £0.4m).

In addition to the amounts provided for above, there are a number of potential contingent liabilities arising from the disposal including:

- Potential claims under parent company guarantees and bonds for projects. The value of bonds and guarantees is disclosed in note 30
- Potential claims under clauses in the sale and purchase agreement including working capital adjustments and warranties/indemnities

No claims have been received from the liquidators to date and the Group has claims against MAPPs for amounts that exceed their best estimate of any amounts that may potentially be due to MAPPs under clauses in the sale and purchase agreement. The Board are in continuing dialogue with all parties.

Further details are not disclosed on the basis that such disclosure would be seriously prejudicial.

12. Tax on profit on ordinary activities

	2019 £'000	2018 £'000
Current tax		
Current year	1,492	1,656
Current tax – prior year adjustment	22	(67)
Total current tax	1,514	1,589
Deferred tax (note 25)	(360)	(807)
Total tax on profit on ordinary activities	1,154	782

The tax assessed for the year differs from the standard rate of corporation tax in the UK. The differences are explained below:

	2019 £'000	2018 £'000
Profit before tax from continuing operations	5,343	1,947
Effective rate of corporation tax in the UK	19%	19%
Profit before tax at the effective rate of corporation tax	1,015	370
Effects of:		
Expenses not deductible for tax purposes	224	537
Adjustment of deferred tax to closing tax rate	2	65
Current tax – prior year adjustment	22	(67)
Deferred tax – prior year adjustment	(13)	(96)
Deferred tax asset not recognised	(96)	(27)
Tax charge for the year	1,154	782

Factors that may affect future charges

The Finance Act 2016, which provides for a reduction in the UK corporation tax rate from 19% to 17% with effect from 1 April 2020, was substantively enacted on 6 September 2016.

The closing deferred tax asset at 30 September 2019 has been calculated at 17% reflecting the tax rate at which the deferred tax asset is expected to be utilised in future periods.

13. Dividends

The final dividend for the year ended 30 September 2018 of 0.25 pence per share amounting to £0.4m was paid in the year.

The Board has proposed a final dividend for the year of 0.5 pence per share amounting to £0.8m and representing a total dividend of 0.5 pence per share for the full year (2018: 0.25 pence per share).

Subject to approval at the Annual General Meeting on 18 March 2020 the final dividend will be paid on 30 April 2020 to shareholders on the register at the close of business on 31 January 2020 and has not been included as a liability in these Financial Statements.

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2019

14. Earnings per share

The calculation of the basic and diluted earnings/(loss) per share is based on the following data:

	2019 Number	2018 Number
Weighted average number of ordinary shares for the purposes of basic earnings/loss per share	158,049,310	157,527,103
Diluted		
Effect of dilutive potential ordinary shares:		
Share options	595,869	7,316,715
Weighted average number of ordinary shares for the purposes of diluted earnings/loss per share	158,645,179	164,843,818
Earnings/(loss) for the purpose of basic and diluted earnings per share being net profit/(loss) after tax attributable to the owners of the Company from continuing and discontinued operations (£'000)	5,037	(10,355)
Basic earnings/(loss) per share	3.2p	(6.6p)
Diluted earnings/(loss) per share	3.2p	(6.6p)
Earnings for the purpose of basic and diluted earnings per share being net profit after tax attributable to the owners of the Company from continuing operations (£'000)	4,189	1,165
Basic earnings per share from continuing operations	2.7p	0.7p
Diluted earnings per share from continuing operations	2.6p	0.7p

The number of shares in issue at 30 September 2019 was 158,947,467 (2018: 157,527,103).

The weighted average number of ordinary shares in issue during the year excludes those accounted for in the own shares reserve (note 29).

15. Goodwill

	£'000
At 1 October 2017	42,169
Acquisition of Just Energy Solutions Limited	754
At 30 September 2018	42,923
Adjustments to goodwill – Just Energy Solutions Limited	(566)
At 30 September 2019	42,357

Goodwill arising on consolidation represents the excess of the fair value of the consideration transferred over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

The adjustment to goodwill relates to management reassessment of the fair value of consideration payable and the assets, and liabilities acquired within the 12 month measurement period after the acquisition of Just Energy Solution Limited on 15 May 2018. The adjustments were made based on information available post acquisition. The trade of Just Energy Solutions has been transferred to Aaron Services Limited.

Goodwill is not amortised but is reviewed for impairment on an annual basis or more frequently if there is an indication that goodwill may be impaired. Goodwill acquired in a business combination is allocated to cash-generating units ('CGUs') according to the level at which management monitors that goodwill.

Goodwill is carried at cost less accumulated impairment losses. There is currently no impairment contributed against the goodwill.

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

CGU	Segment	2019 £'000	2018 £'000
K&T Heating Services Limited	Compliance	3,774	3,774
Allied Protection Limited	Compliance	3,717	3,717
Everwarm Limited	Energy Services	17,476	17,476
H2O Nationwide Limited	Compliance	2,209	2,209
Providor Limited	Energy Services	3,037	3,037
Sure Maintenance Group Limited	Compliance	4,225	4,225
Aaron Heating Services Limited	Compliance	3,667	3,667
PLS Holdings Limited	Compliance	4,064	4,064
Just Energy Solutions Limited	Compliance	188	754
		42,357	42,923

15. Goodwill continued

An asset is impaired if its carrying value exceeds the unit's recoverable amount which is based upon value in use. At each reporting date impairment reviews are performed by comparing the carrying value of the CGU to its value in use. At 30 September 2019 the value in use for each CGU was calculated based upon the cash flow projections of the latest Board approved three-year forecasts together with a further two years estimated and an appropriate terminal value based on perpetuity.

Future budgeted and forecast profits are estimated by reference to the average operating margins achieved in the period immediately before the start of the budget period.

