Registration number: 05422373

Priority Properties North West Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2022

Contents

	Page(s)
Company Information	1
Strategic Report	2 - 3
Directors' Report	4 - 6
Statement of Directors' Responsibilities	7
Independent Auditor's Report to the Members of Priority Properties North West Limited	8 - 11
Profit and Loss account	12
Balance Sheet	13
Statement of Changes in Equity	14
Notes to the Financial Statements	15 - 22

Company Information

Directors	J M Heron M Whittaker
Company secretary	D Eveleigh
Registered number	05422373
Registered office	Serco House 16 Bartley Wood Business Park Bartley Way, Hook Hampshire, RG27 9UY
Auditor	KPMG LLP 15 Canada Square London United Kingdom E14 5GL

Strategic Report for the Year Ended 31 December 2022

The Directors present their Strategic Report for the year ended 31 December 2022.

Principal activity

The principal activity of Priority Properties North West Limited (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 company within Serco Group plc (Group), became the sole customer of the Company.

Business review

The results of the Company are set out on page 11. The financial performance is driven by demand on the number of properties managed by the Company which has increased to 3,863 at 31 December 2022 from 3,565 units at 31 December 2021. The turnover has increased from £26,196k in 2021 to £33,395k, and profit after tax is £4,595k (2021: £4,038k). Net assets have also improved to a balance of £34,333k (2021: £29,738k). The Company has not paid a dividend during the year ended 31 December 2022 (2021: £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 2023. The Future outlook for the Company remains stable with the number of units under management by the end of 2023 rising.

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.

Risk management for all Serco Group entities is undertaken by Serco Group plc. The Group risk register is updated at least quarterly, reviewed bi-monthly by the Risk Oversight Group and discussed at quarterly board meetings of Serco Group plc. Risk management is fundamental to how the business is managed. Risk management policies, systems and processes form part of the Serco Management System (SMS). 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. Further discussion of risk management is discussed in the Serco Group plc Annual Report and Accounts.

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.

Strategic Report (continued)
for the Year Ended 31 December 2022

Approved by the Board on 7 July 2023 and signed on its behalf by:

J M Heron

J M Heron (Jul 7, 2023 14:11 GMT+1)
....

J M Heron
Director

The Directors present their report and the financial statements for the year ended 31 December 2022.

Directors of the Company

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

J M Heron (appointed 3 October 2022)
J M Conneely (resigned 07 October 2022)
H B Chapple (resigned 31 January 2023)
M Whittaker (appointed 14 June 2023)

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

Results and dividends

The profit for the financial year, after tax is £4,595k (2021 - £4,038k).

The Directors do not recommend the payment of a dividend (2021: £nil).

Going concern

The Company has net current assets of £131,014k as at 31 December 2022 (2021: £118,258k) including a £38,826k intercompany receivable which is repayable on demand although not intended to be recalled in the next year (2021: £34,295k) and a profit for the year then ended of £4,595k (2021: £4,038k). 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.

The Company is dependent on the availability of the intercompany financing facility that it uses to meet its day to day working capital requirements and therefore 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 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, which is not legally binding, for the reasons discussed below.

At 31 December 2022, the Group's principal debt facilities comprised a £350m revolving credit facility (of which £nil was drawn) and £266m of US private placement notes, giving £616m of committed credit facilities and committed headroom of £402m. The principal financial covenant ratios are consistent across the private placement loan notes and revolving credit facility. As at 31 December 2022, the Group's primary restricting covenant, its leverage ratio, is below the covenant of 3.5x and is below the Group's target range of 1x-2x at 0.78x.

The Directors of the Group have undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts, as well as the potential impact of key uncertainties and sensitivities on the Group's future performance. In making this assessment the Directors of the Group have considered the Group's existing debt levels, the committed funding and liquidity positions under its debt covenants, its ability to generate cash from trading activities, and its working capital requirements. The Directors of the Group have also identified a series of mitigating actions that could be used to preserve cash in the business should the need arise.

The basis of the assessment continues to be the Board-approved budget which is prepared annually for the next two-year period and is based on a bottom-up approach to all of the Group's existing contracts, potential new contracts and administrative functions.

