

Registration number: 05422373

# Priority Properties North West Limited

## Annual Report and Financial Statements

for the Year Ended 31 December 2019

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# Priority Properties North West Limited

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# Priority Properties North West Limited

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## Company Information

**Directors** G R Conneely  
H B Chapple

**Company secretary** Serco Corporate Services Limited

**Registration number** 05422373

**Registered office** Serco House  
16 Bartley Wood Business Park  
Bartley Way  
Hook  
Hampshire  
United Kingdom  
RG27 9UY

**Auditors** KPMG LLP  
15 Canada Square  
London  
E14 5GL

# Priority Properties North West Limited

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## Strategic Report

for the Year Ended 31 December 2019

The directors present their Strategic Report for the year ended 31 December 2019.

### Principal activity

The principal activity of the Company is to manage the provision of short and long-term rental accommodation, for Home Office immigration detainees, throughout the North West of England. In 2013, Serco Limited, another Group company, became the sole customer of the Company.

### Business review

The results of the Company are set out on page 16. The financial performance is driven by demand on the number of properties managed by the Company which has increased to 3,009 at 31 December 2019 from 2,986 units at 31 December 2018. The turnover has decreased from £38,676k in 2018 to £32,425k. The Company has not paid a dividend during the year ended 31 December 2019 (2018: £nil).

On 8 January 2019, the UK Government announced that Serco Limited had been successful in its bid to deliver the Asylum Accommodation and Support Services Contract ("AASC") in the North West of England. The new contract modifies the requirements of the previous COMPASS contract between Serco and the UK Government to deliver similar operational services in the same region, but means that the Company's operating activities are unlikely to materially change over the foreseeable future.

The directors consider the performance of the Company to be satisfactory and expect this to continue in 2020. Future outlook for the Company remains stable with the number of units under management by the end of 2020 forecasted to be consistent with 2019.

### Principal risks and uncertainties

The Company's principal risk is the ability to lease its properties to another Group company, Serco Limited. Serco Limited has a 10 year contract with the Home Office Visas and Immigration department which commenced in August 2020 to deliver asylum support services in the North West and Midland East regions in England. Serco Limited is reliant on the Company for the provision of accommodation to deliver the contract in the North West region and therefore the risk to ongoing revenue is limited.

The Company's principal financial instruments are amounts receivable from other group companies. The directors do not consider that the Company is exposed to significant interest rate or liquidity risk because the receivables are due from Serco Group plc, which is indirectly reliant on the Company for the provision of asylum support services and Serco Group plc has provided a letter of support to the Company. Further discussion of the financial risk management is included in the consolidated Annual Report and Accounts of Serco Group plc.

Risk management for all Serco Group entities is undertaken by Serco Group plc. The Group risk register is updated at least quarterly, reviewed six-monthly by the Risk Oversight Group and discussed at quarterly board meetings. Risk management is fundamental to how the business is managed. Risk management policies, systems and processes form part of the Serco Management System (SMS). Certain risks identified at Group level also apply to the Company and procedures are put in place within the Company to manage these risks with guidance from the Risk Oversight Group.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, thus the going concern basis of accounting continues to be adopted in preparing the financial statements.

# Priority Properties North West Limited

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## Strategic Report

for the Year Ended 31 December 2019 (continued)

### ***Risks associated with the coronavirus outbreak***

Coronavirus (COVID-19) was originally identified as a disease in China late in 2019. Following global transmission of the disease early in 2020, Europe and other continents began identifying cases which continued to rise in number such that on 12 March 2020 the World Health Organisation characterised the outbreak of COVID-19 as a global pandemic. As the impact of COVID-19 arose subsequent to the Company's year-end it is considered to be a non-adjusting post balance sheet event. As at the date of signing these accounts, the impact to the Company has been limited, predominantly due to the critical nature of services which the Company's customer, Serco Limited, provides to the UK Government.

### ***Brexit***

The Company makes specific reference below to the UK's proposed withdrawal from the European Union ("Brexit") and the current assessment of its impact on the Company. The UK formally left the European Union on 31 January 2020. The transition period is expected to end on 31 December 2020 and the current shape of the economic and political partnership between the UK and EU is not known. Notwithstanding this, the Company's direct exposure to Brexit is small as the Company, and the Group of which it is a subsidiary of, neither exports nor imports to any significant degree; the Group of which the Company is a subsidiary of has a business in continental Europe which is conducted through long-established local subsidiaries; and employs relatively few continental European citizens in the UK. The Group continues to monitor the potential implications of the UK's withdrawal from the European Union and its impact and continues to believe that Brexit will not impact the Group to a material extent. This is based on regular assessment and review of the UK and EU contracts, supply chain, workforce requirements and regulatory obligations. By operating many contracts across diverse geographies outside of Europe, the Group has a natural hedge from material Brexit risks that may arise.

## **Section 172 (1) Statement**

### **Board Engagement with Stakeholders**

The Board is committed to enhancing engagement with all our stakeholders, and as well as acting in the best interests of the Company, the Board looks to the activities undertaken by the Board of Directors of Serco Group plc (the 'Serco Group plc Board'), the Company's ultimate parent company, in engaging with the Group's wider stakeholders. In addition to the methods of engagement described below, the interests of the Company's stakeholder groups are considered for the Serco Group as a whole by the Serco Group plc Board through a combination of:

- Regular reports and presentations at scheduled Serco Group plc Board and Committee meetings, including operational reports presented by the Chief Executive and updates from senior management on health and safety, ethics and compliance, people matters (including employee engagement), and investor feedback.
- A rolling agenda of matters to be considered by the Serco Group plc Board and Committees throughout the year, including a strategy review which considers the purpose of the Company and strategy to be followed by the Group, which is supported by a budget for the following year and a medium-term financial plan.
- Formal consideration of large bids and other matters, including any factors which are relevant to major decisions taken by the Serco Group plc Board through the year in line with the regularly reviewed Delegation of Authority and Terms of Reference for each Serco Group plc Board Committee.
- The risk management process and other routine agenda items of the Serco Group plc Audit Committee, Corporate Responsibility Committee, Group Risk Committee and Remuneration Committee, as described in the Serco Group plc 2019 Annual Report and Accounts.

