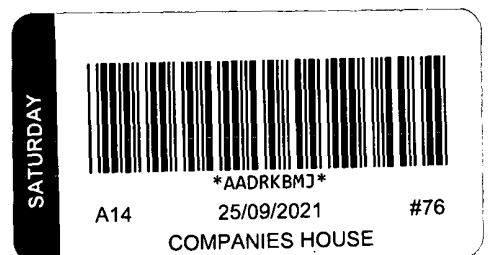


Registration number: 05422373

# **Priority Properties North West Limited**

## **Annual Report and Financial Statements**

for the Year Ended 31 December 2020



# 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

**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

# Priority Properties North West Limited

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## Strategic Report

for the Year Ended 31 December 2020

The Directors present their Strategic Report for the year ended 31 December 2020.

### 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 Group company, became the sole customer of the Company.

### Business review

The results of the Company are set out on page 12. The financial performance is driven by demand on the number of properties managed by the Company which has increased to 3,176 at 31 December 2020 from 3,009 units at 31 December 2019. The turnover has decreased from £32,425k in 2019 to £23,143k. The Company has not paid a dividend during the year ended 31 December 2020 (2019: £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 2021. Future outlook for the Company remains stable with the number of units under management by the end of 2021 forecasted to be consistent with 2020.

### 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 Serco Group plc Annual Report and Accounts.

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 (continued)** **for the Year Ended 31 December 2020**

### ***Brexit***

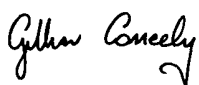
During the year to 31 December 2020, and following the UK's exit from the European Union on that date, the Company has continued to monitor the potential implications of the UK's withdrawal from the European Union ("Brexit") and its impact on the Company. Reiterating the position outlined in the financial statements for the year ended 31 December 2019, it is considered unlikely that Brexit will directly impact the Company to a material extent. The Directors will continue to proactively assess the potential impacts of Brexit as the transition progresses through 2021, noting that impacts could not only be financial, but also require changes to risk mitigation strategies where appropriate.

### ***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. It remains difficult to reliably estimate the length and severity of these developments, nor the impact on the financial position and financial results of the Company in future periods. As noted in the Serco Group plc Annual Report and Accounts for the year ended 31 December 2020, it was noted that immigration related contracts in the UK were part of the favourable impacts of the pandemic on the Group's financial results. The Company's sole source of income is in relation to providing accommodation to Serco Limited to enable it to deliver the Group's Asylum Accommodation and Support Services contract ("AASC"), with AASC being a significant component of the Group's UK immigration sector. As a result, demand for the Company's services has remained high, with limited downside risks.

The principal risks affecting the Company, through its wider association with other Serco group companies, are broadly aligned to those disclosed within the Group's Annual Report and Accounts and, since their disclosure, have been assessed against the impact of the Covid-19 pandemic. The key risk drivers, mitigating controls and priorities remain largely unchanged, however there is a greater focus on the impact of Covid-19 in the short to medium term, and an enhanced focus on the existence of emerging risks. They remain applicable to the Company which benefits from the Group's risk management programme, and the management of these from a Group perspective is relevant as the Company places reliance on a letter of support from its ultimate parent, Serco Group plc (see note 2).

Approved by the Board on 23/09/2021 and signed on its behalf by:



.....  
G R Conneely  
Director

# Priority Properties North West Limited

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## Directors' Report

for the Year Ended 31 December 2020

The Directors present their report and the financial statements for the year ended 31 December 2020.

### Directors of the Company

The Directors who held office during the year and subsequently to the date of this report were as follows:

J Rogers (resigned on 31 March 2020)

G R Conneely

H B Chapple (appointed on 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 dividends

The profit for the financial year, after tax is £5,759k (2019: £2,650k).

The Directors do not recommend the payment of a dividend (2019: £nil).

### Going concern

The Company has net current assets of £97,872k as at 31 December 2020 (2019: £101,347k) and a profit for the year that ended of £5,759k (2019: £2,650k). 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 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.

In assessing the basis of preparation of the condensed set of financial statements for the six months ended 30 June 2021, the Group have considered the principles of the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, 2014'; particularly in assessing the applicability of the going concern basis, the review period and disclosures. The period of assessment is considered to be at least 12 months from the date of approval of these financial statements.

The Group have undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts, key uncertainties and sensitivities, including the ongoing and potential future impacts of Covid-19 on the Group's future performance. In making this assessment the Directors 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 Group have also identified a series of mitigating actions that could be used to preserve cash in the business should the need arise.

# Priority Properties North West Limited

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## **Directors' Report** (continued) for the Year Ended 31 December 2020

### **Going concern (continued)**

Due to the limited adverse impacts of Covid-19 on the Group's profitability, 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 new business and rebids, and reductions in profit margins. Due to the diversity in the Group's operations, the Group 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 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 at 30 June 2021 shows that, even after assuming that the US private placement loan notes of \$88m due to mature before 31 December 2022 and the £45m acquisition term loan facility used to fund the acquisition of NSBU are repaid, and that no additional refinancing occurs, the Group can afford to be unsuccessful on 50% of its target new business and rebid wins, combined with a profit margin 50 basis points below the Group's forecast, and still retain sufficient liquidity to meet all liabilities as they fall due and remain compliant with the Group's financial covenants without a requirement for any mitigating actions. At 30 June 2021, the Group had £665m of committed credit facilities and committed headroom of £439m. As at June 2021, the Group's leverage ratio is below both its covenant of 3.5x and the Group's target range of 1x-2x at 0.95x. 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 at least 12 months from 4 August 2021, the date of approval of the Group's condensed financial statements for the six month period ended 30 June 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 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.

### **Political contributions**

The Company made no political donations or incurred any political expenditure during the year (2019: £nil).

### **Disclosure of information to the auditor**

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.

### **Reappointment of auditor**

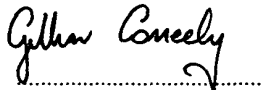
Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

## Priority Properties North West Limited

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### **Directors' Report** (continued) for the Year Ended 31 December 2020

Approved by the Board on 23/09/2021 and signed on its behalf 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, 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;
- 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 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.

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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 2020 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 2020 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.

### **Fraud and breaches of laws and regulations**

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 controls and procedures to prevent and detect fraud as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board minutes; and
- Using analytical procedures to identify any usual or unexpected relationships.

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

We communicated identified fraud risks throughout the audit 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 a fraud risk related to revenue recognition because the revenue is not judgemental or complex, and consists of intercompany income.

No additional fraud risks were identified throughout the audit.

We also performed procedures including:

- Identifying journal entries and other adjustments based on risk criteria and comparing the identified entries to supporting documentation. These included entries posted by senior finance management, those posted and approved by the same user and those posted to unexpected accounts.

### ***Identifying and responding to risks of material misstatement due to non-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 discussed with the Directors and management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations and remained alert to any indications of non-compliance 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.

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 nature of many of the entity's operations;
- anti-bribery and corruption; and
- employment law.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and 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.

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

### ***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 these 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.

### **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.

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

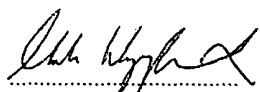
### **Auditor's responsibilities**

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 Wrigglesworth (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*

15 Canada Square  
London United Kingdom  
E14 5GL

Date: 24 September 2021 .....

## Priority Properties North West Limited

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

	<i>Note</i>	<i>2020</i> <i>£ 000</i>	<i>2019</i> <i>£ 000</i>
<b>Turnover</b>	4	23,143	32,425
Cost of sales		<u>(15,475)</u>	<u>(29,170)</u>
<b>Gross profit</b>		7,668	3,255
Interest receivable and similar income	5	26	99
Interest payable and similar charges	6	<u>(1,943)</u>	<u>(694)</u>
<b>Profit before tax</b>		5,751	2,660
Tax on profit on ordinary activities	10	<u>8</u>	<u>(10)</u>
<b>Profit for the year</b>		<u><u>5,759</u></u>	<u><u>2,650</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 15 to 24 form an integral part of these financial statements.

# Priority Properties North West Limited

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## Balance Sheet

as at 31 December

Registration number: 05422373

	Note	2020 £ 000	2019 £ 000
<b>Current assets</b>			
Debtors	11	136,823	126,753
<b>Current Liabilities</b>			
Creditors: amounts falling due within one year	12	(38,951)	(25,388)
Provisions	13	-	(18)
<b>Net current assets</b>		<u>97,872</u>	<u>101,347</u>
<b>Total assets less current liabilities</b>		97,872	101,347
Creditors: amounts falling due after more than one year	12	<u>(72,172)</u>	<u>(81,406)</u>
<b>Net assets</b>		<u>25,700</u>	<u>19,941</u>
<b>Capital and reserves</b>			
Called up share capital	14	-	-
Profit and loss account		<u>25,700</u>	<u>19,941</u>
<b>Shareholders' funds</b>		<u>25,700</u>	<u>19,941</u>

These financial statements were approved by the Board on 23/09/2021... and signed on its behalf by:



G R Conneely  
Director

The notes on pages 15 to 24 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

	<i>Called up share capital £ 000</i>	<i>Profit and loss account £ 000</i>	<i>Total £ 000</i>
At 1 January 2019	-	17,291	17,291
Profit for the year	-	2,650	2,650
At 31 December 2019	-	19,941	19,941
At 1 January 2020	-	19,941	19,941
Profit for the year	-	5,759	5,759
At 31 December 2020	-	25,700	25,700

The notes on pages 15 to 24 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

### 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

#### **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**

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 ("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.

#### **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 plc which are available from the address provided in note 15.

# Priority Properties North West Limited

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

### 2 Accounting policies (continued)

#### **Summary of disclosure exemptions (continued)**

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 and amended standards and interpretations**

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020.

- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 16: Covid-19 Related Rent Concessions
- Amendments to IAS 8: Definition of material

These amendments had no impact on the financial statements of the Company.

#### **Going concern**

The Company has net current assets of £97,872k as at 31 December 2020 (2019: £101,347k) and a profit for the year that ended of £5,759k (2019: £2,650k). 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 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.

In assessing the basis of preparation of the condensed set of financial statements for the six months ended 30 June 2021, the Group have considered the principles of the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, 2014'; particularly in assessing the applicability of the going concern basis, the review period and disclosures. The period of assessment is considered to be at least 12 months from the date of approval of these financial statements.

The Group have undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts, key uncertainties and sensitivities, including the ongoing and potential future impacts of Covid-19 on the Group's future performance. In making this assessment the Directors 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 Group have also identified a series of mitigating actions that could be used to preserve cash in the business should the need arise.

# Priority Properties North West Limited

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

### 2 Accounting policies (continued)

#### *Going concern (continued)*

Due to the limited adverse impacts of Covid-19 on the Group's profitability, 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 new business and rebids, and reductions in profit margins. Due to the diversity in the Group's operations, the Group 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 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 at 30 June 2021 shows that, even after assuming that the US private placement loan notes of \$88m due to mature before 31 December 2022 and the £45m acquisition term loan facility used to fund the acquisition of NSBU are repaid, and that no additional refinancing occurs, the Group can afford to be unsuccessful on 50% of its target new business and rebid wins, combined with a profit margin 50 basis points below the Group's forecast, and still retain sufficient liquidity to meet all liabilities as they fall due and remain compliant with the Group's financial covenants without a requirement for any mitigating actions. At 30 June 2021, the Group had £665m of committed credit facilities and committed headroom of £439m. As at June 2021, the Group's leverage ratio is below both its covenant of 3.5x and the Group's target range of 1x-2x at 0.95x. 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 at least 12 months from 4 August 2021, the date of approval of the Group's condensed financial statements for the six month period ended 30 June 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 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.

#### *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.

# Priority Properties North West Limited

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

### 2 Accounting policies (continued)

#### **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*

##### *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

#### **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.

#### **Interest expense**

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

#### **Trade receivables**

Trade receivables 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.

# Priority Properties North West Limited

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

### 2 Accounting policies (continued)

#### *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 payables*

Trade payables 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 payables 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.

#### *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.

# Priority Properties North West Limited

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

### 3 Critical accounting judgements and key sources of estimation uncertainty (continued)

#### *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

	2020 £ 000	2019 £ 000
Turnover arises all in the UK, from rental of property to Group companies	<u>23,143</u>	<u>32,425</u>

### 5 Interest receivable and similar income

	2020 £ 000	2019 £ 000
Interest receivable from group undertakings	<u>26</u>	<u>99</u>

### 6 Interest payable and similar charges

	2020 £ 000	2019 £ 000
Cost for leases covered by the short-term transition exemption under IFRS 16	<u>1,943</u>	<u>694</u>

### 7 Staff costs

The Company had no employees during the current year (2019: nil).

# Priority Properties North West Limited

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

### 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 Auditor's remuneration

Auditor's remuneration of £15,000 (2019: £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 (2019: £nil).

### 10 Tax

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

2020	2019
£ 000	£ 000

#### Deferred taxation

Depreciation in excess of capital allowances	(8)	10
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The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK of 19% (2019: lower than the standard rate of corporation tax in the UK of 19%).

The differences are reconciled below:

	2020	2019
	£ 000	£ 000
Profit before tax	5,751	2,660
UK Corporation tax at 19% (2019: 19%)	1,093	505
Unprovided deferred tax	(14)	10
Group relief received for nil consideration	(1,087)	(505)
<b>Total tax (credit)/charge</b>	<b>(8)</b>	<b>10</b>

# Priority Properties North West Limited

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

### 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.

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Company's future tax charge accordingly.

#### Deferred tax

Due to depreciation in excess of capital allowances there are £18k of deductible temporary differences (2019: £28k) for which no deferred tax asset is recognised in the balance sheet.

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

	2020 £ 000	2019 £ 000
Trade debtors	48	35
Amounts owed by group companies	26,997	25,447
Net investment in sub-lease	107,265	100,840
Prepayments	428	383
Other debtors	2,077	48
Deferred tax assets	8	-
	<u>136,823</u>	<u>126,753</u>
Portion after more than 12 months	<u>21,030</u>	<u>20,946</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

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

### 12 Creditors

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

	2020 £ 000	2019 £ 000
Trade creditors	324	625
Accrued expenses	1,875	4,390
Other creditors	1,666	948
Lease obligations	35,086	19,425
	<u>38,951</u>	<u>25,388</u>

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

	2020 £ 000	2019 £ 000
Lease obligations	<u>72,172</u>	<u>81,406</u>

### 13 Provisions

	Total £ 000
At 1 January 2020	18
Provisions released	<u>(18)</u>
At 31 December 2020	<u>-</u>

The provision was related to dilapidation costs associated with office premises.

### 14 Share capital

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

	2020		2019	
	No.	£	No.	£
Ordinary shares of £1 each	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>

## Priority Properties North West Limited

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

#### **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.