Going concern (continued)

Owing to the unprecedented levels of inflation driven by geopolitical factors, the Directors of the Group have considered the Group's resilience to rising costs. Due to the nature of the Group's operations, almost all of the revenue base has some form of inflationary protection, whether it be through contractual indexation mechanisms, cost plus billing, or being short term in nature. Though the timing of such protections becoming effective may, in the short term, differ from the impact of cost pressures, it is expected that the current inflation levels will not have a material impact on the Group's profitability.

The Directors of the Group believe that appropriate sensitivities in assessing the Group's ability to continue as a going concern are to model reductions in the Group's win rates for bids and extensions, and reductions in profit margins. Due to the diversity in the Group's operations, the Directors believe that a reverse stress test of these sensitivities to assess the headroom available under the Group's debt covenants and available liquidity provides meaningful analysis of the Group's ability to continue as a going concern. Based on the headroom available, the Directors of the Group are then able to assess whether the reductions required to breach the Group's financial covenants, or exhaust available liquidity, are plausible.

This reverse stress test assumes that the US private placement loan of £45m due to mature during the assessment period is repaid and no additional refinancing occurs. On this basis the Group can afford to be unsuccessful on 80% of its bids and extensions and suffer a reduction in profit margin of 80 basis points below the Group's forecast, whilst still retaining sufficient liquidity to meet all liabilities as they fall due and remain compliant with the Group's financial covenants.

In respect of win rates, rebids and extensions have a more significant impact on the Group's revenue than new business wins during the assessment period. The Group has won more than 85% of its rebids and available contract extensions by volume over the last two years, therefore a reduction of 80% or more to the budgeted bid and extensions rates is not considered plausible. The Group does not generally bid for contracts at margins below its target range.

In respect to margin reduction, due to the diversified nature of the Group's portfolio of long-term contracts and the fact that the Group has met or exceeded its full year guidance for the last five years, a reduction in margin of 80bps versus the Group's budget is not considered plausible within the assessment period combined with an 80% reduction in bid and extensions rates.

Consequently, the Directors of the Group are confident that the Group 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 have provided a letter of support which enables the Directors to conclude that the Company will too. The financial statements have therefore been prepared on a going concern basis.

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2021: £nil).

Disclosure of information to auditors

The Directors have taken steps that they ought to have taken as Directors 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.

Directors' Report (continued) for the Year Ended 31 December 2022

Auditors

The auditors, KPMG LLP, will be proposed for reappointment in accordance with section 487 of the Companies Act 2006.

Approved by the Board on 7 July 2023 and signed on its behalf by:

J M Heron
J M Heron (Jul 7, 2023 14:11 GMT+1)
....
J M Heron
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, the 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 United Kingdom Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework' ('FRS 101').

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;
- state whether applicable United Kingdom Accounting Standards comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The Directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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 2022, which comprise the Profit and Loss account, the Balance sheet, the Statement of Changes in equity and 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 2022 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").

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.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, internal audit, internal legal counsel, and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board of Directors meeting minutes.
- Considering remuneration incentive schemes and performance targets for management, and directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe that there is fraud risk related to revenue recognition because the revenue is not judgmental or complex and consists of intercompany income.

We did not identify any additional fraud risks.

We also performed procedures including:
- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management/ those posted to unusual accounts and those posted to seldom accounts.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

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

Fraud and breaches of laws and regulations – ability to detect (continued)

Identifying and responding to risks of material misstatement related to compliance with laws and regulations (continued)

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect:

- health and safety, given the front-line nature of many of the Company's operations; and
- anti-bribery and corruption;

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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 7, 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 the financial statements.
A fuller description of our responsibilities is provided on the FRC's website at :
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.

