

Registered No 01152473

Servelec Youth Services Limited

Annual Report and Financial Statements

For the year ended 31 December 2020



Company information

Directors

S L Belfer
I F Crichton

Auditor

Deloitte LLP
1 City Square
Leeds
LS1 2AL

Bankers

NatWest
Western Avenue
Waterside Court
Chatham
ME4 4RT

Solicitors

Walker Morris
Kings Court
12 King Street
Leeds
LS1 2HL

Registered Office

The Straddle
Wharf Street
Sheffield
S2 5SY

Directors' report

The directors present their annual report and audited financial statements for the year ended 31 December 2020.

The company is a small company and has utilised the available exemption under the Companies Act 2006 s414B to not prepare a Strategic Report.

Principal activities and review of the business

The principal activities of the Company during the year were the development and implementation of software systems for youth justice.

The Company's main activities are derived from its Core+ system. Each of the Core+ products is purpose built to meet the specific needs of Children's Services Departments and Organisations. Where appropriate, our Core+ solutions are developed in line with government specifications and designed in consultation with our customer base to provide practical and easy to use systems, with many time saving features.

Developing products that empower our customers is of utmost importance, and so users are able to customise the software throughout. Utility tools are also provided to allow customers to manage their own data

The company has focused heavily on the delivery of new solutions and upgrades through additional product and module sales and finished the year with a strong order book for 2020, with customers continuing to take up hosting services.

The company has delivered a profitable financial performance as detailed in the key performance indicators. Revenue has been level with 2019, but cost savings improved operating profit by £0.6m. The directors are confident that this continued investment will deliver enhanced returns during future years.

Post year end the group which the Company is involved in headed by Servelec Topco has entered into an active sales process and may be sold in the short term. The directors are of the opinion that this situation creates a material uncertainty around the going concern of the company due to the uncertainty over the enforceability of the letter of support obtained from Servelec Topco Limited. This is considered in note 2 to the financial statements.

Future developments

The Company is now very well placed to deliver strong sustainable financial growth through 2020 and beyond. This is underpinned by the significant investment made during 2019 in modernising management, product development, staff training, systems and processes.

The business continues to enjoy highly defensible, leading positions in its core specialised niches and development investment behind a range of products has enabled the company to upsell innovative solutions across care settings.

The impact of Brexit and COVID-19 are both expected to be low as set out later in this Directors' Report.

Directors' report (continued)

Key performance indicators

The table below sets out the KPIs for the company which are monitored by the Board:

	2020	2019
	£'000	£'000
Revenue	2,590	2,584
Operating profit/(loss)	434	(139)
Net assets/(liabilities)	284	(93)
Closing order bank	1,397	1,682

Both revenue and order bank were in line with last year as the Company continues to develop products which customers are keen to purchase. Cost savings led to an improved operating profit. Net liabilities decreased solely as a result of the retained loss for the year.

Impact of Brexit on the company and its subsidiary undertakings

Following the transition period which expired at the end of 2020 and during the current programme of further changes in 2021, the company and its subsidiary undertakings are keeping a watching brief on all legislative developments on an ongoing basis to determine any potential future impact to our customers, staff, partners or suppliers.

Preparations were made in 2019 and no issues have been noted now that the UK has fully left after the transitional arrangements ended. To date, the and its subsidiary undertakings have not noticed and does not anticipate any impact on the continuation of our existing service provision to our customers, whether in the UK, Republic of Ireland or mainland Europe. We do not anticipate any issues with equipment licences to use software or our hosting facilities. The company and its subsidiary undertakings only use commercial, off the shelf products that can be sourced from many locations, limiting the impact of any foreign exchange fluctuations.

Impact of COVID-19 on the company and its subsidiary undertakings

Whilst COVID-19 has changed how the company and its subsidiary undertakings operate, service provision has not suffered despite all staff working remotely since March 2020. Some project slippage did take place, but the company and its subsidiary undertakings were able to compensate with other customer projects from our confirmed order book. Our new wins have been impacted by the marked reduction in, and delays to, tender opportunities coming to market, but the company and its subsidiary undertakings have largely been able to offset this with strong upsell across our existing customer base, particularly solutions that are helpful during COVID-19 and post-COVID-19 to address the challenges facing our customer base.