# Priority Properties North West Limited

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## Strategic Report

for the Year Ended 31 December 2019 (continued)

As with other large and complex companies, the Directors of the Company fulfil their duties partly through a governance framework that delegates day-to-day decision-making. The Serco Group plc Board recognises that such delegation needs to be much more than simple financial authorities. Presented in the Serco Group plc 2019 Annual Report and Accounts is a summary of the governance structure which covers the values and behaviours expected of our employees; the standards they must adhere to; how the Group as a whole engages with stakeholders; and how the Serco Group plc Board looks to ensure that we have a robust system of control and assurance processes (see pages 76 to 95 of the Serco Group plc 2019 Annual Report and Accounts).

The Group's Corporate Responsibility (CR) framework, of which the Company forms part, is structured around our key stakeholders and progress and performance in delivering the Group's CR agenda is set out in the CR section of Serco Group plc 2019 Annual Report and Accounts. The following disclosure describes how the Board has had regard to the matters set out in section 172(1) (a) to (f), and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

### Stakeholder group - Our owners

Engagement with and receiving the support of our ultimate parent company and its owners is a key factor in achieving our ambitions. We seek long-term relationships based on transparency, honesty and clarity - all of which are critical for building trust.

### Stakeholder concerns

The Serco Group plc shareholders are concerned with a broad range of issues, including operational and financial performance, developments in our markets for public services, the execution and delivery of our strategy, the sustainability of our business, and the impact Serco has on the communities we serve and the environment in which we operate. Performance developments are comprehensively assessed in the Strategic Report of the Serco Group plc 2019 Annual Report and Accounts more widely, including the Key Performance Indicators section and the broader discussion and analysis.

### How the Board engages with stakeholders

- The financial results of the components making up the Company are reviewed according to delegated authorities on a monthly basis.
- The Group Chief Executive and Group Chief Financial Officer and other members of the Serco senior management team, including directors of the Company, attend monthly divisional performance reviews and divisional executive management team meetings to discuss financial and operational developments in the business.
- The Investor Relations team provide regular reports to the Serco Group plc Board, which includes activities within the Company.

### Key topics of engagement

- The Company's performance against the strategy of the wider Group.
- Developments in our customer markets and the competitive landscape.
- Opportunities for acquisitions.
- Capital allocation considerations.

# Priority Properties North West Limited

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## Strategic Report

for the Year Ended 31 December 2019 (continued)

### How stakeholder interests influence Board discussions and principal decisions

- The Serco Group plc shareholders' opinions were, and continue to be, taken into consideration by the Serco Group plc when developing and reviewing the Group's strategy and performance and these guiding principles are reflected in the strategy of the Company.

### Stakeholder group - Our people

Our people are at the heart of our business and, as a Company, we are the sum of the efforts, energy and values of our people, who are critical to achieving our mission of improving the lives of citizens and service users around the world.

### *Stakeholder concerns*

Through the annual Group-wide Viewpoint survey and other dialogue with our colleagues, we know that our people feel passionately about the place they work and the services that they deliver. As you would expect for a business as diverse as that of the Group, our colleagues express their opinions across a very wide range of areas. However, there are currently three main areas of concern raised by colleagues on a regular basis: connection and collaboration within Serco, individual recognition, and having a voice in the decision making within the business. The Group's People Report, available on our website, sets out the work being undertaken to make Serco a better, safer and more inclusive place to build a career.

### How the Board engages with stakeholders

- Feedback is sought from our people annually through the Group-wide engagement survey, Viewpoint, supplemented with more frequent 'pulse' surveying in selected parts of the business.
- Kirsty Bashforth, Non-Executive Director of Serco Group plc, was appointed as the Group's lead representative on the Board for Employee Voice and reports to the Serco Group plc Board the feedback received from our people at engagement activities attended throughout the year as part of the Employee Voice and Colleague ConneXions initiatives.
- The Serco Inclusion Hub was introduced in across the Group during the year to provide a platform for our employee networks, Serco Inspire, Serco Unlimited, Serco Embrace and In@Serco, to better coordinate and collaborate. Regular reports on the activities of each network are provided to the Serco Group plc Board through the regular People reports provided by the Group HR Director.
- Operational people matters are considered at monthly divisional executive management team meetings attended by the directors of the Company during the year.
- Members of the Company's Board and the Executive Directors of Serco Group plc meet with employees during contract visits and with senior management monthly at divisional performance review and divisional executive management team meetings.

### Key topics of engagement

- Global focus areas for diversity and inclusion: Gender, Disability, Multicultural and LGBT+.
- Matters impacting employees on the frontline of our contracts.
- Talent and leadership succession.

# Priority Properties North West Limited

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## Strategic Report

for the Year Ended 31 December 2019 (continued)

- Review of pension provisions.
- Feedback received from employees through the Viewpoint survey and the actions proposed by management in response.