The estimated growth rates are based on past experience and knowledge of the individual sector's markets. The Directors believe that the heating, fire safety and renewable energy and insulation markets will continue to present strong growth opportunities for the CGUs outlined above. Management believes that future growth in these markets is underpinned by a number of factors including:

- A pipeline of new tenders
- Further opportunities to work with other Group companies
- Client demand for safe buildings
- Adjacent market opportunities

The assumptions used in the impairment reviews are outlined below.

The growth rate applied to the cash flows in years four and five of the impairment review performed at 30 September 2019 was 2% (2018: 2%). We have reviewed the appropriateness of the assumptions used in the model resulting in a terminal growth rate of 2% (2018: 1%) based on historic trends. A pre-tax discount rate of 8.2% (2018: 10.3%) was applied based on a reduction in the average borrowing rates and a lower risk profile for the Group. Three different types of sensitivity analysis have been performed on entities that showed potential indicators of impairment, including a 20% reduction in revenue, a reduction in the operating profit margin of between 1% and 5% and an increase in the discount rate by 1.5%. There is significant headroom in all but one of the CGUs based on the review model. PLS Holdings headroom is £2.1m. A reduction in operating profit of a third over each of the next three years would result in a breakeven position for this CGU.

16. Other intangible assets

	Acquisition intangibles				Total £'000
	Computer software £'000	Contracted customer order book £'000	Customer relationships £'000	Non-compete agreements £'000	
Cost					
At 1 October 2017	2,030	24,334	18,360	1,670	46,394
Disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited	(1,533)	(5,728)	(3,705)	—	(10,966)
Additions	449	—	—	—	449
At 30 September 2018	946	18,606	14,655	1,670	35,877
Additions	403	—	—	—	403
At 30 September 2019	1,349	18,606	14,655	1,670	36,280
Amortisation					
At 1 October 2017	1,457	22,596	11,968	1,140	37,161
Disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited	(1,446)	(5,728)	(3,705)	—	(10,879)
Amortisation charge	343	1,243	2,563	519	4,668
At 1 October 2018	354	18,111	10,826	1,659	30,950
Amortisation charge	424	411	2,313	11	3,159
At 30 September 2019	778	18,522	13,139	1,670	34,109
Carrying value					
At 30 September 2019	571	84	1,516	—	2,171
At 30 September 2018	592	495	3,829	11	4,927
At 30 September 2017	573	1,738	6,392	530	9,233

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2019

16. Other intangible assets continued

Contracted customer order book

The value placed on the order book is based upon the cash flow projections over the contracts in place when a business is acquired. Due to uncertainties with trying to forecast revenues beyond the contract term, the Directors have valued contracts over the contractual term only. The value of the order book is amortised over the remaining life of each contract which typically range from one to five years.

Customer relationships

The values placed on the customer relationships are based upon the non-contractual expected cash inflows forecast on the base business over and above contracted revenues. The value of customer relationships is amortised over five years.

Non-compete agreements

The value placed on the non-compete agreements is based upon the non-compete clause and knowledge and know-how of the former owners of the acquired businesses. The value of non-compete agreements is amortised over five years.

The remaining amortisation period of the current acquisition intangibles is one year.

17. Property, plant and equipment

	Leasehold improvements £'000	Plant and equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 October 2017	1,415	935	2,218	1,320	5,888
Disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited	(936)	(147)	(791)	(514)	(2,388)
Acquisition of Just Energy Solutions	—	32	49	—	81
Additions	52	237	141	—	430
Disposals	—	(12)	(11)	(299)	(322)
At 30 September 2018	531	1,045	1,606	507	3,689
Additions	155	268	190	18	631
Disposals	—	(89)	(156)	(146)	(391)
At 30 September 2019	686	1,224	1,640	379	3,929
Depreciation					
At 1 October 2017	1,026	469	1,595	893	3,983
Disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited	(893)	(150)	(751)	(524)	(2,318)
Charge for the year	77	217	310	254	858
Disposals	—	(5)	(11)	(292)	(308)
At 30 September 2018	210	531	1,143	331	2,215
Charge for the year	62	269	261	101	693
Disposals	—	(63)	(129)	(131)	(323)
At 30 September 2019	272	737	1,275	301	2,585
Net book value					
At 30 September 2019	414	487	365	78	1,344
At 30 September 2018	321	514	463	176	1,474
At 30 September 2017	389	466	623	427	1,905

Included within the net book value of property, plant and equipment is £54,000 (2018: £143,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £91,000 (2018: £180,000).

18. Group entities

Subsidiaries

The Group's subsidiary undertakings are:

	Country of incorporation	Class of capital	%	Principal activity
Aaron Heating Services Limited	England	Ordinary	100	Intermediate holding company
Aaron Services Limited	England	Ordinary	100	Maintenance and installation of domestic gas heating systems
Allied Protection Limited	England	Ordinary	100	Fire alarm engineers
Bury Metering Services Limited	England	Ordinary	100	Non-trading
Everwarm Limited	Scotland	Ordinary	100	Energy and insulation services
F J Jones Holdings Limited	England	Ordinary	100	Non-trading
F J Jones Heating Engineers Limited	England	Ordinary	100	Non-trading
H2O Nationwide Limited	England	Ordinary	100	Water hygiene
Just Energy Solutions Limited	England	Ordinary	100	Maintenance and installation of domestic gas heating systems
K & T Heating Services Limited	England	Ordinary	100	Plumbing and heating engineers
PLS GRP Limited	England	Ordinary	100	Intermediate holding company
PLS Holdings Limited	England	Ordinary	100	Intermediate holding company
PLS Industries Limited	England	Ordinary	100	Non-trading
Precision Lift Services Limited	England	Ordinary	100	Lift installation, modernisation and maintenance services
Providor Limited	England	Ordinary	100	Smart metering
Smart Metering Limited	England	Ordinary	100	Non-trading
Speedfit Limited	England	Ordinary	100	Non-trading
Sure Maintenance Limited	England	Ordinary	100	Maintenance and installation of domestic gas heating systems
Sure Maintenance Group Limited	England	Ordinary	100	Intermediate holding company
Sureserve Compliance Services Limited	England	Ordinary	100	Intermediate holding company
Sureserve Construction Services Limited	England	Ordinary	100	Non-trading
Sureserve Design and Build Limited	England	Ordinary	100	Non-trading
Sureserve Energy Services Limited	England	Ordinary	100	Intermediate holding company
Sureserve Holdings Limited*	England	Ordinary	100	Intermediate holding company
Sureserve Property Investments Limited	England	Ordinary	100	Non-trading