The Company received immaterial furlough income in the period from the UK government and utilised the VAT deferral scheme. See note 11.

Financial risk management objectives and policies

The Board has overall responsibility for the establishment and oversight of the Company's risk management framework.

Capital risk management

The prime objective of capital management is to ensure that the Company maintains the financial flexibility needed to allow for value-creating investments as well as healthy balance sheet ratios. Servelec Youth Services has a high cash conversion. As a result, capital risk is not significant for the Company and measurement of capital management is not a tool used in the internal management reporting procedures.

Directors' report (continued)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Key market risks include interest rate risk and currency risk. Financial instruments affected by market risk include loans and borrowings and deposits.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The exposure to a short-term fluctuation in exchange rates on customer contracts held in foreign currencies is not expected to have a material impact on the results of the Company.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The nature of the companies customers together with the spread of invoicing milestones results in exposure to credit risk being limited.

Directors

The directors who served the company were as follows:

S L Belfer

I F Crichton

Going concern

The Company generated a profit of £377,000 in 2020 and has net assets of £284,000.

Since late March 2020, the wider Servelec Group has been impacted by the outbreak of the COVID-19 pandemic. Approximately 75% of existing revenues are recurring (term licences, perpetual licences recognised over time, hosting and support income), and the Group has in place a strong contracted order bank and detailed strategy to achieve future new customer wins. In response to COVID-19, the Group rapidly moved to remote working with minimal disruption. Some remote working, and the associated technology, was already deployed and in wide use as part of how the Group was already operating. Customer service, account management, product development and all support activities continue to operate at normal or near-normal levels. Customer procurements and project work have been affected by COVID-19; some have accelerated, and others have been delayed and this knowledge has informed our forecasts referred to below.

In coming to a conclusion in their review that the Company remains a going concern, the directors have reviewed "worse case" financial cash forecasts for the Group headed by Servelec Topco Limited, the highest consolidating entity for the company, to 30 August 2022 to understand the cash requirements of the business, alongside those of the Company itself. Such forecasts exclude management's estimations of cost savings that management would consider in their "base case" forecast.

These forecasts include all information available to the directors to the date of signing these financial statements. The Company relies on support from the wider group and therefore in assessing going concern, the Directors have assessed the potential cash flow needs of the Company compared to the group's financial position and have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future, thus they continue to adopt the going concern basis in preparing the financial statements. However, the directors have concluded that a material uncertainty exists in relation to the potential sale of the group.

Directors' report (continued)

During 2018, the Group took out a loan with Arcmont Asset Management (formerly Blue Bay Asset Management) consisting of a £90,500,000 debt facility which was fully drawn at the year end and has a termination date of 31 May 2025. Interest is charged based on Libor plus an initial margin of 5.75% but is subject to change depending on performance. This loan has a quarterly covenant for Adjusted Leverage, being the ratio of total net debt to adjusted EBITDA. Adjusted Leverage reduces each quarter from 8.13x at December 2020 to 6.43x by June 2022. The margin of 5.75% increases to 6.00% if Adjusted Leverage is above 6.0x and reduces if Adjusted Leverage falls below 5.25x, with a minimum of 4.75% at 3.5x or lower.

The Group also has a £20,000,000 debt facility with Arcmont Asset Management (formerly Blue Bay Asset Management) that is ring-fenced for future acquisition spend which was undrawn at the year-end date and which has a termination date of 31 May 2024. The margin of 5.75% increases to 6.00% if Adjusted Leverage is above 6.0x and reduces if Adjusted Leverage falls below 5.25x, with a minimum of 4.75% at 3.5x or lower.

In addition, the Group took out a £10,000,000 revolving credit facility with Lloyds Bank plc which was drawn by £3,000,000 at the year-end date and has a termination date of 31 March 2024. Interest is charged based on Libor plus a margin of 2.50%. The margin of 2.50% reduces if Adjusted Leverage falls below 5.25x, with a minimum of 1.50% at 3.5x or lower.

During 2018, the Group also issued unsecured loan notes and at 31st December 2020 the value amounted to £148,061,000. Interest is charged at an annual rate of 12% which is rolled up quarterly.

The base case and worse case scenario which the Group is pursuing continues to predict growth in revenue and stable profit through 2021 and 2022, together with positive cash flow generation.