### **How stakeholder interests influence Board discussions and principal decisions**

- The Serco Group plc Board considered the impact to employees of the Company of restructuring activities that have taken place during the year, such as the IT and Procurement Transformation programmes, the development opportunities that potential acquisitions and contract bids would afford our employees, and the impact on the Company's ability to attract and retain staff.
- Discussions of the Company Board and the Serco Group plc Board have been better informed due to the deeper understanding of the work undertaken by our employees, which has been developed during contract visits undertaken in each Division, at these contract visits and events, the directors meet and hear directly from Serco employees on a variety of topics.

### **Stakeholder group - Our customers**

As an international B2G business our customers are many and varied, consisting of local, regional, national governments and agencies, those receiving our services at a contract level versus those procuring the services, and those who use the services we provide on behalf of our customers. Our business is built on our ability to retain existing and win new customers. As such, understanding, engaging with, and responding to customer needs is a critical priority.

### **Stakeholder concerns**

While the demands vary significantly, at the most basic level our customers seek to procure from us quality public service delivery, at a price they feel represents value for money. This requires us to have both deep understanding of their sector specific needs, as well as technical and commercial nous as to how to deliver public services most efficiently. In addition, there are significant regional and sector specific priorities, that vary enormously and also change over time. For example, the increasing demand for the employment of nationals in the Middle East and the increasing drive for social value outcomes in the UK. It is critical that we maintain a detailed appreciation of these so that we can respond accordingly.

### **How the Board engages with stakeholders**

- The Group Chief Executive and Group Chief Financial Officer meet directly with different customers across all our regions on a regular basis.
- Members of the Serco Group plc Board regularly, and throughout the year, visit our different international operations and contracts where they engage directly with customers.
- Our Group-wide 'Operational Report' gives updates and feedback on our markets, customers, and operational performance to the Serco Group plc Board at every meeting. The Serco Group plc Board also receive regular updates from executive management from each Division on the same. Other colleagues also present regularly on operations, customer satisfaction and Business Development.

# Priority Properties North West Limited

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## Strategic Report

for the Year Ended 31 December 2019 (continued)

- The annual Strategy Planning process is a bottom-up exercise including every part of the business, taking into account both existing and future customer needs and trends over the next 5 years. This process culminates in a day-long Group-wide Board Strategy Day during which the Serco Group plc Board debate current and future customer requirements at length.
- Attendance by the Serco Group plc directors at Serco-led and other industry events, including events run by the Serco Institute on public policy priorities such as Social Value, which customers both attend and speak at.

### Key topics of engagement

- Customer and Serco strategy and operational performance.
- The procurement processes employed by key customers, such as the Outsourcing Playbook in the UK.
- New and future customer requirements and trends, such as focus on environmental, social, and governance matters.
- Specific business development opportunities.
- The overall performance of the sector.
- Serco innovations in response to customer trends and needs.

### How stakeholder interests influence Board discussions and principal decisions

- The Serco Group plc Board deployed their customer insight to positive effect in decisions relating to our submission of our largest bids over the year and the nature of our proposals, which they scrutinise.
- Following customer engagement and insight gathered from the annual strategy process, the Serco Group plc Board provided guidance on our strategy, strategic decisions, as well as resource allocation, and prioritisation across our markets and customers in 2019-20.
- The Serco Group plc Board continued to drive the Executive Directors of Serco Group plc and in turn the directors of the Company to act on new customer trends and priorities as a result of engagement in 2019. For example, our plans on sustainability, social value, and voluntary, community, and social enterprise organisations.

### Stakeholder group - Our suppliers

Suppliers have an important role to play in Serco being a superb provider of public services. We aim to build honest, respectful and transparent relationships with suppliers who follow regulatory compliance and share our ethical standards and commitment to sustainability throughout the supply chain.

### Stakeholder concerns

Our suppliers are concerned with the ease of doing business with Serco, responsible business practices, conduct and ethics, driving innovation, building long-term relationships, fair business terms, and receiving prompt payment.

# Priority Properties North West Limited

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## Strategic Report

for the Year Ended 31 December 2019 (continued)

### How the Board engages with stakeholders

- Direct engagement via the Group Chief Executive and Group Chief Financial Officer.
- Regular reports to the Serco Group plc Board from senior management and discussion at monthly divisional performance review and divisional executive management team meetings attended by the directors of the Company concerning operational matters on specific business units.
- Regular reports to the Serco Group plc Board from the Group Director, Enterprise Risk, the Group Director, Business Compliance and Ethics, and the Director of Procurement concerning management and assessment of suppliers.
- Regular reports from individual business units, including creditor payable days.

### Key topics of engagement

- Due diligence processes.
- Supplier relationships.
- Supply chain management.
- Fair payment practices.

### How stakeholder interests influence Board discussions and principal decisions

- The management of suppliers has been discussed at the Serco Group plc Board level and the Procurement Transformation programme was endorsed by the Serco Group plc Board in recognition of the need to improve supplier management processes.
- Key risks in relation to the supply chain were considered by the Serco Group plc Board when approving the approach to due diligence of suppliers, which was revised during the year.
- Feedback on the financial performance of key suppliers was considered periodically during the year, with performance being discussed at the Group Audit and Group Risk Committees, and feedback provided to the Serco Group plc Board concerning the discussions.

### Stakeholder group - Our communities and environment

Our communities comprise those living and working in close geographic proximity to our operations, those for whom we provide services on behalf of our government customers, and those who represent the needs of our communities, including charities and local government. Operating amongst and on behalf of our communities, we strive to maintain a deep understanding of the complex social challenges that impact them, whilst recognising our responsibility to contribute to the sustainability and well-being of society and the economy wherever we operate. We are also committed to limiting the impact of our operations on the environment through more sustainable business practices for our customers and stakeholders, including our communities.