* Directly held investment.

The registered office of all entities above is Unit 1, Yardley Business Park, Luckyn Lane, Basildon, Essex SS14 3BZ, except for Everwarm Limited whose registered office is 3–5 Melville Street, Edinburgh EH3 7PE.

Joint ventures

The Group's joint ventures are:

	Country of incorporation	Class of capital	%	Principal activity
Warmworks Scotland LLP	Scotland	Ordinary	33.33	Energy and insulation services
Arbed am Byth	Wales	Ordinary	50	Energy and insulation services

Details of joint ventures

	2019 £'000	2018 £'000
Carrying value of investment in Arbed am Byth	294	200
Carrying value of investment in Warmworks	438	665
	732	865

Warmworks, a joint venture with Changeworks and the Energy Saving Trust, commenced trading in September 2015; the income for 2019 was £135,000 (2018: £226,000). The registered office of Warmworks Scotland LLP is 1 Carmichael Place, Leith, Edinburgh, Midlothian EH6 5PH.

Arbed am Byth, a joint venture with the Energy Saving Trust, commenced trading in August 2018; the income for 2019 was £294,000 (2018: £nil). The registered office of Arbed am Byth is Unit 2, Cefn Coed, Nantgarw, Cardiff, Wales CF15 7QQ.

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2019

19. Inventories

	2019 £'000	2018 £'000
Raw materials and consumables	3,059	2,581
Work in progress	—	1,641
	3,059	4,222

There are no inventories at 30 September 2019 or 30 September 2018 carried at fair value less costs to sell. The Directors consider that the replacement value of inventories is not materially different from their carrying value. There was no specific security held at either reporting date over inventory.

£57,532,000 (2018: £57,133,000) of inventories were recognised as an expense in the year.

20. Trade and other receivables

	2019 £'000	2018 £'000
Current		
Trade receivables	17,858	19,018
Deferred consideration receivable	626	1,158
Social security and other taxes	239	965
Other receivables	3,685	3,192
Prepayments	2,081	2,580
Accrued income	17,579	15,705
	42,068	42,618

Other receivables includes sales retentions of £2,396,000 (2018: £2,222,000) and rebates receivable of £677,000 (2018: £796,000).

	2019 £'000	2018 £'000
Trade receivables		
Trade receivables not due	15,074	15,273
Trade receivables past due 1–30 days	1,988	2,748
Trade receivables past due 31–60 days	104	227
Trade receivables past due 61–90 days	161	363
Trade receivables past due over 90 days	1,150	886
Gross trade receivables	18,477	19,497
Provision for bad debt brought forward	(479)	(477)
Debtor provision recognised upon acquisition	—	(79)
Disposal of investments	—	27
Amounts written off receivables ledger	75	50
Debtor provision charged to profit or loss in the year	(215)	—
Provision for bad debt carried forward	(619)	(479)
Net trade receivables	17,858	19,018

The entire provision for bad debts of £619,000 (2018: £479,000) relates to amounts past due over 90 days.

The Directors consider that the carrying amount of trade receivables approximates to their fair value. Debts provided for and written off are included in administrative expenses in the Financial Statements. The Group's maximum exposure on credit risk is the fair value of trade receivables as presented above. The Group has no pledge as security on trade receivables.

At the end of the year no single client represented 5% of the total balance of trade receivables (2018: £1,122,000 – one client).

21. Trade and other payables

	2019 £'000	2018 £'000
Current		
Trade payables	21,098	24,607
Sub-contractor retentions	1,256	1,068
Accruals	7,981	7,873
Deferred income	233	38
Social security and other taxes	5,132	4,690
Other payables	998	1,058
	36,698	39,334
Non-current		
Accruals	—	269
	—	269

The Directors consider that the carrying amount of trade payables approximates to their fair value for each reported period. Trade payables are non-interest bearing. Average settlement days are 61 days (2018: 76 days).

Included in accruals is deferred consideration arising from business combinations analysed as follows:

	2019 £'000	2018 £'000
Non-current	—	269

The fair value of the consideration has been assessed in accordance with the sale and purchase agreements.

22. Borrowings

	2019 £'000	2018 £'000
Bank loans and credit facilities at amortised cost:		
Current	—	12,926
Non-current	9,755	—
	9,755	12,926
Maturity analysis of bank loans and credit facilities falling due:		
In one year or less, or on demand	—	12,926
Between two and five years	9,755	—
	9,755	12,926

In December 2018, the Group renewed its bank facilities to provide an overdraft facility of £5.0m together with a revolving credit facility of £25.0m, which runs to 31 January 2022.

23. Net debt

	2019 £'000	2018 £'000
Cash and cash equivalents	2,452	1,705
Bank loans and credit facilities	(9,755)	(12,926)
Finance lease obligations	(54)	(143)
	(7,357)	(11,364)

24. Provisions

	Legal and other £'000
At 1 October 2017	4,030
Identified on acquisition	27
Additional provision	5,490
Utilised in the year	(344)
Disposal of Lakehouse Contracts Limited	(1,508)
At 30 September 2018	7,695
Additional provision	172
Utilised in the year	(4,257)
At 30 September 2019	3,610
Current provisions	415
Non-current provisions	3,195

Legal and other

Provisions relate to property dilapidation obligations, potential contract settlement costs and other potential legal settlement costs. These are expected to result in an outflow of economic benefit over the next one to three years.

During the year, £2.5m for costs of disposal of Lakehouse Contracts and Foster Property Maintenance were paid. A further £1.6m that was previously included in the provision was paid to the bond providers in relation to certain projects that were in progress at the date of disposal of the businesses. These amounts are being held on account while the claims are reviewed.

25. Deferred taxation

	Accelerated capital allowances £'000	Short term timing differences £'000	Share-based payments £'000	Acquisition intangibles £'000	Unutilised losses £'000	Total £'000
Asset/(provision) brought forward as at 1 October 2017	309	653	36	(1,472)	2,559	2,085
Disposals in the year	(206)	(183)	(36)	—	(2,504)	(2,929)
Credit/(debit) to P&L	104	(34)	—	735	2	807
Asset/(provision) carried forward as at 30 September 2018	207	436	—	(737)	57	(37)
Pre-acquisition adjustment	—	—	—	—	144	144
Credit/(debit) to P&L	26	(146)	92	465	(77)	360
Asset/(provision) carried forward as at 30 September 2019	233	290	92	(272)	124	467
At 30 September 2019						
Non-current asset	233	290	92	—	124	739
Non-current liability	—	—	—	(272)	—	(272)
Net deferred tax asset/(liability)	233	290	92	(272)	124	467
At 30 September 2018						
Non-current asset	207	436	—	—	57	700
Non-current liability	—	—	—	(737)	—	(737)
Net deferred tax asset/(liability)	207	436	—	(737)	57	(37)

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so.

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2019

26. Finance lease obligations

	Future minimum lease payments £'000	Interest £'000	Present value of minimum lease payments £'000
At 1 October 2017	405	(79)	326
Repayments	(220)	37	(183)
At 30 September 2018	185	(42)	143
Repayments	(107)	18	(89)
At 30 September 2019	78	(24)	54

Future lease payments are due as follows:

	Future minimum lease payments £'000	Interest £'000	Present value of minimum lease payments £'000
Less than one year	78	(24)	54
Between two and five years	—	—	—
At 30 September 2019	78	(24)	54
Less than one year	106	(23)	83
Between two and five years	79	(19)	60
At 30 September 2018	185	(42)	143

27. Called up share capital

Allotted, called up and fully paid:

2019 Number	2018 Number		2019 £	2018 £
158,947,467	157,527,103	Ordinary shares of £0.10 each	15,894,747	15,752,710

Details of options granted under the Group's share scheme are contained in note 28. The Group issued 1,420,364 shares during the year relating to exercised share options.

Voting rights

The holders of ordinary shares are entitled to receive notice of, attend or participate in any general meeting of the Company and to receive any notice of a written resolution proposed to be passed by the Company.

On a show of hands at a meeting the holders of any such shares shall be entitled to one vote for all such shares held.

On a poll at a meeting, for a written resolution, the holder of such shares shall be entitled to such number of votes as corresponds to the nominal value (in pence) or the relevant shares held.

28. Share-based payments

The Company has established a Share Incentive Plan ('SIP'), Sharesave Scheme ('SAYE'), Company Share Option Plan ('CSOP'), Performance Share Plan ('PSP'), Deferred Share Bonus Plan ('DSBP'), Special Incentive Award Plan ('SIAP') and Long Term Incentive Plan ('LTIP').

The net charge recognised for share-based payments in the year was £544,000 (2018: £nil).

Share Incentive Plan ('SIP')

The SIP is an HMRC-approved scheme plan open to all UK employees at the date of the IPO, 23 March 2015. Each employee was given £200 of free shares; there were no performance conditions apart from remaining in employment for three years from the date of award. Shares totalling 325,842 were transferred directly to the SIP and on 29 April 2015, 236,213 shares were allotted in relation to the initial award of shares under the SIP. No further awards have been made under the SIP.

28. Share-based payments continued

Sharesave Scheme ('SAYE')

The SAYE is open to all employees who satisfy certain criteria, particularly relating to period of employment. The exercise price is equal to the average of the closing quoted market price for the preceding three days less a discretionary discount approved by the Board of not less than 80% of the market value of a share. The Scheme is for three years, during which the holder must remain in the employment of the Group. The shares can be exercised within six months from the maturity of the Scheme.

Company Share Option Plan ('CSOP')

The CSOP is open to all employees at the discretion of the Remuneration Committee. The exercise price is equal to the average of the closing quoted market price at the date of grant. The vesting period is for three years, during which the holder must remain in the employment of the Group and is conditional on the achievement of a mix of market and non-market performance conditions from the date of granting the option to the date of potential exercise.

Performance Share Plan ('PSP')

The PSP is open to certain employees at the discretion of the Remuneration Committee at a limit not exceeding 150% of the individual's base salary at the date of grant. The exercise price is £nil. The vesting period is for three years, during which the holder must remain in the employment of the Group and is conditional on the achievement of a mix of market and non-market performance conditions from the date of granting the option to the date of potential exercise.

Special Incentive Award Plan ('SIAP')

Awards granted under the SIAP take the form of options to acquire Sureserve shares for nil consideration. The awards will have no beneficial tax status. Only employees who are also Directors of the Company may be granted an award under the SIAP. The Remuneration Committee will have absolute discretion to select the persons to whom awards may be granted and in determining the number of shares to be subject to each award. One employee is currently participating in the SIAP.

Long Term Incentive Plan ('LTIP')

Awards granted under the LTIP take the form of options to acquire Sureserve shares either at a price equal to the nominal share price or for nil consideration. The awards will have no beneficial tax status. All employees of the Company and any of its subsidiaries (the 'Group') may be granted an award under the LTIP. The Remuneration Committee will have absolute discretion to select the persons to whom awards may be granted and in determining the number of shares to be subject to each award. Awards were granted to two Directors of the Company during the year. Awards were capable of exercise from grant date and were exercised during the year.

	SIP	SAYE	CSOP	PSP	SIAP	LTIP
Number						
At 1 October 2017	165,166	2,421,776	2,177,690	1,983,413	4,615,385	—
Granted	—	1,634,136	—	—	2,000,000	—
Lapsed	(82,555)	(814,917)	(613,439)	(1,074,284)	—	—
At 30 September 2018	82,611	3,240,995	1,564,251	909,129	6,615,385	—
Granted	—	1,574,064	—	—	1,600,000	1,403,846
Lapsed	(16,744)	(1,835,105)	(316,098)	(749,129)	(7,415,385)	—
Exercised	—	(16,518)	—	—	—	(1,403,846)
At 30 September 2019	65,867	2,963,436	1,248,153	160,000	800,000	—
Weighted average exercise price (p)						
At 1 October 2018	0.00p	34.51p	40.75p	0.00p	0.00p	0.00p
Granted	—	25.00p	—	—	0.00p	0.00p
Lapsed	0.00p	35.92p	40.75p	0.00p	0.00p	0.00p
Exercised	—	33.27p	—	—	—	0.00p
Outstanding at 30 September 2019	0.00p	29.49p	40.75p	0.00p	0.00p	0.00p
Outstanding at 30 September 2018	0.00p	34.51p	40.75p	0.00p	0.00p	0.00p
Fair value of options granted						
Weighted fair value of one option	87.61p	12.30p	12.13p	28.43p	6.00p	27.10p
Assumptions used in estimating the fair value						
Share price at date of grant	99.75p	36.99p	40.00p	40.00p	27.10p	27.10p
Exercise price	—	29.49p	40.75p	0.00p	0.00p	—
Expected dividend yield	4.60%	4.28%	7.37%	7.37%	1.00%	—
Risk-free rate	1.21%	0.53%	0.07%	0.07%	0.71%	—
Expected volatility	40.37%	50.11%	54.50%	83.00%	34.90%	—
Expected life	3 years	3.34 years	3 years	3 years	1.5 years	—

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2019

28. Share-based payments continued

Long Term Incentive Plan ('LTIP') continued

In the year ended 30 September 2019, options were granted in May 2019 in respect of the SIAP and LTIP, and options were granted in June 2019 in respect of the SAYE.

The weighted average remaining contractual life of outstanding options at 30 September 2019 was 1.9 years (2018: 2.5 years).

The SIP and SAYE options were valued using a Black-Scholes model and the CSOP and PSP using a combination of Black-Scholes and Monte Carlo models, weighted according to the performance conditions of both.

The LTIP options were valued using the share price on the grant date of 27.1 pence.

The SIAP options were valued using a Monte Carlo model.

The inputs into the Black-Scholes model for options issued in the year are as follows:

	2019	2018
Share price (p)	29.25	40.00
Exercise price (p)	25.00	34.00
Expected volatility (%)	48.45	48.63
Expected life (years)	3.43	3.00
Risk-free rate (%)	0.65	0.94
Expected dividend yield (%)	2.83	2.63

The inputs into the Monte Carlo model for options issued in the year are as follows:

	2019	2018
Share price (p)	27.10	42.00
Exercise price (p)	0.00	0.00
Expected volatility (%)	34.90	40.88
Expected life (years)	1.50	1.17
Risk-free rate (%)	0.71	0.46
Expected dividend yield (%)	1.00	6.33

Expected volatility was based upon the historical volatility over the expected life of the schemes. The expected life is based upon scheme rules and reflects management's best estimates for the effects of non-transferability, exercise restrictions and behavioural considerations.

29. Reserves

Share premium reserve

The share premium account represents amounts received in excess of the nominal value of shares on issue of new shares, net of the direct costs associated with issuing those shares.

Own shares reserve

At IPO, each employee was given £200 of free shares, to be held for their benefit in an Employee Benefit Trust. Shares totalling 325,842 were transferred directly to the Employee Benefit Trust on 23 March 2015. The own shares reserve at 30 September 2019 represents the cost of 325,842 (2018: 325,842) shares in Sureserve Group plc.

Merger reserve

On 23 March 2015 Sureserve Group plc (then Lakehouse plc) was listed on the Premium Listing segment of the Official List and trading on the Main Market of the London Stock Exchange. As part of a restructuring accompanying the Initial Public Offering ('IPO') of the Group on 23 March 2015, Sureserve Group plc replaced Sureserve Holdings Limited as the Group's ultimate parent company by way of a share exchange agreement. Under IFRS 3 this has been accounted for as a Group reconstruction under merger accounting.

Merger accounting principles for this combination gave rise to a merger reserve of £20,067,000.

30. Guarantees and contingent liabilities

The Company and certain subsidiaries have, in the normal course of business, given guarantees and performance bonds relating to the Group's contracts totalling £5,420,000 (2018: £7,292,000). A subsidiary of the Group has provided a guarantee of £750,000 (2018: £750,000) to the Warmworks joint venture.

Contingent liabilities in respect of the disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited are disclosed in note 11.

31. Financial instruments

Financial instruments comprise both financial assets and financial liabilities. The carrying values of these financial assets and liabilities are assumed to approximate their fair values.

The principal financial assets in the Group comprise trade, loans and other receivables and cash and cash equivalents. The principal financial liabilities in the Group comprise borrowings which are categorised as debt at amortised cost, together with trade and other payables, other long term liabilities and provisions for liabilities, which are classified as other financial liabilities.

Financial risk management

The Group's objectives when managing finance and capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group is not subject to any externally imposed capital requirements.

The main financial risks faced by the Group are liquidity risk, credit risk and market risk (which includes interest rate risk). Currently the Group only operates in the UK and only transacts in Sterling. It is therefore not exposed to any foreign currency exchange risk. The Board regularly reviews and agrees policies for managing each of these risks.

31. Financial instruments continued

Categories of financial instruments

	Financial assets measured at amortised cost	
	2019 £'000	2018 £'000
Financial assets		
Current financial assets		
Trade receivables, loans and other receivables	39,748	39,073
Cash and cash equivalents	2,452	1,705
	42,200	40,778
	Financial liabilities measured at amortised cost	
	2019 £'000	2018 £'000
Financial liabilities		
Current financial liabilities		
Trade and other payables	31,333	34,606
Borrowings	—	12,926
Finance lease obligations	54	83
Total current financial liabilities	31,387	47,615
Non-current financial liabilities		
Trade and other payables	—	439
Borrowings	9,755	—
Finance lease obligations	—	60
Total non-current financial liabilities	9,755	499
	41,142	48,114

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Statements approximate their fair values.

Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's trade receivables and accrued income contract assets.

The maximum exposure to credit risk at the reporting date is represented by the carrying value of the financial assets in the statement of financial position. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group continuously monitors defaults of counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available external credit ratings and/or reports on counterparties are obtained and used. The Group's policy is to only deal with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

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

Market risk

As the Group only operates in the UK and only transacts in Sterling, the Group's activities expose it primarily to the financial risks of changes in interest rates only.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group's policy on liquidity is to ensure that there are sufficient committed borrowing facilities to meet the Group's long to medium term funding requirements.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

A maturity analysis of bank borrowings at each period end is contained in note 22.

(a) Interest rate of borrowings

The interest rate exposure of the Group's borrowings is shown below:

	2019 £'000	2018 £'000
Floating rate Sterling borrowings	9,755	12,926

At 30 September 2019, the Group had no interest rate caps in place (2018: a cap of 2.5% on up to £15m, which expired on 9 December 2018). The Group's average interest rate was 4.4% (2018: 4.5%) which included LIBOR and margin.

(b) Interest rate risk

Due to the floating rate of interest on the Group's principal borrowings, the Group is exposed to interest rate risk.

(c) Interest rate sensitivity analysis

The Group's principal borrowings attract floating rate interest. On a weighted average of £14.5m of debt in the year, a 0.5% increase in the floating interest rate would have increased annual interest payable by £72,000 (2018: £93,000).

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2019

32. Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2019		2018	
	Land and buildings £'000	Other items £'000	Land and buildings £'000	Other items £'000
Within one year	1,059	2,758	815	2,961
Between two and five years	1,874	2,419	1,447	2,584
Over five years	102	—	227	—
	3,035	5,177	2,489	5,545

Operating lease payments represent rentals payable by the Group for its properties and equipment. For property, leases are negotiated for an average term of five years and rentals are fixed for an average of five years, with an option to extend for a further period at the then prevailing market rate. For equipment, leases are negotiated for a term of between three and four years and on completion the equipment is returned to the lessor.

33. Cash generated from operations

	2019 £'000	2018 £'000
Operating profit	6,394	3,422
Adjustments for:		
Depreciation	693	858
Share-based payments	544	—
Amortisation of intangible assets	3,159	4,668
Profit on disposal of property, plant and equipment	(40)	(52)
Changes in working capital:		
Inventories	1,157	305
Amounts owed by clients under construction contracts	—	6,269
Amounts owed to clients under construction contracts	—	(1,786)
Trade and other receivables	199	18,010
Trade and other payables	(2,491)	(29,185)
Provisions	(4,076)	3,638
Adjustment of loss from discontinued operations	—	(11,829)
Cash generated from/(used in) operations	5,539	(5,682)
Adjusted operating cash conversion calculation		
Cash generated from/(used in) operations	5,539	(5,682)
Exceptional costs paid in the year	4,364	2,448
Cash impact of net change in working capital from discontinued operations	—	8,042
Adjusted cash generated from continuing operations	9,903	4,808
Operating profit before exceptional items and amortisation of acquisition intangibles	9,354	8,038
Operating cash conversion %	106%	60%
Statutory operating cash conversion calculation		
Cash generated from/(used in) operations	5,539	(5,682)
Statutory operating profit before exceptional items and amortisation of acquisition intangibles	9,354	8,038
Statutory operating cash conversion %	59%	(71%)

34. Summary of consideration paid and payable in respect of acquisitions

	Just Energy Solutions Limited £'000
At 1 October 2018	269
Revalued in the year	(269)
At 30 September 2019	—

The fair value of the consideration has been assessed in accordance with the sale and purchase agreements.

35. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Trading transactions

The Company's subsidiary, Everwarm Limited, leases premises in Bathgate, West Lothian, from Xafinity Pension Trustees Limited (as corporate trustee of the Everwarm Group SIPP). Mr M McMahon, a previous Director of the Company, is a beneficiary of the Everwarm Group SIPP. The lease was set up on an arm's length basis with annual rentals determined based on an independent rental valuation. £129,000 of rents were paid by the Group in 2019 (2018: £131,000). The lease terminates in six years.

The Company's subsidiary, Everwarm Limited, provides services to Warmworks, a joint venture with Everwarm. £5,932,000 of services were provided in 2019 (2018: £6,818,000). £651,000 was charged to Everwarm Limited from Warmworks for services provided in 2019 (2018: £1,645,000).

As at 30 September 2019 Everwarm Limited had a receivable owing from Warmworks amounting to £392,000 (2018: £364,000).

As at 30 September 2019 Arbed am Byth had a loan owed to Everwarm Limited amounting to £400,000 (2018: £200,000). As at 30 September 2019 Everwarm Limited had a receivable owing from Arbed am Byth amounting to £38,000 (2018: £92,000).

Bob Holt provides consultancy services to Sureserve Group plc and other Group companies in relation to advice about the turnaround management strategy of the Group. These consultancy services are provided by a consultancy company of which he is a shareholder. The daily fee payable for such consultancy services is £1,595 plus VAT. Such services are provided for two days per week over 47 weeks per year at a total cost of £150,000 per annum (plus VAT). The total value of services provided to the Group was £150,000 (2018: £150,000).

The Company's subsidiary, Sure Maintenance Limited, provides services to Mears Group PLC, an entity Bob Holt was director of during the period from 1 October 2018 to 31 December 2018. £13,000 of services were provided during that period (2018: £30,000). As at 30 September 2019 Sure Maintenance Limited had a receivable owing from Mears Group PLC amounting to £nil (2018: £1,000).

Remuneration of key management personnel

The remuneration of the Directors and members of the Board, together with other key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. The key management personnel are the members of the Group management Board. Further information about the remuneration of individual Group Directors is provided in the audited part of the Remuneration Report.

	2019 Number	2018 Number
Number of members of the Group Management Board at each year end	16	13
	2019 £'000	2018 £'000
Short term employee benefits	2,150	1,804
Share-based payment – LTIP	400	—
Post-employment benefits	156	114
Compensation for loss of office	158	315
	2,864	2,233

In addition to the above, dividends of £14,000 (2018: £28,000) were paid to Directors.

36. Events after the reporting date

There are no material post balance sheet events that require adjustment or disclosure in the Annual Report.

Company balance sheet

At 30 September 2019

	Notes	2019 £'000	2018 £'000
Fixed assets			
Interests in subsidiaries	40	12,392	12,392
Intangible fixed assets	41	357	254
Tangible fixed assets	42	223	71
		12,972	12,717
Current assets			
Debtors – due within one year	43	6,814	2,869
Debtors – due after more than one year	43	61,077	64,620
Income tax receivable		1,591	948
		69,482	68,437
Creditors: amounts falling due within one year	44	(19,239)	(28,657)
Net current assets		50,243	39,780
Total assets less current liabilities		63,215	52,497
Creditors: amounts falling due after more than one year			
Loans and borrowings	44	(9,755)	—
Provisions for liabilities	45	(2,213)	(6,665)
Net assets		51,247	45,832
Capital and reserves			
Called up share capital	46	15,895	15,753
Share premium account	47	25,318	25,314
Own shares		(290)	(290)
Share-based payment reserve	48	538	616
Profit and loss account		9,786	4,439
Shareholders' funds		51,247	45,832

As a consolidated statement of comprehensive income is published, a separate statement of comprehensive income for the parent company is omitted by virtue of the exemption available in section 408 of the Companies Act 2006. The Company's profit and total comprehensive income for the year was £5,260,000 (2018: loss of £6,364,000).

The Financial Statements of Sureserve Group plc (registered number 09411297) were approved by the Board of Directors and authorised for issue on 20 January 2020. They were signed on its behalf by:

P D M Smith
Director

The accompanying notes are an integral part of this Company balance sheet.

Company statement of changes in equity

For the year ended 30 September 2019

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Own shares £'000	Profit and loss account £'000	Total equity £'000
At 1 October 2017	15,753	25,314	616	(290)	11,591	52,984
Loss for the year	—	—	—	—	(6,364)	(6,364)
Dividends paid (note 13)	—	—	—	—	(788)	(788)
At 30 September 2018	15,753	25,314	616	(290)	4,439	45,832
Profit for the year	—	—	—	—	5,260	5,260
Dividends paid (note 13)	—	—	—	—	(394)	(394)
Issue of shares (exercise of options)	142	4	—	—	(141)	5
Share-based payments	—	—	544	—	—	544
Reserve transfer	—	—	(622)	—	622	—
At 30 September 2019	15,895	25,318	538	(290)	9,786	51,247

Notes to the Company Financial Statements

For the year ended 30 September 2019

Company only

The following notes 37 to 49 relate to the Company only position for the year ended 30 September 2019.

37. Accounting policies

Statement of compliance and basis of preparation

The separate Financial Statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly the Financial Statements have been prepared in accordance with FRS 101 (Financial Reporting Standard 101) Reduced Disclosure Framework as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated Financial Statements.

The Financial Statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated Financial Statements except as noted below:

Investments

Investments in subsidiary undertakings are stated at cost less any provision for impairment.

Cost is defined as the consideration transferred and is measured at fair value. Fair value is calculated as the sum of the acquisition-date fair values of assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquired company and the equity interest issued by the Company in exchange for control of the acquired company. Acquisition-related costs are recognised in profit or loss as incurred.

When the consideration transferred by the Company includes an asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred. Changes in fair value of the contingent consideration are adjusted when identified with corresponding adjustments dependent upon how the contingent consideration is classified. Where contingent consideration is classified as equity any change in fair value is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Impairment of investments

At each balance sheet date, the Company tests the carrying amounts of investments to determine whether those investments have suffered an impairment loss. The recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

38. Critical accounting judgements and key sources of uncertainty

Critical accounting estimates and judgements

The preparation of Financial Statements requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgements are continually made and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates.

Impairment of investments

The Company reviews the valuation of all its investments for impairment annually or if events and changes in circumstances indicate that the carrying value may not be recoverable. The recoverable amount is determined based on value-in-use calculations. The use of this method requires the estimation of future cash flows and the choice of a suitable discount rate in order to calculate the present value of these cash flows. See note 15 for further information.

Provisions for legal and other claims

The Company continues to manage a number of potential risks and uncertainties, including claims and disputes, which are common to other similar businesses and which could have a material impact on short and longer term performance. The Board remains focused on the outcome of a number of contract settlements on which there is a range of outcomes for the Company in terms of both cash flow and impact on the statement of comprehensive income.

In quantifying the likely outturn for the Company, the key judgements and estimates will typically include:

- The scope of the Company's assessed responsibility
- An assessment of the potential likelihood of economic outflow
- An estimation of economic outflow (including potential likelihood)
- A commercial assessment of potential further liabilities

38. Critical accounting judgements and key sources of uncertainty *continued*

Provisions for legal and other claims *continued*

Estimates of amounts provided take account of legal advice where sought. Details of specific cases are not disclosed due to potential commercial sensitivity. Provisions at 30 September 2019 includes £0.8m (2018: £4.9m) in respect of the disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited – see notes 11 and 24 for details of the basis of estimation used.

The total carrying value of provisions as at 30 September 2019 was £2.2m (2018: £6.7m) – see note 45 for further details.

39. Staff numbers and costs

	2019 Number	2018 Number
Office and administration	45	37
	2019 £'000	2018 £'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	2,883	2,976
Social security costs	350	353
Other pension costs	129	124
Equity-settled share-based payments	544	—
	3,906	3,453

40. Investment in subsidiaries

	£'000
Investment in subsidiaries	
Cost	
At 1 October 2018 and 30 September 2019	12,392
Net book value	
At 1 October 2018 and 30 September 2019	12,392

Further information is provided in note 18.

41. Intangible fixed assets

	Computer software £'000
Cost	
At 1 October 2017	—
Additions	271
At 30 September 2018	271
Additions	335
At 30 September 2019	606
Amortisation	
At 1 October 2017	—
Amortisation charge	17
At 30 September 2018	17
Amortisation charge	232
At 30 September 2019	249
Carrying value	
At 30 September 2019	357
At 30 September 2018	254
At 30 September 2017	—

42. Property, plant and equipment

	Leasehold improvements £'000	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
At 1 October 2017	—	—	—	—
Additions	—	73	—	73
At 30 September 2018	—	73	—	73
Additions	154	39	24	217
At 30 September 2019	154	112	24	290
Depreciation				
At 1 October 2017	—	—	—	—
Depreciation charge	—	2	—	2
At 30 September 2018	—	2	—	2
Depreciation charge	7	56	2	65
At 30 September 2019	7	58	2	67
Carrying value				
At 30 September 2019	147	54	22	223
At 30 September 2018	—	71	—	71
At 30 September 2017	—	—	—	—

Notes to the Company

Financial Statements continued

For the year ended 30 September 2019

43. Debtors

	2019 £'000	2018 £'000
Amounts falling due within one year		
Amounts owed by Group undertakings	6,243	2,009
Prepayments	150	436
Deferred tax asset	270	281
Other debtors	107	143
Tax receivable	44	—
	6,814	2,869
Amounts falling due after more than one year		
Amounts owed by Group undertakings	61,077	64,620

The Directors consider that the carrying amount of trade receivables approximates to their fair value. There is no provision against amounts receivable and no amounts are past due or are impaired.

44. Creditors

	2019 £'000	2018 £'000
Creditors: amounts falling due within one year		
Bank loans and overdrafts	9,480	20,387
Trade creditors	295	1,072
Amounts owed to Group undertakings	7,052	3,824
Accruals and deferred income	2,245	2,723
Social security and other taxes	167	132
Other creditors	—	519
	19,239	28,657
Creditors: amounts falling due after more than one year		
Loans and borrowings	9,755	—

Further information on the Group's borrowings is included in note 22.

45. Provisions for liabilities

	Legal and other £'000
At 1 October 2018	6,665
Utilised in the year	(4,452)
At 30 September 2019	2,213

Further information is provided in note 24.

46. Share capital

Allotted, called up and fully paid:

	Number	£
Ordinary shares of £0.10 each	158,947,467	15,894,747

Details of the movements in share capital together with the key rights and preferences of the share capital are disclosed in note 27.

47. Share premium account

The share premium account represents amounts received in excess of the nominal value of shares on issue of new shares, net of the direct costs associated with issuing those shares.

48. Share-based payments

During the year ended 30 September 2019 the Company had five share-based payment arrangements, which are described in note 28.

49. Operating lease commitments

	2019		2018	
	Land and buildings £'000	Other items £'000	Land and buildings £'000	Other items £'000
Within one year	180	—	167	—
Between two and five years	224	—	119	—
	404	—	286	—

Corporate directory

Company registration number

09411297

Directors

Bob Holt OBE (Chairman)
Peter Smith (Chief Financial Officer)
Robert Legget (Senior Independent Director)
Derek Zissman (Non-Executive Director)
Christopher Mills (Non-Executive Director)

Company Secretary

John Charlton

Registered office

Unit 1
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Luckyn Lane
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SS14 3BZ

Independent auditors

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EC4A 4AB

Principal bankers

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EC2M 4AA

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Cheltenham
GL50 3PR

Eversheds Sutherland

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London
EC2V 7WS

DLA Piper UK LLP

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Sheffield
S1 2JX

Financial adviser and stockbroker

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57 St James's Street
London
SW1A 1LD

Registrars

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Corporate calendar

Annual General Meeting

18 March 2020

Announcement of Interim Results

June 2020

Announcement of Final Results

January 2021



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