The base case scenario which the Group is pursuing continues to predict growth through 2021 and into 2022, together with positive cash flow generation. This base case scenario was reviewed in detail by the Board in December 2020 and performance is being monitored against it each month. The Group is forecast to maintain a strong cash balance of c.£4m - £5m each month with a further £7m of immediately available, undrawn lending facilities as at 31st December 2020. There continue to be no signs of deterioration in the quality or collectability of debtors.

Forecasts have been prepared to 30 August 2022 including a sensitivity analysis which includes a worse-case scenario business reduction due to COVID-19. Under this scenario, one-third of non-recurring revenues (c10% of income) are assumed to cease for six months from July 2021 to December 2021 and no cost reductions take place. Under these assumptions, the Group continues to satisfy all banking covenants, with the tightest covenant headroom of £1.9m EBITDA at December 2021. Headroom significantly increases in subsequent months. Also under this scenario, the Group's peak net cumulative cash outflow of £(3.9)m is at the end of March 2022, but at no point prior to June 2022 is drawdown required from the £10m available but undrawn overdraft facilities. The Directors have considered the need for further downside forecasts and performed a review of mitigating actions available to be taken if required. The Board considers that based on current trading, which is above the COVID-19 scenario, a scenario breaching any covenants, or not having sufficient liquidity, is seen as remote.

No covenant breaches have occurred during the reporting period or during the period since the balance sheet date.

The directors have obtained a letter confirming Servelec Topco Limited's financial support for at least 12 months following the date of the annual report and financial statements. By review of the aforementioned forecasts, the directors have concluded that the support confirmed by Servelec Topco Limited is sufficient to adopt the going concern basis of accounting in preparing the Annual Financial

Directors' report (continued)

Statements. The financial statements do not include any adjustments that would result if the going concern basis were not appropriate. However, due to the potential sale of the Servelec Topco Limited group, the directors are of the opinion that there is a material uncertainty which may cast significant doubt about the intentions of future management including the amount of support, if any the company will receive and therefore of the company's ability to continue as a going concern within one year from the date of signing these financial statements meaning that the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Employment Policies

Arrangements for consulting and involving employees on matters affecting their interests at work and informing them of the performance of the company are developed in ways appropriate to the business. A variety of approaches are adopted aimed at encouraging the involvement of employees in effective communication and consultation, and the contribution of productive ideas at all levels.

Employment policies are designed to provide equal opportunities irrespective of protected characteristics. Our policy is to ensure that all applicants for employment are given full and fair consideration having regard to their particular aptitudes and abilities, and that existing employees are given equal access to training, career development and promotion opportunities. Servelec treats applications for employment from disabled persons equally with those of other applicants having regard to their ability, experience and the requirements of the job. Where existing employees become disabled, appropriate efforts are made to provide them with continuing suitable work within the business and to provide retraining if necessary.

Political contributions

The company did not make any political contributions in either the current or prior year.

Qualifying third party indemnity provision

During the financial year, there were no third party indemnity provisions for the benefit of any of the directors in force.

Existence of branches outside the United Kingdom

There were no branches in existence located outside the United Kingdom during the year.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditors

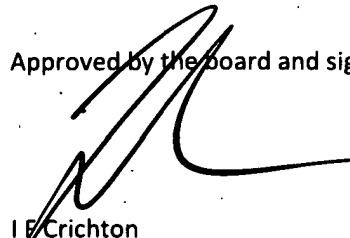
Deloitte LLP have indicated their willingness to continue in office and a resolution seeking to reappoint them will be proposed to the Board.

Directors' report (continued)

Subsequent events

The Group which the Company is involved in headed by Servelec Topco is in an active sales process and may be sold in the short term. This creates a material uncertainty around going concern which is considered in note 2 to the financial statements.

Approved by the board and signed on its behalf by:



I. E. Crichton
Director

6 August 2021

Statement of Directors' Responsibilities

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 elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements also comply with International Financial Reporting Standards (IFRSs) as adopted by the IASB. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period. In preparing these financial statements, 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; and
- make an assessment of the company'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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and 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.

Independent auditor's report

to the members of Servelec Youth Services Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Servelec Youth Services Limited (the "company"):

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 15.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, 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.