Tom Eve (Senior statutory auditor)
for and on behalf of **KPMG LLP, Statutory Auditor**
Chartered Accountants

15 Canada Square
London
United Kingdom
E14 5GL

7 July 2023

Profit and Loss Account for the Year Ended 31 December 2022

	Note	2022 £000	2021 £000
Turnover	4	33,395	26,196
Cost of sales		(26,214)	(20,310)
Gross profit		7,181	5,886
Interest receivable and similar income	5	405	-
Interest payable and similar charges	6	(2,293)	(1,867)
Profit before tax		5,293	4,019
Tax (charge)/credit on profit on ordinary activities	10	(698)	19
Profit for the year		4,595	4,038

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 15 to 22 form an integral part of these financial statements.

Balance Sheet
as at 31 December 2022
Registration number: 05422373

	Note	2022 £000	2021 £000
Current assets			
Debtors	11	191,805	168,480
Current liabilities			
Creditors: amounts falling due within one year	12	(60,791)	(50,222)
Net current assets		131,014	118,258
Total assets less current liabilities		131,014	118,258
Creditors: amounts falling due after more than one year	12	(96,681)	(88,520)
Net assets		34,333	29,738
Capital and reserves			
Called up share capital	13	-	-
Profit and loss account		34,333	29,738
Shareholders' funds		34,333	29,738

These financial statements were approved by the Board on 7 July 2023 and signed by:

J M Heron
J M Heron (Jul 7, 2023 14:11 GMT+1)
....
J M Heron
Director

The notes on pages 15 to 22 form an integral part of these financial statements.

Statement of Changes in Equity
for the Year Ended 31 December 2022

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 January 2021	-	25,700	25,700
Profit for the year	-	4,038	4,038
At 1 January 2022	-	29,738	29,738
Profit for the year	-	4,595	4,595
At 31 December 2022	-	34,333	34,333

The notes on pages 15 to 22 form an integral part of these financial statements.

1. General information

The Company is a private company limited by share capital, incorporated and domiciled in the United Kingdom.

The address of its registered office is:
Serco House
16 Bartley Wood Business Park
Bartley Way, Hook
Hampshire, RG27 9UY

The registered company number is 05422373. The nature of the Company's operations and its principal activities are set out in the Strategic Report on page 2.

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

2.1 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.

2.2 Basis of preparation of financial statements

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ("UK-Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

2.3 Summary of disclosure exemptions

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 pic which are available from the address provided in note 14.

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.

2. Accounting policies (continued)

2.4 New and amended standards and interpretations

There are no new or amended standards or interpretations for annual periods beginning on or after 1 January 2022 that have a material impact on the financial statements of the Company.

2.5 Going concern

The Directors have, at the time of approving the financial statements, have a reasonable expectation that the Company has adequate resources and support from its ultimate parent, Serco Group pic, to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Directors' statement of going concern in the Directors' Report.

2.6 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.

2.7 Interest income

Interest income is accrued for on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

2.8 Interest expense

Interest expense is recognised on the basis of the effective interest method and is included in interest payable and similar charges.

2.9 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.

2. Accounting policies (continued)

2.9 Tax (continued)

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.

2.10 Depreciation

Depreciation is provided on a straight-line basis at rates designed to reduce the assets to their residual value over their estimated useful lives. The annual rates used are:

Asset class	*Depreciation method and rate*
Net investment in sub-lease	Equally over the lease term from inception or equally over the remainder of the lease term from the date of a reassessment of the lease end date

2.11 Debtors

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.

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

2.12 Creditors

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.

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

2.13 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.

2. Accounting policies (continued)

2.14 Leases

On entering into a lease, a lease liability is recorded equal to the value of future lease payments discounted at the appropriate incremental borrowing rate and, simultaneously, a right-of-use asset is created representing the right conferred to control the manner of use of the leased asset.

The Company typically uses an appropriate incremental borrowing rate, based on the lease location and duration, as it typically does not have access to the interest rate implicit in the lease.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the profit and loss account and corresponding assets are depreciated on a straight-line basis over the lease term.

The lease term is measured as the non-cancellable period of a lease, together with periods covered by an option to extend the lease if it is reasonably certain that the option will be exercised and periods covered by an option to terminate the lease if it is reasonably certain that the option will not be exercised. The lease term is reassessed if an event occurs which causes either the non-cancellable period to change, or another event occurs which changes the assessment of the likelihood of exercising an option included in the lease.