### Stakeholder concerns

Our communities are primarily concerned with the impact of our operations on the local society, the economy, and the environment - locally and beyond - and that we operate and conduct our business as a respectful and responsible neighbour.

# Priority Properties North West Limited

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## Strategic Report

for the Year Ended 31 December 2019 (continued)

### How the Board engages with stakeholders

- The Serco Group plc Board receives regular operational reports from the Group Chief Executive.
- Regular reports to the Serco Group plc Board from senior management and discussion at monthly divisional performance review and divisional executive management team meetings attended by the directors of the Company concerning operational matters on specific business units.
- Meetings with users of the services we provide on behalf of our customers during contract visits by the Serco Group plc Board.
- Attendance by the Serco Group plc Board at Serco Institute events.

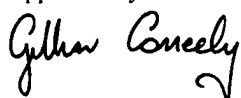
### Key topics of engagement

- Further information on our engagement concerning Corporate Responsibility (CR) matters is provided in the CR Report within the Group's Annual Report.
- Political environment.
- Impact to the community of pursuing business development opportunities.

### How stakeholder interests influence Board discussions and principal decisions

- The Serco Group plc Board gave careful consideration was to issues under our immigration contracts in the UK, including asylum seekers who are housed under the Home Office COMPASS contract and the situation of managing those individuals that overstay beyond the permitted terms of their asylum application.
- The Serco Group plc Board had regular discussion during the year on the issues in prisons under our justice contracts in the UK, including physical assaults, violence and impact on communities.
- Meeting with users of the services we provide on behalf of our customers during contract visits by the directors of the Company and the directors of Serco Group plc facilitates a deeper discussion of operational matters. In considering business development proposals from senior management, this also enables the directors to better assess service user needs and the ability to provide the services under the contract to the standards expected and identify any gaps in capabilities.

Approved by the Board on 24 August 2020 and signed by:



.....  
G R Conneely  
Director

# Priority Properties North West Limited

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## Directors' Report

for the Year Ended 31 December 2019

The directors present their report and the financial statements for the year ended 31 December 2019.

### Directors of the Company

The directors who held office during the year and subsequently to the date of this report, unless otherwise stated, were as follows:

J Rogers (resigned 31 March 2020)

G R Conneely

The following director was appointed after the year end:

H B Chapple (appointed 1 June 2020)

The directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

### Results and dividend

The profit for the financial year, after tax is £2,650k (2018: £2,911k).

The directors do not recommend the payment of a dividend (2018: £Nil).

### Political contribution

The Company made no political donations or incurred any political expenditure during the year (2018: £nil).

### Going concern

The Company has net current assets of £101,347k as at 31 December 2019 (2018: £17,291k) and a profit for the year that ended of £2,650k (2018: £2,911k). The Company's financial forecasts for the period of going concern, indicate that the Company has sufficient financial resources to meet its financial obligations as they fall due during the period of assessment, considered to be twelve months from the signing date of these financial statements. In light of the COVID-19 pandemic, the Company has considered the potential impact on the financial forecasts which indicate that it will continue to have sufficient resources to meet its financial obligations as they fall due, however given the uncertainties in respect of the pandemic, and the reliance on Serco Limited, which is indirectly owned by Serco Group plc, for the provision of asylum seekers' accommodation, and the importance of the intercompany receivable, the Company has obtained a letter of support from the Group's ultimate parent, Serco Group plc.

Serco Group plc has indicated its intention to continue to make available such funds as are needed by the Company's relevant subsidiaries for the period of this assessment.

The directors of the Company have been made aware of the Going Concern assessment which has been performed in respect of the Group. The directors believe they are able to place reliance on this letter of support for the following reasons.

Most of the Group's contracts deliver critical services to Governments and the delivery requirements of these have not been impacted by COVID-19. However, a small number of contracts within the Group have been impacted by; lower volumes within its UK Transport business; higher levels of absenteeism and increased service performance in its UK Health contracts; closure of operations including leisure centres in the UK and the Driver Examination Services contract in Canada; and delays in project work such as the delivery of the Antarctic Supply Research Vessel in Australia. The negative impact from these contracts has been offset to some extent by additional services being delivered to assist Governments with their management and recovery from the COVID-19 pandemic, and financial support from its customers. It is evident that the most significant impact on the Group's operations has been within the UK.

# Priority Properties North West Limited

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## Directors' Report

for the Year Ended 31 December 2019 (continued)

In order to model severe but plausible scenarios to stress test the potential impact of COVID-19 on the Group's forecast, the Group have considered, amongst other scenarios, lower passenger volumes on the Group's train operating contracts, higher costs within the Health portfolio and prolonged closure of leisure centres in the UK, without mitigations such as the Coronavirus Job Retention Scheme and Emergency Measures Agreements within the rail contracts being in place. The Group has reviewed the impact on overseas operations and considered the impact of a second wave in Australia which may impact the ability to deliver operations within contact centres, or drive higher absenteeism in the delivery of its larger operations such as the Fiona Stanley Hospital or Department of Immigration and Border Protection contracts.

After considering these severe but plausible scenarios and with the mitigations available to the Group, the forecasts indicate sufficient capacity in the Group's financing facilities and associated covenants. In order to satisfy themselves that they have adequate resources for the future, the Group has reviewed its existing debt levels, the committed funding and liquidity positions under its debt covenants, and its ability to generate cash from trading activities and working capital requirements. The Group's current principal debt facilities as at 30 June 2020 comprised a £250m revolving credit facility, a 3-year term acquisition facility of £45m and £223m of US private placement notes. As at 30 June 2020, the Group had £518m of committed credit facilities and committed headroom of £366m. In undertaking this review the Group has considered the business plans which provide financial projections for the foreseeable future. For the purposes of this review for the Group, the assessment period is considered that to be the period ending 31 December 2021.

As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these financial statements, they have no reason to believe that it will not do so. Consequently, the directors are confident that the Company's subsidiaries will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

### Post balance sheet events

COVID-19 was originally identified as a disease in China late in 2019. Following global transmission of the disease early in 2020, Europe and other continents began identifying cases which continued to rise in number such that on 12 March 2020 the World Health Organisation characterised the outbreak of COVID-19 as a global pandemic. As the impact of COVID-19 arose subsequent to the Company's year-end it is considered to be a non-adjusting post balance sheet event. Hence no amounts related to the impact of COVID-19 have been included in these financial statements, nor have any amendments been made to the carrying value of items on the Balance Sheet.

As at the date of signing these accounts, the impact to the Company has been limited, predominantly due to the critical nature of services which the Company's customer, Serco Limited, provides to the UK Government.

### Disclosure of information to the auditor

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

# Priority Properties North West Limited

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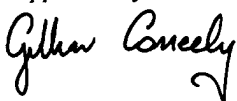
## Directors' Report

for the Year Ended 31 December 2019 (continued)

### Appointment of auditor

KPMG LLP, having indicated its willingness to continue in office, will be deemed to be reappointed as auditor under section 487(2) of the Companies Act 2006.

Approved by the Board on 24 August 2020 and signed by:



.....  
G R Conneely  
Director

## **Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements**

The directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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. The directors are responsible for such internal control as they determine what is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

# Priority Properties North West Limited

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## Independent Auditor's Report to the Members of Priority Properties North West Limited

### Opinion

We have audited the financial statements of Priority Properties North West Limited ('the Company') for the year ended 31 December 2019 which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity and the related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

### Strategic report and directors' report

The directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## Independent Auditor's Report to the Members of Priority Properties North West Limited (continued)

### Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

### Directors' responsibilities

As explained more fully in their statement set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### The purpose of our audit work and to whom we owe our responsibilities

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.



.....  
**Mark Wigglesworth (Senior Statutory Auditor)**  
**For and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL

Date: 24 August 2020

# Priority Properties North West Limited

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## Profit and Loss Account for the Year Ended 31 December 2019

	<i>Note</i>	<i>2019</i> <i>£ 000</i>	<i>2018</i> <i>£ 000</i>
<b>Turnover</b>	4	32,425	38,676
Cost of sales		<u>(29,170)</u>	<u>(35,832)</u>
<b>Gross profit</b>		3,255	2,844
Other operating income	5	99	57
Finance costs	6	<u>(694)</u>	<u>-</u>
<b>Profit before tax</b>		2,660	2,901
Tax on profit	10	<u>(10)</u>	<u>10</u>
<b>Profit for the year</b>		<u><u>2,650</u></u>	<u><u>2,911</u></u>

The above results were derived from continuing operations.

There were no items of other comprehensive income, and accordingly no statement of comprehensive income is shown.

The notes on pages 19 to 31 form an integral part of these financial statements.

# Priority Properties North West Limited

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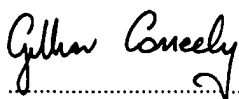
## Balance Sheet

as at 31 December 2019

Registration number: 05422373

	Note	2019 £ 000	2018 £ 000
<b>Current assets</b>			
Debtors	11	126,753	20,965
<b>Current Liabilities</b>			
Creditors: amounts falling due within one year	12	(25,388)	(3,656)
Provisions	13	<u>(18)</u>	<u>(18)</u>
<b>Total current liabilities</b>		<u>(25,406)</u>	<u>(3,674)</u>
<b>Net current assets</b>		<u>101,347</u>	<u>17,291</u>
<b>Total assets less current liabilities</b>		101,347	17,291
Lease obligations	12	<u>(81,406)</u>	<u>-</u>
<b>Net assets</b>		<u>19,941</u>	<u>17,291</u>
<b>Capital and reserves</b>			
Called up share capital	14	-	-
Profit and loss account		<u>19,941</u>	<u>17,291</u>
<b>Shareholders' funds</b>		<u>19,941</u>	<u>17,291</u>

These financial statements were approved by the Board on 24 August 2020 and signed on its behalf by:



G R Conneely  
Director

The notes on pages 19 to 31 form an integral part of these financial statements.

## Priority Properties North West Limited

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### Statement of Changes in Equity for the Year Ended 31 December 2019

	<i>Called up share capital £ 000</i>	<i>Profit and loss account £ 000</i>	<i>Total £ 000</i>
At 1 January 2018	-	14,380	14,380
Profit for the year	-	2,911	2,911
At 31 December 2018	-	17,291	17,291
At 1 January 2019	-	17,291	17,291
Profit for the year	-	2,650	2,650
At 31 December 2019	-	19,941	19,941

The notes on pages 19 to 31 form an integral part of these financial statements.

# Priority Properties North West Limited

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## Notes to the Financial Statements

for the Year Ended 31 December 2019

### 1 General information

The Company is a private company limited by share capital, incorporated and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic Report on page 2. The Company registration number is 05422373.

These financial statements are presented in pounds Sterling because that is the currency of the primary economic environment in which the Company operates.

The level of rounding is to the nearest thousand ('000) unless otherwise stated.

### 2 Accounting policies

#### ***Summary of significant accounting policies and key accounting estimates***

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### ***Basis of preparation***

The Company meets the definition of a qualifying entity under FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council. The financial statements have therefore 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 financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets, disclosures in respect of the compensation of Key Management Personnel and related party transactions. This is because the Company is included within the consolidated financial statements of Serco Group plc which are available from the address provided in note 15.

The financial statements have been prepared on the historical cost basis and on the going concern basis, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

#### ***New standards***

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2019.

# Priority Properties North West Limited

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## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 2 Accounting policies (continued)

#### *Adoption of new and revised standards*

##### **IFRS 16 Leases**

IFRS 16 Leases (effective 1 January 2019), specifies how to recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset is of a low value. Lessors continue to classify leases as operating or finance, with the IFRS 16 approach to lessor accounting remaining substantially unchanged from its predecessor, IAS 17.

Under the applicable transition rules a lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application, subject to the Company's application of the following expedients:

- No reassessment is required as to whether a contract is, or contains, a lease at the date of initial application.
- No reassessment is required for:
  - leases with a lease term end date within one year of the date of initial application; or
  - leases for low value assets, which the Company considers to be those with an initial cost value less than £5,000 except for circumstances where those assets form part of a bundle of leased assets accounted for as a single lease contract.
- The Company has adopted the modified retrospective transition approach and as such the valuation of the right of use asset at 1 January 2019 is calculated as if the lease had always existed and hence the net book value of the asset on 1 January 2019 is based on the assumption of straight line amortisation.
- The lease liability at 1 January 2019 is calculated as the present value of future payments in relation to the lease, discounted at the applicable incremental borrowing rate.

The impact for the Company of adopting IFRS 16 is as follows:

	<i>2019</i> <i>£ 000</i>
Retained earnings at 31 December 2018	(17,291)
Lease liability recognised	(7,880)
Right of use asset recognised, net book value	7,783
Right of use asset de-recognised on finance sub-lease to fellow Group company	(7,783)
Intercompany lease receivable recognised	7,880
Adjustment to retained earnings due to the implementation of IFRS 16	-
Retained earnings at 1 January 2019	<u>17,291</u>

# Priority Properties North West Limited

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## Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

### 2 Accounting policies (continued)

The impact of IFRS 16 on the Company's Profit and Loss Account is to increase finance costs and improve trading profit as lease costs are replaced with a lower depreciation charge.

In calculating the lease liability to be recognised on transition, the Company used a weighted average incremental borrowing rate on 1 January 2019 of 3.50%. Applying this weighted average incremental borrowing rate to the operating lease commitments recognised as at 31 December 2018 gives a liability of £8,423,000. This differs from the lease liability recognised as a result of transitioning to IFRS 16 for the following reasons:

Minimum lease payments under non-cancellable operating leases recognised in accordance with IAS 17 Leases as at 31 December 2018:

	£ 000
Within one year	4,521
Between one and five years	4,190
	<u>8,711</u>
Operating lease commitments discounted at the weighted average incremental borrowing rate	8,423
Less: leases ending within 12 months of the transition date to IFRS 16 covered by the practical expedient	<u>(543)</u>
Lease liability on transition to IFRS 16	<u>7,880</u>

The implementation of IFRS 16 Leases has required the Company to make a number of judgements and estimates. The key judgements applied relate to the likelihood of lease extension options being exercised, the certainty of the exercise of termination options and the identification of leases embedded within other contracts. The key estimates used in assessing the impact of adopting the new standard are the incremental borrowing rates applied in calculating the present value of future lease payments to identify the lease liability at 1 January 2019.

In addition to the areas where a financial impact has been identified as a result of adoption of IFRS 16 as identified above, there are certain accounting policies which are new or change existing policies applied by the Company and may have an impact on the future financial performance of the Company. The policies in these areas to be adopted by the Company are set out below:

- (i) Lease amendments: Where changes in a lease occur, this will trigger a reassessment of the lease liability. Changes in the lease liability will be recognised via an adjustment to the right of use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, any remaining amount of the remeasurement will be recognised in profit or loss.
- (ii) Lease incentives: Where a lease incentive is received prior to the commencement of a lease, the amount is offset against the right of use asset at inception. Where a lease includes a period or periods of reduced or free rentals, these are included in the calculation of the present value of the lease liability on inception.

# Priority Properties North West Limited

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## Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

### 2 Accounting policies (continued)

- (iii) Variable lease payments: Where a contract to lease an asset has a pricing mechanism that allows for changes after the commencement date, other than those that change simply due to the passage of time, it is considered to have variable lease payments. These payments will depend on an index or rate and are included in the calculated lease liability at the lease commencement date according to the rate or index as at that date.
- (iv) Sub-leases: Where a group entity leases an asset and this asset is subsequently leased to another entity, this is considered to be a sub-lease if the original head lease remains in place. In this instance the entity which has entered into the head lease is acting as both a lessee and a lessor simultaneously. As a result, the head lease is accounted for in accordance with the group's lease accounting policy. When acting as a lessor, there is a requirement to determine whether the sub-lease is an operating lease or a finance lease, with the accounting following this determination.
- (v) Separate lease and non-lease components: Lease contracts can often contain elements related to the use of an asset and elements that are unrelated, for example where a property lease also includes a charge for insurance or maintenance. The lease component and the associated non-lease component are accounted for as a single lease component.
- (vi) Lease terminations: Where a lease is terminated before the end of the lease term the right of use asset is disposed of with the carrying value being charged to the Profit and Loss Account whilst the lease liability is extinguished from the Balance Sheet resulting in a credit to the Profit and Loss Account. The net charge or credit to the income statement is added to any cost of exiting the lease to result in a profit or loss on lease termination.

#### **Going concern**

The Company has net current assets of £101,347k as at 31 December 2019 (2018: £17,291k) and a profit for the year that ended of £2,650k (2018: £2,911k). The Company's financial forecasts for the period of going concern, indicate that the Company has sufficient financial resources to meet its financial obligations as they fall due during the period of assessment, considered to be twelve months from the signing date of these financial statements. In light of the COVID-19 pandemic, the Company has considered the potential impact on the financial forecasts which indicate that it will continue to have sufficient resources to meet its financial obligations as they fall due, however given the uncertainties in respect of the pandemic, and the reliance on Serco Limited, which is indirectly owned by Serco Group plc, for the provision of asylum seekers' accommodation, and the importance of the intercompany receivable, the Company has obtained a letter of support from the Group's ultimate parent, Serco Group plc.

Serco Group plc has indicated its intention to continue to make available such funds as are needed by the Company's relevant subsidiaries for the period of this assessment.

The directors of the Company have been made aware of the Going Concern assessment which has been performed in respect of the Group. The directors believe they are able to place reliance on this letter of support for the following reasons.

# Priority Properties North West Limited

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## Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

### 2 Accounting policies (continued)

#### *Going concern (continued)*

Most of the Group's contracts deliver critical services to Governments and the delivery requirements of these have not been impacted by COVID-19. However, a small number of contracts within the Group have been impacted by; lower volumes within its UK Transport business; higher levels of absenteeism and increased service performance in its UK Health contracts; closure of operations including leisure centres in the UK and the Driver Examination Services contract in Canada; and delays in project work such as the delivery of the Antarctic Supply Research Vessel in Australia. The negative impact from these contracts has been offset to some extent by additional services being delivered to assist Governments with their management and recovery from the COVID-19 pandemic, and financial support from its customers. It is evident that the most significant impact on the Group's operations has been within the UK.

In order to model severe but plausible scenarios to stress test the potential impact of COVID-19 on the Group's forecast, the Group have considered, amongst other scenarios, lower passenger volumes on the Group's train operating contracts, higher costs within the Health portfolio and prolonged closure of leisure centres in the UK, without mitigations such as the Coronavirus Job Retention Scheme and Emergency Measures Agreements within the rail contracts being in place. The Group has reviewed the impact on overseas operations and considered the impact of a second wave in Australia which may impact the ability to deliver operations within contact centres, or drive higher absenteeism in the delivery of its larger operations such as the Fiona Stanley Hospital or Department of Immigration and Border Protection contracts.

After considering these severe but plausible scenarios and with the mitigations available to the Group, the forecasts indicate sufficient capacity in the Group's financing facilities and associated covenants. In order to satisfy themselves that they have adequate resources for the future, the Group has reviewed its existing debt levels, the committed funding and liquidity positions under its debt covenants, and its ability to generate cash from trading activities and working capital requirements. The Group's current principal debt facilities as at 30 June 2020 comprised a £250m revolving credit facility, a 3-year term acquisition facility of £45m and £223m of US private placement notes. As at 30 June 2020, the Group had £518m of committed credit facilities and committed headroom of £366m. In undertaking this review the Group has considered the business plans which provide financial projections for the foreseeable future. For the purposes of this review for the Group, the assessment period is considered that to be the period ending 31 December 2021.

As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these financial statements, they have no reason to believe that it will not do so. Consequently, the directors are confident that the Company's subsidiaries will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

# Priority Properties North West Limited

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## Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

### 2 Accounting policies (continued)

#### **Revenue recognition**

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities. Turnover is shown net of sales value added tax, returns, rebates and discounts and after eliminating sales within the Company and are recognised in accordance with IFRS 15's principle based five step model.

Where the Company acts as a lessor, a mark-up is applied to leasing transactions. This mark-up is recognised as revenue in the period during which it is received.

The Company's one customer Serco Limited, a group company, is charged a fixed margin on rental and other operating costs.

#### **Tax**

The tax expense for the period comprises current tax and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

#### **Depreciation**

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

##### *Asset class*

Net investment in sub-lease

##### *Depreciation method and rate*

Equally over the lease term from the inception or equally over the remainder of the lease term from the date of a reassessment of the lease end date

# Priority Properties North West Limited

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## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 2 Accounting policies (continued)

#### **Trade debtors**

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as fixed assets.

Trade receivables are measured at transaction price less any impairment in accordance with IFRS 9.

#### **Financial instruments**

Where financial assets are not measured at fair value through profit and loss (FVTPL), there is a requirement to assess the carrying value of the assets by reference to the expected credit loss (ECL) associated with the asset. Under the ECL model, the Company calculates the allowance for credit losses by considering, on a discounted basis, the shortfall in cash receipts it would incur in various default scenarios and multiplying the shortfalls by the probability of each scenario occurring. The allowance is the sum of the probability weighted outcomes.

The primary financial assets carried by the Company which are not measured at FVTPL are trade receivables and intercompany receivables. The Company's customer base is predominantly Government or Government-backed, and as a result, the Company's ECL at any given point in time across the entirety of the customer base is immaterial.

#### **Trade creditors**

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

#### **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

# Priority Properties North West Limited

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## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 3 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, which are described above, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations which are dealt with below).

#### *Impairment of assets*

Identifying whether there are indicators of impairment for Company assets, involves a high level of judgement and a good understanding of the drivers of value behind the asset. Loans receivable are measured initially at fair value, net of transaction cost, and are measured subsequently at amortised cost using effective interest method, less any impairment in accordance with IFRS 9.

#### *Classification of sub-leases*

Assessing whether a sub-lease to a fellow Serco Group company is a finance lease or an operating lease requires an assessment of the nature of the leasing arrangement. In accordance with IFRS 16, where a sub-lease of a right of use asset is in place for substantially all of the life of the head lease, the sub-lease is typically classified as a finance lease.

### 4 Turnover

	2019 £ 000	2018 £ 000
Turnover arises all in the UK, from rental of property to Group companies	<u>32,425</u>	<u>38,676</u>

### 5 Other operating income

	2019 £ 000	2018 £ 000
Interest receivable on amounts owed by Group companies	<u>99</u>	<u>57</u>

### 6 Finance costs

	2019 £ 000	2018 £ 000
Cost for leases covered by the short-term transition exemption under IFRS 16	<u>694</u>	<u>-</u>

# Priority Properties North West Limited

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## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 7 Staff costs

The Company had no employees during the current or preceding financial year.

### 8 Directors' remuneration

No emoluments were paid to any of the directors directly in respect of their services to the Company in the current financial year. For the directors holding office during the year, their duties to the Company are considered to be incidental to their other duties within Serco Group and therefore no allocation has been made.

### 9 Auditor's remuneration

Auditor's remuneration of £15,000 (2018: £15,000) for the audit of the Company's annual accounts was borne by another group company in both the current and preceding financial years. There have been no non-audit fees incurred by the Company and payable to KPMG LLP during the year (2018: £nil).

### 10 Tax

Tax charged/(credited) in the profit and loss account

	2019 £ 000	2018 £ 000
<b>Deferred taxation</b>		
Depreciation in excess of capital allowances	<u>10</u>	<u>(10)</u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK of 19% (2018: 19%).

The differences are reconciled below:

	2019 £ 000	2018 £ 000
Profit before tax	<u>2,660</u>	<u>2,901</u>
UK Corporation tax at 19% (2018: 19%)	505	551
Movement in deferred tax not provided	10	(10)
Group relief with nil consideration	<u>(505)</u>	<u>(551)</u>
Total tax charge/(credit)	<u>10</u>	<u>(10)</u>

# Priority Properties North West Limited

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## Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

### 10 Tax (continued)

#### Factors affecting future tax rate

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. There is no impact of this change on the tax charge as there are no instances of deferred taxation recognised in the income statement or directly in equity in the current period.

#### Deferred tax

Due to depreciation in excess of capital allowances there are £28k of deductible temporary differences (2018: £18k) for which no deferred tax asset is recognised in the statement of financial position.

Deferred tax assets have not been recognised in respect of these items because it is not considered probable that future taxable profit will be available against which they can be realised.

### 11 Debtors

	2019 £ 000	2018 £ 000
Trade debtors	35	77
Amounts owed from related parties	25,447	20,156
Net investment in sub-lease	100,840	-
Prepayments	383	488
Other debtors	48	234
Deferred tax asset	-	10
	<u>126,753</u>	<u>20,965</u>
Portion after more than 12 months	<u>20,946</u>	<u>16,958</u>

#### Details of amounts owed from related parties

Amounts owed by group companies have no fixed repayment date and are repayable on demand. Interest is charged on the balance at LIBOR minus 0.2%.

# Priority Properties North West Limited

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## Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

### 12 Creditors

#### *Creditors: amounts falling due within one year*

	2019 £ 000	2018 £ 000
Trade creditors	625	399
Accrued expenses	4,390	3,257
Other creditors	948	-
Lease obligations	19,425	-
	<u>25,388</u>	<u>3,656</u>

#### *Creditors: amounts falling due after more than one year*

	2019 £ 000	2018 £ 000
Lease obligations	<u>81,406</u>	<u>-</u>

The lease payments during 2018 refer to operating lease payments, while the lease payments during 2019 refer to the lease payments under IFRS 16.

The operating lease payments at 31 December 2018 were as follows:

	2018 £ 000
Within one year	4,521
Between two to five years	<u>4,190</u>
	<u>8,711</u>

The amount of operating lease payments recognised as an expense during 2018 was £20,973k. These exclusively related to land and buildings.

# Priority Properties North West Limited

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## Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

### 13 Provisions

	<i>Total £ 000</i>
At 1 January 2019	18
Increase in existing provisions	-
At 31 December 2019	<u>18</u>

The provisions are related to dilapidation costs associated with office premises.

### 14 Share capital

#### Allotted, called up and fully paid shares

	<i>2019</i>		<i>2018</i>	
	<i>No.</i>	<i>£</i>	<i>No.</i>	<i>£</i>
Ordinary of £1 each	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>

### 15 Parent and ultimate parent undertaking

The Company's immediate parent is Serco Holdings Limited.

The ultimate parent and controlling party is Serco Group plc, a company incorporated in the United Kingdom and registered in England and Wales, Serco Group plc is the parent undertaking of the smallest and largest group to consolidate these financial statements. These financial statements are available upon request from the Company Secretary, Serco Group plc, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY.

## Notes to the Financial Statements

for the Year Ended 31 December 2019 (continued)

### 16 Post balance sheet events

COVID-19 was originally identified as a disease in China late in 2019. Following global transmission of the disease early in 2020, Europe and other continents began identifying cases which continued to rise in number such that on 12 March 2020 the World Health Organisation characterised the outbreak of COVID-19 as a global pandemic. As the impact of COVID-19 arose subsequent to the Company's year-end it is considered to be a non-adjusting post balance sheet event. Hence no amounts related to the impact of COVID-19 have been included in these financial statements, nor have any amendments been made to the carrying value of items on the Balance Sheet.

As at the date of signing these accounts, the impact to the Company has been limited, predominantly due to the critical nature of services which the Company's customer, Serco Limited, provides to the UK Government.