Material uncertainty relating to going concern

We draw attention to note 2 in the financial statements, concerning the proposed plans to sell the Servelec Topco Limited group which the company is a part of and the impact this will have on the company's ability to continue as a going concern, which is dependent on the support the company has from its parent undertaking, Servelec Topco Limited. Whilst the directors consider that the company is a going concern, the intentions of future management are uncertain, including the amount of support, if any, the company will receive in the form of guarantees or loans from its new owners. As stated in note 2, these events or conditions, along with the other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

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

Independent auditor's report (continued)

to the members of Servelec Youth Services Limited

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.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

Independent auditor's report (continued)

to the members of Servelec Youth Services Limited

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act, as well as relevant pensions legislation and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- Revenue recognition under IFRS 15: we assessed the appropriateness of management's revenue recognition policies under IFRS 15, in particularly those regarding perpetual licences. We tested management's IFRS 15 adjustments by sample testing the adjustments and agreeing line items to supporting customer contracts. We audited the completeness of the adjustments by sampling non-adjusted items and ensuring this was appropriate. We tested the design and implementation of management's controls around this risk area; and
- Valuation of contract assets (amounts due from customers for contract work) in non-recurring revenue: we sample tested contract assets and agreed the sales values to customer contracts. We audited the accuracy of cost to complete calculations. We audited the recoverability of contract assets.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Independent auditor's report (continued)

to the members of Servelec Youth Services Limited

Report on other legal and regulatory requirements

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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies' exemption from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

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.



Matthew Hughes BSc (Hons) ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds
United Kingdom
6 August 2021

Statement of comprehensive income
for the year ended 31 December 2020

	<i>Note</i>	2020 £'000	2019 £'000
Revenue	3	2,590	2,584
Cost of sales		(967)	(1,049)
Gross profit		1,623	1,535
Administrative expenses		(1,189)	(1,674)
Operating profit / (loss)	4	434	(139)
Interest payable	7	(5)	(6)
Profit / (loss) before tax		429	(145)
Tax (charge) / credit	8	(52)	119
Profit / (loss) for the year		377	(26)

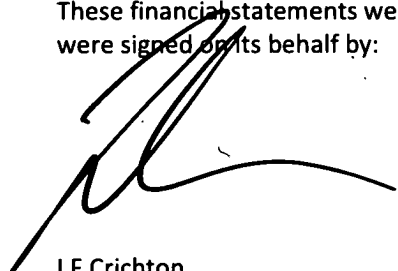
All of the revenue and operating profit arises from continuing activities.

Balance sheet

At 31 December 2020

	Notes	2020 £'000	2019 £'000
Non-current assets			
Tangible assets	9	109	158
Deferred tax asset		58	20
Total non-current assets		167	178
Current assets			
Debtors due within one year	10	1,300	876
Cash at bank and in hand		75	30
Total current assets		1,375	906
Creditors: amounts falling due within one year	11	(1,258)	(1,177)
Net current assets / (liabilities)		117	(271)
Net assets/(liabilities)		284	(93)
Capital and reserves			
Called up share capital	12	-	-
Retained earnings/(deficit)	12	284	(93)
Shareholder's funds/(deficit)		284	(93)

These financial statements were approved by the Board of Directors on 6 August 2021 and were signed on its behalf by:



I F Crichton
Director

Statement of changes in equity

For the year ended 31 December 2020

	<i>Share capital</i>	<i>Capital redemption reserve</i>	<i>Revaluation reserve</i>	<i>Retained earnings</i>	<i>Total</i>
	<i>Note 12</i>			<i>Note 12</i>	
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Balance at 01 January 2019	-	3	(17)	(50)	(64)
Loss and total comprehensive expense for the year	-	-	-	(26)	(26)
Movement in the period	-	(3)	17	(17)	(3)
Balance at 31 December 2019	-	-	-	(93)	(93)
Profit and total comprehensive income for the year	-	-	-	377	377
Balance at 31 December 2020	-	-	-	284	284

Notes to the financial statements

At 31 December 2020

1. General information

The principal activities of Servelec Youth Services Limited ("Company") is the design, manufacture, installation and commissioning of children's services software systems.

Servelec Youth Services Limited is a private company limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales with company number 01152473. The registered office is located at The Straddle, Wharf Street, Sheffield S2 5SY. The financial information presented in the financial statements is at and for the year ended 31 December 2020.

2. Summary of significant accounting policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The Company meets the definition of a qualifying entity under FRS 100 Application of Financial Reporting Requirements issued by the FRC. Accordingly, these financial statements are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. The financial information has been prepared based on those standards and using the principal accounting policies outlined below.

The financial information has been prepared on a historical cost basis.

The financial information has been presented in sterling, rounded to the nearest thousand (£'000) unless otherwise stated and has been prepared on a going concern basis.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement,
- (b) The requirements of paragraphs 10(d), 10(f), 3(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- (c) The requirements of IAS 7 Statement of Cash Flows as this is prepared in the consolidated financial statements of the ultimate parent undertaking, Servelec Topco Limited;
- (d) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- (e) The requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- (f) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- (g) The requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets
- (h) The requirements of paragraphs 134 and 135 of IAS 1 on Capital risk management
- (i) The requirements of paragraphs 33 and 34 of IFRS 7 on Qualitative and Quantitative disclosures of Financial Instruments
- (j) The requirements of paragraphs 105 to 115 of IFRS 15 on the presentation and disclosure of revenue from contracts with customers

Notes to the financial statements (continued)

At 31 December 2020

2. Summary of significant accounting policies (continued)

New standards, interpretations and amendments adopted by the Group

The company has also considered but not applied amendments to accounting standards effective in the year where these do not impact upon the company, comprising Conceptual Framework (Amendments to References to the Conceptual Framework in IFRS Standards), amendments to IAS1 Definition of Material, IFRS9 Interest Rate Benchmark Reform, IFRS3 Definition of a Business and IFRS16 COVID-19-related rent concessions.

At the date of authorisation of these financial statements, the company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS 17 (Insurance Contracts)

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the company in future periods.

Going Concern

The Company generated a profit of £377,000 in 2020 and has net assets of £284,000.

Since late March 2020, the wider Servelec Group has been impacted by the outbreak of the COVID-19 pandemic. Approximately 75% of existing revenues are recurring (term licences, perpetual licences recognised over time, hosting and support income), and the Group has in place a strong contracted order bank and detailed strategy to achieve future new customer wins. In response to COVID-19, the Group rapidly moved to remote working with minimal disruption. Some remote working, and the associated technology, was already deployed and in wide use as part of how the Group was already operating. Customer service, account management, product development and all support activities continue to operate at normal or near-normal levels. Customer procurements and project work have been affected by COVID-19; some have accelerated, and others have been delayed and this knowledge has informed our forecasts referred to below.

In coming to a conclusion in their review that the Company remains a going concern, the directors have reviewed "worse case" financial cash forecasts for the Group headed by Servelec Topco Limited, the highest consolidating entity for the company, to 30 August 2022 to understand the cash requirements of the business, alongside those of the Company itself. Such forecasts exclude management's estimations of cost savings that management would consider in their "base case" forecast.

These forecasts include all information available to the directors to the date of signing these financial statements. The Company relies on support from the wider group and therefore in assessing going concern, the Directors have assessed the potential cash flow needs of the Company compared to the group's financial position and have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future, thus they continue to adopt the going concern basis in preparing the financial statements. However, the directors have concluded that a material uncertainty exists in relation to the potential sale of the group.

During 2018, the Group took out a loan with Arcmont Asset Management (formerly Blue Bay Asset Management) consisting of a £90,500,000 debt facility which was fully drawn at the year end and has a termination date of 31 May 2025. Interest is charged based on Libor plus an initial margin of 5.75% but is subject to change depending on performance. This loan has a quarterly covenant for Adjusted Leverage, being the ratio of total net debt to adjusted EBITDA. Adjusted Leverage reduces each quarter from 8.13x at December 2020 to 6.43x by June 2022. The margin of 5.75% increases to 6.00% if Adjusted Leverage is above 6.0x and reduces if Adjusted Leverage falls below 5.25x, with a minimum of 4.75% at 3.5x or lower.

Notes to the financial statements (continued)

At 31 December 2020

The Group also has a £20,000,000 debt facility with Arcmont Asset Management (formerly Blue Bay Asset Management) that is ring-fenced for future acquisition spend which was undrawn at the year-end date and which has a termination date of 31 May 2024. The margin of 5.75% increases to 6.00% if Adjusted Leverage is above 6.0x and reduces if Adjusted Leverage falls below 5.25x, with a minimum of 4.75% at 3.5x or lower.

In addition, the Group took out a £10,000,000 revolving credit facility with Lloyds Bank plc which was drawn by £3,000,000 at the year-end date and has a termination date of 31 March 2024. Interest is charged based on Libor plus a margin of 2.50%. The margin of 2.50% reduces if Adjusted Leverage falls below 5.25x, with a minimum of 1.50% at 3.5x or lower.

During 2018, the Group also issued unsecured loan notes and at 31st December 2020 the value amounted to £148,061,000. Interest is charged at an annual rate of 12% which is rolled up quarterly.

The base case and worse case scenario which the Group is pursuing continues to predict growth in revenue and stable profit through 2021 and 2022, together with positive cash flow generation:

The base case scenario which the Group is pursuing continues to predict growth through 2021 and into 2022, together with positive cash flow generation. This base case scenario was reviewed in detail by the Board in December 2020 and performance is being monitored against it each month. The Group is forecast to maintain a strong cash balance of c.£4m - £5m each month with a further £7m of immediately available, undrawn lending facilities as at 31st December 2020. There continue to be no signs of deterioration in the quality or collectability of debtors.

Forecasts have been prepared to 30 August 2022 including a sensitivity analysis which includes a worse-case scenario business reduction due to COVID-19. Under this scenario, one-third of non-recurring revenues (c10% of income) are assumed to cease for six months from July 2021 to December 2021 and no cost reductions take place. Under these assumptions, the Group continues to satisfy all banking covenants, with the tightest covenant headroom of £1.9m EBITDA at December 2021. Headroom significantly increases in subsequent months. Also under this scenario, the Group's peak net cumulative cash outflow of £(3.9)m is at the end of March 2022, but at no point prior to June 2022 is drawdown required from the £10m available but undrawn overdraft facilities. The Directors have considered the need for further downside forecasts and performed a review of mitigating actions available to be taken if required. The Board considers that based on current trading, which is above the COVID-19 scenario, a scenario breaching any covenants, or not having sufficient liquidity, is seen as remote.

No covenant breaches have occurred during the reporting period or during the period since the balance sheet date.

The directors have obtained a letter confirming Servelec Topco Limited's financial support for at least 12 months following the date of the annual report and financial statements. By review of the aforementioned forecasts, the directors have concluded that the support confirmed by Servelec Topco Limited is sufficient to adopt the going concern basis of accounting in preparing the Annual Financial Statements. The financial statements do not include any adjustments that would result if the going concern basis were not appropriate. However, due to the potential sale of the Servelec Topco Limited group, the directors are of the opinion that there is a material uncertainty which may cast significant doubt about the intentions of future management including the amount of support, if any the company will receive and therefore of the company's ability to continue as a going concern within one year from the date of signing these financial statements meaning that the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Notes to the financial statements (continued)

At 31 December 2020

2. Summary of significant accounting policies (continued)

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Revenue is recognised in accordance with IFRS15, when control of a product or service is transferred from the company to a customer in respect of a product or service.

Rendering of services

Revenue from the rendering of services (including but not limited to project management and software installation) is recognised with reference to the input method of total expected contract costs. Revenue on short-term projects is recognised once the service has been fully delivered to the client.

Hosting and support services

Revenue from the provision of hosting and support services is spread evenly over the term of the contract with the customer.

Long-term contracts

In the case of long-term contracts, revenue reflects the value of contract activity during the year applying the input method of costs incurred and total expected contract costs. Long-term contracts are valued at cost plus attributable profit less foreseeable losses. The value of long-term contracts is accounted for within revenue and the excess of this value over payments received on account is included in receivables. Payments received on account in excess of this value are included in payables.

Licence income

Term licence income for the use of proprietary software is spread evenly over the initial term of the licence.

Foreign currency

Functional and presentation currency

The company's financial statements are presented in Sterling, which is also the parent company's functional currency. The company determines the functional currency and items included in the financial statements are measured using that functional currency. The functional currency is the currency of the primary economic environment in which the company operates.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to the financial statements (continued)

At 31 December 2020

2. Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

Depreciation is calculated to write down the cost of the assets over the estimated useful lives on the following bases:

- Plant, machinery, fixtures and fittings 25% per annum
- Leasehold property Life of the lease

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at the end of each reporting period and adjusted prospectively, if appropriate. The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. An item of property, plant and equipment and any significant part is derecognised upon disposal or where no future economic benefits are expected to arise from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

Group loans

Balances with group counterparties are agreed periodically with the corresponding counterparty and recorded at cost less any provision for impairment. The Company measures financial assets at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment.

Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profit represents the contributions payable to the scheme in respect of the financial year.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank, short-term deposits held at call with banks and other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. In the balance sheet, bank overdrafts are shown as borrowings in current liabilities.

Interest

Interest is recognised in the Income Statement in the period in which it is incurred.

Notes to the financial statements (continued)

At 31 December 2020

2. Summary of significant accounting policies (continued)

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are present as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Critical accounting judgements and key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the company. Such changes are reflected in the assumptions when they occur.

The preparation of the financial statements in accordance with FRS 101 requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Key sources of estimation uncertainty

Recognition of project income

As set out in the revenue recognition accounting policy earlier in this note, revenue from long-term project contracts is recognised by reference to the input method under IFRS15. This incorporates the costs to complete on contracts, which are based on management estimates and are reviewed on a monthly basis for appropriateness. Changes to estimates can result in variations in the input method calculations for a contract and therefore the amounts recognised in the income statement.

Critical accounting judgements

None.

Notes to the financial statements (continued)

At 31 December 2020

3. Revenue

Revenue represents amounts (excluding value added tax) derived from the provision of services including long-term contracts to customers during the year.

Revenue and profit are wholly attributable to the United Kingdom.

The directors are of the opinion that the company's activities comprise a single class of business.

4. Operating profit / (loss)

This is stated after charging:

	2020 £'000	2019 £'000
Auditor's remuneration – audit services	6	7
Depreciation of owned fixed assets	54	73
Research and development expenditure	417	-

The costs of auditor's remuneration were borne by the immediate parent company, Servelec Limited and form part of the management services charge levied by Servelec Limited to the Company.

5. Directors' emoluments

S L Belfer and I F Crichton emoluments are borne by Servelec Limited. They are also directors of Servelec Midco Limited where their emoluments are disclosed. The Company pays a management charge to Servelec Limited which includes provision for their services. They did not receive any emoluments for services to the Company

6. Staff costs

	2020 £'000	2019 £'000
Wages and salaries	1,163	1,362
Social security costs	118	156
Other pension costs	45	42
	1,326	1,560

The monthly average number of employees during the year was as follows:

	No.	No.
Production staff	25	29
Distribution staff	3	4
Administrative staff	6	5
	34	38

During the year staff costs of £257,000 (2019 - £nil) for a monthly average of 6 (2019 – nil) employees were recharged from the above numbers to Servelec Limited, a Group company.

Notes to the financial statements (continued)

At 31 December 2020

7. Interest payable

	2020 £'000	2019 £'000
Bank and loan interest	5	6
	<u>5</u>	<u>6</u>

8. Tax

(a) Tax charged in the income statement

The tax charge (2019: credit) is made up as follows:

	2020 £'000	2019 £'000
<i>Current Income Tax</i>		
UK corporation tax	88	(19)
Amounts over/(under) provided in previous periods	1	(46)
Total income tax charge/(credit)	<u>89</u>	<u>(65)</u>
<i>Deferred tax:</i>		
Origination and reversal of timing differences	(3)	(10)
Adjustment in respect of previous periods	(29)	(46)
Effect of changes in tax rates	(5)	2
Total deferred tax credit	<u>(37)</u>	<u>(54)</u>
Tax expense/(credit) in the income statement	<u>52</u>	<u>(119)</u>

(b) Reconciliation of income tax (credit) / charge

The income tax in the income statement for the year is lower than (2019: lower than) the standard rate of corporation tax in the UK of 19.00%. The differences are reconciled below:

	2020 £'000	2019 £'000
Profit/(loss) before tax	429	(145)
Tax on profit/(loss) before taxation at 19.0% (2018: 19.0%).	82	(28)
<i>Effects of:</i>		
Adjustments in respect of prior years	(28)	(91)
Income not taxable	(1)	-
Expenses not deductible for tax	5	-
Tax rate changes	(5)	-
Other	(1)	-
Tax charge/(credit) for the year	<u>52</u>	<u>(119)</u>

Notes to the financial statements (continued)

At 31 December 2020

8. Tax (continued)

(c) Deferred tax

Deferred tax included in the balance sheet is as follows:

	2020 £'000	2019 £'000
Accelerated capital allowances	28	20
Losses	30	-
Asset at the end of year/period	58	20

The Finance Act 2021 issued on 11 March 2021 increases the corporation tax rate to 25% from 1 April 2023. As the Finance Act was issued post the year end, future changes in tax rates have not been applied in the financial statements and the corporate tax rate applied in the financial statements is 19% for both 2020 and 2019.

9. Tangible fixed assets

	Fixtures, fittings, plant and Machinery £'000
Cost:	
At 31 December 2019	654
Additions	6
Disposals	(252)
At 31 December 2020	408
Depreciation:	
At 31 December 2019	496
Charged during the year	55
Disposals	(252)
At 31 December 2020	299
NBV at 31 December 2020	109
NBV at 31 December 2019	158

Notes to the financial statements (continued)

At 31 December 2020

10. Debtors

	2020 £'000	2019 £'000
Trade debtors	130	42
Amounts owed by parent undertakings	1,025	690
Amounts recoverable on contracts	90	56
Prepayments and accrued income	49	44
Other debtors	6	6
Corporation tax	-	38
	1,300	876

Amounts owed by group undertakings are unsecured, repayable on demand and shall bear interest at a rate agreed between parties from time to time. No interest was charged during the period.

11. Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Payments received on account	679	834
Hire purchase contracts	84	86
Trade creditors	10	8
Amounts owed to fellow group undertakings	163	157
Other taxation and social security	305	81
Accruals and deferred income	17	11
	1,258	1,177

Amounts owed to group undertakings are repayable on demand and shall bear interest at a rate agreed between parties from time to time. Repayment is not anticipated within one year and no interest was charged during the period.

Other taxes and social security at 31st December 2020 includes an amount of £0.2m in VAT permitted to be deferred under the UK Government COVID-19 measures and £30,000 of similarly deferred other taxes and social security. The other taxes and social security were paid in April 2021 and VAT is payable in 11 equal monthly instalments which started in April 2021.

Notes to the financial statements (continued)

At 31 December 2020

12. Share capital and reserves

a) Issued share capital

		2020	2019
<i>Allotted, called up and fully paid</i>	<i>No.</i>	<i>£'000</i>	<i>£'000</i>
Ordinary A shares of £1 each	65	-	-

b) Retained earnings

Retained earnings represent accumulated profits less dividends paid.

13. Related party transactions

The Company has taken advantage of the exemption of FRS101 IAS 24 Related Party Disclosures not to disclose related party transactions with group companies as all subsidiaries are wholly owned either directly or indirectly by Servelec Topco Limited.

As stated in Note 14 the immediate parent undertaking is Servelec Youth Services Holdings Limited, a company registered in England and Wales and the ultimate controlling party is Montagu Private Equity LLP.

14. Ultimate parent undertaking

The immediate parent undertaking is Servelec Youth Services Holdings Limited.

The smallest entity in which these accounts are consolidated is Servelec Midco Limited, a Company registered in England and Wales. A copy of the consolidated financial statements of Servelec Midco Limited can be obtained by contacting the registered office, The Straddle, Wharf Street, Sheffield, S2 5SY.

The largest entity in which these accounts are consolidated and the ultimate parent company is Servelec Topco Limited, a Company registered in England and Wales. A copy of the consolidated financial statements of Servelec Topco Limited can be obtained by contacting the registered office, The Straddle, Wharf Street, Sheffield, S2 5SY

The ultimate controlling party is Montagu Private Equity LLP, a Limited Liability Partnership registered in England and Wales, who manage the funds owning the investment in Servelec Topco Limited.

15. Subsequent events

The Group which the Company is involved in headed by Servelec Topco is in an active sales process and may be sold in the short term. This creates a material uncertainty around going concern which is considered in note 2 to the financial statements.