All changes to leases are accounted for on a prospective basis from the point at which the change is triggered. Where, on inception, the term of a lease is less than twelve months or the value of the leased asset is less than £5,000, or both, rentals payable under the lease are charged to the profit and loss account on a straight-line basis over the term of the relevant lease.

2.15 Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

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.

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

	2022 £000	2021 £000
All turnover arises in the UK, from rental of property to Group companies	33,395	26,196

5. *Interest receivable and similar income*

	2022 £000	2021 £000
Interest receivable from group undertakings	405	-

Amounts owed by group companies are receivable on demand, and bear interest based at SONIA minus 0.2%.

6. Interest payable and similar charges

	2022 £000	2021 £000
Interest payable on leases	2,293	1,867

7. Staff costs

The Company had no employees during the current year (2021: nil).

8. Directors' remuneration

The Company considers that there is no practicable method to accurately allocate a portion of the emoluments the Directors receive from their respective Group company employer to the qualifying services they provide to the Company.

9. Auditors' remuneration

Auditor's remuneration of £15k (2021: £15k) 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 (2021: £nil).

10. Tax

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

	2022 £000	2021 £000
Corporation tax		
Group relief	123	-
Adjustments in respect of previous periods	571	-
Total current tax	694	-
Deferred tax		
Depreciation in excess of capital allowances	4	(19)
Total deferred tax	4	(19)
Taxation charge/(credit) on profit on ordinary activities	698	(19)

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK of 19% (2021: lower than the standard rate of corporation tax in the UK of 19%).

The differences are reconciled below:

	2022 £000	2021 £000
Profit before tax	5,293	4,019
UK Corporation tax at standard rate at 19% (2021: 19%)	1,006	764
Effects of:		
Expenses not deductible for tax purposes	1	(1)
Group relief for nil consideration	(880)	(758)
Adjustments in respect of prior years	571	-
Unprovided deferred tax	-	(23)
Impact of changes in statutory tax rates	-	(1)
Total tax charge/(credit) for the year	698	(19)

10. Tax (continued)

Factors affecting future tax rate

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were substantively enacted on 24 May 2021 and hence have been reflected in the measurement of deferred tax balances at 31 December 2022.

	2022 £000	2021 £000
At 1 January	(27)	(8)
Deferred tax charged/(credited) to profit and loss account for the year	4	(19)
At 31 December	(23)	(27)

Unrecognised deferred tax assets

The Company has unrecognised deferred tax assets of £nil (2021: £1k) in relation to depreciation in excess of capital allowances.

As noted above, the deferred tax asset provided at 31 December 2022 has been recognised at the tax rate applicable at the time the temporary differences are expected to reverse. The unrecognised deferred tax asset at 31 December 2022 has arisen where the temporary differences are expected to reverse before 1 January 2024 and so the tax rate is expected to be less than 25% of the gross temporary difference.

11. Debtors

	2022 £000	2021 £000
Trade debtors	1	9
Amounts owed by group companies	38,826	34,295
Net investment in sub-lease	151,663	132,363
Prepayments	465	757
Other debtors	827	1,029
Deferred tax assets (note 10)	23	27
	191,805	168,480
Portion after more than 12 months	33,499	28,669

11. Debtors (continued)

Amounts owed by group companies are due after more than one year from the balance sheet date, have no fixed repayment date and are payable on demand. Interest is charged on the balance at LIBOR minus 0.2%. On 31 March 2023, the synthetic LIBOR rate was discontinued and was replaced by the Bank of England base rate in this calculation of interest.

12. Creditors: Amounts falling due within one year

	2022 £000	2021 £000
Trade creditors	587	669
Group relief	123	-
Accrued expenses	1,944	3,215
Other creditors	3,164	2,495
Lease liabilities	54,973	43,843
	60,791	50,222

Creditors: amounts falling due after more than one year

	2022 £000	2021 £000
Lease liabilities	96,681	88,520

13. Share capital

Allotted, called up and fully paid shares

	2022 No.	2022 £	2021 No.	2021 £
Ordinary shares of £1 each	200	200	200	200

14. 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, Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY.