Company Registration No. 03191608 (England and Wales)

WESTERN MORTGAGE SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

WESTERN MORTGAGE SERVICES LIMITED

COMPANY INFORMATION

Directors	J D Vincent	
	A P Brown	(Appointed 10 August 2018)
Secretary	Capita Group Secretary Limited	
Company number	03191608	
Registered office	30 Berners Street London England W1T 3LR	
Auditor	KPMG LLP 15 Canada Square London E14 5GL	

WESTERN MORTGAGE SERVICES LIMITED

CONTENTS

The Directors present the Strategic report and financial statements for the year ended 31 December 2018.

Review of the business

Western Mortgage Services Limited ("the Company") is a wholly owned subsidiary of Capita plc (indirectly held). Capita plc along with all it's subsidiaries is hereafter referred to as "the Group". The Company operates within the Capita Specialist Service division of the Group.

The principal activity of the Company continued to be that of the provision of mortgage administration services, primarily the administration of portfolios for the Co-operative Bank plc and for a number of third party mortgage providers.

The Company has adopted IFRS 15 from 1 January 2018 using the full retrospective method, thereby restating the 2017 comparatives (refer note 19).

As shown in the Company's income statement on page 9, the Company's revenue has decreased from £59,190k in 2017 (restated) to £57,227k in 2018. Operating profit has increased from £29,869k in 2017 (restated) to £31,214k in 2018.

The balance sheet on page 10 & 11 of the financial statements shows the Company's financial position at the year end. The Company's financial position has improved from net liabilities of £29,857k in 2017 (restated) to net assets of £34,130k in 2018 majorly due to capital injection of £37.5m and profits of £26.5m earned in the year. Details of amounts owed by/to its parent Company and fellow subsidiary undertakings are shown in notes 7 and 9 to the financial statements.

Key performance indicators used by Capita plc are operating margins, free cash flow, capital expenditure and return on capital employed. Capita plc and its subsidiaries manage their operations on a divisional basis and as a consequence, some of these indicators are monitored only at a divisional level. The 2018 performance of the Capita Specialist Services division of Capita plc is discussed in the Group's annual report which does not form part of this report.

Capital adequacy

Western Mortgage Services Limited is authorised and regulated by the Financial Conduct Authority and is directly owned by Capita plc. The requirements of these regulations apply to Western Mortgage Services Limited only and it does not consolidate at a group level.

Pillar 3 disclosures are published annually and have been reviewed and approved by the Company's Board.

There are no current or foreseen material, practical or legal impediments to the prompt transfer of capital resources, or repayments of liabilities. Capital requirement calculation shown in table below :

MIPRU 4.2.19	**£'000**
Revenue from home finance administration	49,966
Minumum Capital Requirement, higher of:	
Minimum Capital Requirement	100
10% of annual income	4,997
Actual Requirement	**4,997**
MIPRU 4.2.11	
Revenue from Home Finance Mediation and Insurance Mediation	2,866
Minumum Capital Requirement, higher of:	
Minimum Capital Requirement	5
2.5% Income Annualised	72
Actual Requirement	**72**
Total Actual Capital Requirement	**5,069**
Shareholder Funds	34,130
Less : Intangibles	-
Total New Assets less Intangibles (inc Goodwill)	**34,130**
Surplus/(deficit)	29,061
Coverage	6.7x

The Company also assesses its capital requirements based on risks identified as part of the risk management processes detailed below. Where this assessment gives capital requirements more than the above-mentioned criteria the company would hold additional capital. After the effect of mitigating controls and since the Company does not trade in investments, the management have assessed that the key risk is operational risk, which has been quantified as having a capital requirement below that of its minimum requirement. The management have assessed that there is minimal risk from any other source and no capital is required to cover any other risks.

The risks faced by the Company can be summarised as follows:

Strategic:
Changes in economic and market conditions such as contract pricing and competition.

Financial:
Significant failures in internal systems of control and lack of corporate stability.

Operational:
Including recruitment and retention of staff, maintenance of reputation and strong supplier and customer relationships, operational IT risk, and failures in information security controls.

Compliance:
Non-compliance with laws and regulations. The Company must comply with an extensive range of requirements that govern and regulate its business, and decisions by regulators can affect the Company's business and operations and these effects are often adverse.

Credit and residual risk
Credit risk is not considered to be significant for the Company. Credit exposure is limited to routine working capital related balances primarily with its key commercial partner.

Market and securitisation risk
Western Mortgage Services Limited is not authorised to trade as principal and has no trading book. The Company has no Foreign Exchange risk. Securitisation risk is not applicable to the Company.

Liquidity risk
The Company has developed a Liquidity Management Framework to formalise the monitoring and control processes in place to ensure Western Mortgage Services Limited has sufficient liquid resources to meet its liabilities as they come due. This risk is therefore considered to be minimal.

Insurance risk
This is not applicable as the Company does not write insurance.

Interest rate risk
Western Mortgage Services Limited has no material exposure to interest rate risk.

Business risk
Business risk, or procyclicality (the risk of deterioration in business or economic conditions requiring a firm to raise capital), is not believed to be significant in Western Mortgage Services Limited due to the type of activities it is engaged in.

Concentration risk
Western Mortgage Services Limited has a significant reliance on the Mortgage services contract with the Cooperative Bank. This contract has a current end date of December 2020. However, commercial discussions regarding an additional five year extension are in an advanced stage with the objective of signing the contract by mid-2019. This will significantly reduce our exposure to this risk.

Group risk
It is not considered that there are any significant risks to the Company of being part of Capita plc.

Leverage risk
The Company currently has no borrowing.

To mitigate the effect of these risks and uncertainties, the Company adopts a number of systems and procedures, including:

- Regularly reviewing trading conditions to be able to respond quickly to changes in market conditions.
- Applying procedures and controls to manage compliance, financial and operational risks, including adhering to a strict internal control framework.

Capita plc has also implemented appropriate controls and risk governance techniques across all of its businesses these are discussed in the Capita plc's annual report which does not form part of this report.

On behalf of the board

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A P Brown

Director

25-04-2019.........

WESTERN MORTGAGE SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors present their Strategic report, Directors' report and financial statements for the year ended 31 December 2018.

Results and dividends
The results for the year are set out on page 9.

No dividend was paid during the year (2017 : £nil).

Directors
The Directors who held office during the year and up to the date of signature of the financial statements were as follows:

J D Vincent	
D C Trendle	(Appointed 26 January 2018 and resigned during the year)
N N Bedford	(Resigned 22 February 2018)
A P Brown	(Appointed 10 August 2018)
M Rich	(Resigned 10 August 2018)

Political donations
The Company made no political donations and incurred no political expenditure during the year (2017: £nil)

Employees
Details of the number of employees and related costs can be found in note 15 to the financial statements.

Disabled persons
Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the Company's continues and that the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee involvement
The Company's policy is to consult and discuss with employees, through unions, staff councils, and at meetings, matters likely to affect the employees' interests.

Information of matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance.

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

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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework.*

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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. They 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.

Statement of disclosure to auditor

So far as each person who was a Director at the date of approving this report is aware. There is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the Company's auditor is not aware. Having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps he/she might reasonably be expected to take as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is was are of that information.

Qualifying third party indemnity provisions

The Company has granted an indemnity to the Directors of the Company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' report.

On behalf of the board

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A P Brown

Director

Date: 25-04-2019

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF WESTERN MORTGAGE SERVICES LIMITED

Opinion

We have audited the financial statements of Western Mortgage Services Limited ("the company") for the year ended 31 December 2018 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.. We have nothing to report in these respects.

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

Strategic report and directors' report

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

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

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

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 4 and 5 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.

Simon Weaver

Simon Weaver (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

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25 April 2019

WESTERN MORTGAGE SERVICES LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £'000	Restated* 2017 £'000
Revenue	3	57,227	59,190
Cost of sales		(20,573)	(25,324)
Gross profit		**36,654**	**33,866**
Administrative expenses		(5,440)	(3,997)
Operating profit	4	**31,214**	**29,869**
Income tax credit/(expense)	5	(4,727)	(4,632)
Total comprehensive income for the year		**26,487**	**25,237**

*Restated from prior year. See note 19.

The income statement has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the income statement.

The notes on page 13 to 34 form an integral part of financial statements.

WESTERN MORTGAGE SERVICES LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2018

	Notes	2018 £'000	Restated* 2017 £'000
Non-current assets			
Property, plant and equipment	6	8	67
Trade and other receivables	7	25	-
Deferred tax	5	309	8,891
Total non-current assets		**342**	**8,958**
Current assets			
Trade and other receivables	7	47,636	12,068
Income tax receivable		1,477	-
Cash	8	26,380	11,058
Total current assets		**75,493**	**23,126**
Total assets		**75,835**	**32,084**
Current liabilities			
Trade and other payables	9	1,660	5,135
Deferred income	10	18,359	19,022
Provisions	11	972	727
Income tax payable		-	869
Total current liabilities		**20,991**	**25,753**
Non-current liabilities			
Trade and other payables	9	3,500	3,500
Deferred income	10	17,214	32,688
		20,714	**36,188**
Total liabilities		**41,705**	**61,941**
Net assets/(liabilities)		**34,130**	**(29,857)**

WESTERN MORTGAGE SERVICES LIMITED

BALANCE SHEET (CONTINUED)

AS AT 31 DECEMBER 2018

	Notes	2018 £'000	2017 £'000
Capital and reserves			
Issued share capital	**12**	37,550	50
Retained deficit		(3,420)	(29,907)
Total equity/(deficit)		**34,130**	**(29,857)**

*Restated from prior year. See note 19.

The notes on pages 13 to 34 form and integral part of financial statements.

Approved by Board and authorised for issue on 25 April 2019.

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A P Brown
Director
Company Registration No. 03191608

WESTERN MORTGAGE SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Retained surplus/ (deficit)	Total equity
	£'000	£'000	£'000
At 1 January 2017	**50**	**945**	**995**
Impact of changes in accounting standards - IFRS 15	-	(56,089)	(56,089)
At 1 January 2017 as restated - (see note 19)	**50**	**(55,144)**	**(55,094)**
Restated total comprehensive income for the year	-	25,237	25,237
Contribution in respect of share based payment charge	-	24	24
Settlement of share based payment charged by intercompany	-	(24)	(24)
At 31 December 2017 as restated - (see note 19)	**50**	**(29,907)**	**(29,857)**
Total comprehensive income for the year	-	26,487	26,487
Issue of share capital	37,500	-	37,500
Contribution in respect of share based payment charge	-	17	17
Settlement of share based payment charged by intercompany	-	(17)	(17)
At 31 December 2018	**37,550**	**(3,420)**	**34,130**

Share capital – The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising 37,550,000 ordinary shares.

Retained deficit - Represents accumulated losses of the Company.

The notes on pages 13 to 34 form and integral part of financial statements.

1 Accounting policies

1.1 Basis of preparation

Western Mortgage Services Limited is a Company incorporated and domiciled in the United Kingdom.

The Company is a wholly owned subsidiary of Capita plc (indirectly held) and operates within the Group's Capita Specialist Services division.

The financial statements are prepared under the historical cost basis except where stated otherwise and in accordance with applicable accounting standards.

The Company has sufficient financial resources together with long standing relationships with clients and suppliers. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully. After making enquires, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

1.2 Compliance with accounting standards

The Company has applied FRS 101 - Reduced Disclosure Framework in the preparation of its financial statements. The Company has prepared and presented these financial statements by applying the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (EU-IFRSs), but made amendments, where necessary, in order to comply with The Companies Act 2006.

The Company's ultimate parent undertaking, Capita plc, includes the Company in its consolidated statements. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU (EU-IFRS) and are available to the public and may be obtained from Capita plc's website on www.capita.com.

In these financial statements, the Company has applied the disclosure exemptions available under FRS 101 in respect of the following disclosures:

- A cash flow statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy;
- Certain disclosures as required by IFRS 15 Revenue from Contracts with Customers; and
- Disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of Capita plc include equivalent disclosures, the Company has also taken the disclosure exemptions under FRS 101 available in respect of the following disclosure:

- Certain disclosures required by IFRS 2 Share Based Payments in respect of Group settled share based payments;
- Certain disclosures required by IAS 36 Impairments of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company, in the current and prior periods including the comparative period reconciliation for goodwill; and
- Disclosures required by IFRS 7 Financial Instrument Disclosures.

1 Accounting policies **(Continued)**

1.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. In addition, the Company has adopted the new amendments to standards and new IFRIC as detailed below.

1) Initial adoption of IFRS 15 Revenue from Contracts with Customers

The standard has an effective date of 1 January 2018. IFRS 15 replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with customers unless the contracts are within the scope of other standards such as IAS 17 Leases.

The standard outlines the principles entities must apply to measure and recognise revenue with the core principle being that entities should recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to a customer.

The principles in IFRS 15 must be applied using the following 5 step model:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when or as the entity satisfies its performance obligations

The standard requires entities to exercise considerable judgement taking into account all the relevant facts and circumstances when applying each step of this model to its contracts with customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract, as well as requirements covering matters such as licences of intellectual property, warranties, principal versus agent assessment and options to acquire additional goods or services.

The Company has applied IFRS 15 fully retrospectively in accordance with paragraph C3 (a) of the standard, restating the prior period's comparatives and electing to use the following expedients:

- in respect of completed contracts, the Company will not restate contracts that (i) begin and end within the same annual reporting period; or (ii) are completed contracts at the beginning of the earliest period presented (para. C5(a));
- in respect of completed contracts that have variable consideration, the Company will use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative periods (para. C5(b)); and
- for all reporting periods presented before the date of initial application, the Company will not disclose the amount of the transaction price allocated to the remaining performance obligations or an explanation of when the Company expects to recognise that amount as revenue (para C5(c)).

1 Accounting policies **(Continued)**

1.3. Changes in accounting policies (continued)

2) Initial adoption of IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. With the exception of hedge accounting, which the Company applied prospectively, the Company has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. There has been no restatement to the comparative balances for the period beginning 1 January 2017 as there are no requirements under the standard to restate comparatives.

The Company has performed an assessment to understand the requirements of IFRS 9 and how these differ from IAS 39 and has concluded there is no significant impact on the Company's financial statements from the date of adoption. There were no differences between previous carrying amounts and consequently no adjustment has been made to opening retained earnings. The updated account policy is set out in 1.10

Annual improvements to IFRS Standards 2014–2016 Cycle

As part of its annual improvements cycles, the International Accounting Standards Board amended various standards primarily with a view to removing inconsistencies and clarifying wording.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

The amendments are intended to eliminate diversity in practice, are narrow in scope and address three specific areas of classification and measurement.

IFRIC 22: Foreign Currency Transactions and Advance Consideration

These amendments are intended to eliminate diversity in practice when recognising the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration received or paid in a foreign currency.

1 Accounting policies **(Continued)**

1.4 Revenue recognition

Revenue is earned within the United Kingdom.

Revenue recognition is based on the principles set out in IFRS 15.

The revenue and profits recognised in any period are based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

In determining the amount of revenue and profits to record, and related balance sheet items (such as contract fulfilment assets, capitalisation of costs to obtain a contract, trade receivables, accrued income and deferred income) to recognise in the period, management is required to form a number of key judgements and assumptions. This includes an assessment of the costs the Company incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised.

Revenue is recognised either when the performance obligation in the contract has been performed (so 'point in time' recognition) or 'over time' as control of the performance obligation is transferred to the customer.

The Company enters into contracts which contain extension periods, where either the customer or both parties can choose to extend the contract or there is an automatic annual renewal, and/or termination clauses that could impact the actual duration of the contract. Judgement is applied to assess the impact that these clauses have when determining the appropriate contract term.

The term of the contract impacts both the period over which revenue from performance obligations may be recognised and the period over which contract fulfilment assets and capitalised costs to obtain a contract are expensed.

The Company has multiple components to be delivered such as transformation and the delivery ofoutsourced services, and management has applied judgement in accounting for these as separate performance obligations.

At contract inception, the total transaction price is estimated, being the amount to which the Company expects to be entitled and has rights to under the present contract. This includes an assessment of any variable consideration where the Company's performance may result in additional revenues based on the achievement of agreed KPIs. Such amounts are only included based on the expected value or the most likely outcome method, and only to the extent that it is highly probable that no revenue reversal will occur.

The transaction price does not include estimates of consideration resulting from change orders for additional goods and services unless these are agreed.

Once the total transaction price is determined, the Company allocates this to the identified performance obligations in proportion to their relative stand-alone selling prices and recognises revenue when (or as) those performance obligations are satisfied. The Company sells a customer bespoke solution, and in these cases the Company typically uses the expected cost-plus margin or a contractually stated price approach to estimate the standalone selling price of each performance obligation.

For each performance obligation, the Company determines if revenue will be recognised over time or at a point in time. Where the Company recognises revenue over time for long term contracts, this is in general due to the Company performing and the customer simultaneously receiving and consuming the benefits provided over the life of the contract.

1 Accounting policies **(Continued)**

1.4 Revenue recognition (continued)

For each performance obligation to be recognised over time, the Company applies a revenue recognition method that faithfully depicts the Company's performance in transferring control of the goods or services to the customer. This decision requires assessment of the real nature of the goods or services that the Company has promised to transfer to the customer.

The Company recognises revenue on the basis of direct measurements of the value to the customer of the goods and services transferred to date relative to the remaining goods and services under the contract using a method of time elapsed which requires minimal estimation.

If performance obligations in a contract do not meet the overtime criteria, the Company recognises revenue at a point in time (see below for further details).

Transactional (Point in time) contracts

The Company delivers a range of goods or services in all reportable segments that are transactional services for which revenue is recognised at the point in time when control of the goods or services has transferred to the customer. This may be at the point of physical delivery of goods and acceptance by a customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria.

The nature performance obligations categorised within this revenue type includes fees received in relation to delivery of professional services.

Passive software licences are licences which have significant stand-alone functionality and the contract does not require, and the customer does not reasonably expect, the Company to undertake activities that significantly affect the licence. Any ongoing maintenance or support services for passive licences are likely to be separate performance obligations. The Company's accounting policy for licences is discussed in more detail below.

Long term contractual - greater than 2 years

The Company provides a range of services in various segments under customer contracts with a duration of more than two years.

The nature of contracts or performance obligations categorised within this revenue type is diverse and includes (i) long term outsourced service arrangements in the public and private sectors; and (ii) active software licence arrangements (see definition below).

The Company considers that the services provided meet the definition of a series of distinct goods and services as they are (i) substantially the same and (ii) have the same pattern of transfer (as the series constitutes services provided in distinct time increments (e.g., daily, monthly, quarterly or annual services)) and therefore treats the series as one performance obligation. Even if the underlying activities performed by the Company to satisfy a promise vary significantly throughout the day and from day to day, that fact, by itself, does not mean the distinct goods or services are not substantially the same.

The Company recognises revenue using the output method as it best reflects the nature in which the Company is transferring control of the goods or services to the customer.

Active software licences are those where the Company has a continuing involvement after the sale or transfer of control to the customer, which significantly affects the intellectual property to which the customer has rights. The Company is in a majority of cases responsible for any maintenance, continuing support, updates and upgrades and accordingly the sale of the initial software is not distinct. The Company's accounting policy for licences is discussed in more detail below.

1 Accounting policies **(Continued)**

1.4 Revenue recognition (continued)

Contract modifications

The Company's contracts can be amended for changes in contract specifications and requirements. Contract modifications exist when the amendment either creates new or changes the existing enforceable rights and obligations.

The effect of a contract modification on the transaction price and the Company's measure of progress for the performance obligation to which it relates, is recognised as an adjustment to revenue in one of the following ways:

a. prospectively as an additional separate contract;
b. prospectively as a termination of the existing contract and creation of a new contract;
c. as part of the original contract using a cumulative catch up; or
d. as a combination of (b) and (c).

For contracts for which the Company has decided there is a series of distinct goods and services that are substantially the same and have the same pattern of transfer where revenue is recognised over time, the modification will always be treated under either (a) or (b); (d) may arise when a contract has a part termination and a modification of the remaining performance obligations.

The facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract by contract and may result in different accounting outcomes..

Judgement is applied in relation to the accounting for such modifications where the final terms or legal contracts have not been agreed prior to the period end as management need to determine if a modification has been approved and if it either creates new or changes existing enforceable rights and obligations of the parties. Depending upon the outcome of such negotiations, the timing and amount of revenue recognised may be different in the relevant accounting periods. Modification and amendments to contracts are undertaken via an agreed formal process. For example, if a change in scope has been approved but the corresponding change in price is still being negotiated, management use their judgement to estimate the change to the total transaction price. Importantly any variable consideration is only recognised to the extent that it is highly probably that no revenue reversal will occur.

Principal versus agent

The Company acts as a principal for provision of IT and Software services, with revenue recorded on a gross basis. The Company acts as a principal if it controls a promised good or service before transferring that good or service to the customer. Factors considered in making this assessment are most notably the discretion the Company has in establishing the price for the specified good or service and whether the Company is primarily responsible for fulfilling the promise to deliver the service or good. This assessment of control requires judgement in particular in relation to certain service contracts.

Licences

Software licences delivered by the Company can either be right to access ('active') or right to use ('passive') licences. Active licences are licences which require continuous upgrade and updates for the software to remain useful, all other licences are treated as passive licences. The assessment of whether a licence is active or passive involves judgement. The key determinant of whether a licence is active is whether the Company is required to undertake activities that significantly affect the licensed intellectual property (or the customer has a reasonable expectation that it will do so) and the customer is, therefore, exposed to positive or negative impacts resulting from those changes.

When software upgrades are sold as part of the software licence agreement (i.e. software upgrades are promised to the customer), the Company applies judgement to assess whether the software upgrade is distinct from the licence (i.e. a separate performance obligation). If the upgrade is considered fundamental to the ongoing use of the software by the customer, the upgrades are not considered distinct and not accounted for as a separate performance obligation.

1 Accounting policies **(Continued)**

1.4 Revenue recognition (continued)

Contract related assets and liabilities

As a result of the contracts which the Company enters into with its customers, a number of different assets and liabilities are recognised on the Company's balance sheet. These include but are not limited to:

Property, plant and equipment*
Intangible assets*
Contract fulfilment assets^
Trade receivables*
Accrued income^
Deferred income^

* No change in the accounting policies for these assets as a result of the adoption of IFRS 15
^ Refer below for the accounting policy applied following the adoption of IFRS 15

Contract fulfilment costs are divided into (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred.

When determining the appropriate accounting treatment for such costs, the Company firstly considers any other applicable standards.

Contract fulfilment assets

If those other standards preclude capitalisation of a particular cost, then an asset is not recognised under IFRS 15.

If other standards are not applicable to contract fulfilment costs, the Company applies the following criteria which, if met, result in capitalisation: (i) the costs directly relate to a contract or to a specifically identifiable anticipated contract; (ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) the costs are expected to be recovered.

The assessment of this criteria requires the application of judgement, in particular when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable. The Company regularly incurs costs to deliver its outsourcing services in a more efficient way (often referred to as 'transformation' costs).

These costs may include process mapping and design, system development, project management, hardware (generally in scope of the Company's accounting policy for property, plant and equipment), software licence costs (generally in scope of the Company's accounting policy for intangible assets), recruitment costs and training.

Capitalisation of costs to obtain a contract

No costs to obtain the contract have been capitalised.

1 Accounting policies **(Continued)**

1.4 Revenue recognition (continued)

Utilisation, derecognition and impairment of contract fulfilment assets and capitalised costs to obtain a contract

The Company utilises contract fulfilment assets and capitalised costs to obtain a contract to cost of sales over the expected contract period using a systematic basis that mirrors the pattern in which the Company transfers control of the service to the customer.

The utilisation charge is included within cost of sales. Judgement is applied to determine this period, for example whether this expected period would be the contract term or a longer period such as the estimated life of the customer relationship for a particular contract if, say, renewals are expected.

Management is required to determine the recoverability of contract related assets within property, plant and equipment, intangible assets as well as contract fulfilment assets, accrued
income and trade receivables. At each reporting date, the Company determines whether or not the contract fulfilment assets are impaired by comparing the carrying amount of the asset to the remaining amount of consideration that the Company expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Company uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

Onerous contracts

The Group reviews its long-term contracts to ensure that the expected economic benefits to be received are in excess of the unavoidable costs of meeting the obligations under the contract. The unavoidable costs are the lower of the net costs of termination or the costs of fulfilment of the contractual obligations. The Group recognises the excess of the unavoidable costs over economic benefits due to be received as an onerous contract provision.

Deferred and accrued income

The Company has a range of payment schedules dependent upon the nature and type of services being provided. Payments for these services may be at delivery date, in arrears or part payment in advance. Where payments made are greater than the revenue recognised at the period end date, the Company recognises a deferred income contract liability for this difference. Where payments made are less than the revenue recognised at the period end date, the Company recognises an accrued income contract asset for this difference.

1.5 Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life as follows:

Fixtures and fittings	5 years
Computer equipment	3 - 5 years

1.6 Leasing

Rentals payable under operating leases are charged against income on straight line basis over the lease term.

1 Accounting policies **(Continued)**

1.7 Pensions

The Company participates in a number of defined contribution schemes and contributions are charged to the profit and loss account in the year in which they are due. These schemes are funded and contributions are paid to separately administered funds. The assets of these schemes are held separately from the Company. The Company remits monthly pension contributions to Capita Business Services Limited, a fellow subsidiary undertaking, which pays the group liability centrally. Any unpaid contributions at the year-end have been accrued in the accounts of Capita Business Services Limited.

The Company also has employees who were members of a defined benefit scheme operated by the group – the Capita Pension & Life Assurance Scheme (the "Capita DB Scheme").

The Capita DB Scheme closed to future accrual of benefit on 30 November 2017 for the majority of active members. Consequently, all of the Company's employees who had been active members of the Capita DB Scheme on 30 November 2017 were offered membership of the group's principal defined contribution scheme. As the Company ceased to employ any active members in the Capita DB Scheme a section 75 debt fell due to the Trustees of the Capita DB Scheme and this was settled by Capita Business Services Limited, a fellow subsidiary undertaking, in early 2018. As a result, the Company is no longer a participating employer in the Capita DB Scheme.

As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the Capita DB Scheme to participating entities, the net defined benefit cost of the Capita DB Scheme is recognised fully by the Principal Employer (Capita Business Services Limited, a fellow subsidiary undertaking). The Company then recognises a cost equal to its contribution payable for the period. The contributions payable by the participating entities are determined on the following basis:

- The Capita DB Scheme provides benefits on a defined benefit basis funded from assets held in a separate trustee-administered fund.
- The Capita DB Scheme is a non-segregated scheme but there are around 200 different sections in the scheme where each section provides benefits on a particular basis (some based on final salary, some based on career average earnings) to particular groups of employees.
- At each funding assessment of the Capita DB Scheme (carried out triennially), the contribution rates for those sections containing active members are calculated. These are then rationalised such that sections with similar employer contribution rates (when expressed as a percentage of pensionable pay) are grouped together and an average employer contribution rate for each of the rationalised groups calculated.
- The Company's contribution is consequently calculated by applying the appropriate average employer contribution rates to the pensionable pay of its employees participating in the Capita DB Scheme.

A full actuarial valuation of the Capita DB Scheme is carried out every three years by an independent actuary for the Trustee, with the last full valuation carried out at 31 March 2017. The next scheme funding assessment is expected to be carried out with an effective date of 31 March 2020.

1 Accounting policies **(Continued)**

1.8 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill;

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

1 Accounting policies **(Continued)**

1.9 Share-based payments

The Company participates in various share option and share save schemes operated by Capita plc, the ultimate parent undertaking. Details of these schemes are contained in the group's annual report.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense, attributable to the company, since the previous balance sheet date is recognised in the profit and loss account and settled with Capita plc, the ultimate parent undertaking.

In accordance with IFRS 2, share option awards of the ultimate parent company's equity instruments in respect of settling grants to employees of the company are disclosed as a charge to the income statement and a credit to equity. The company's policy is to reimburse its ultimate parent company through the inter company account for charges that are made to it. Hence the credit to equity has been eliminated, rather reflecting a credit to inter-company which better describes the underlying nature of the transaction.

1.10 Financial instruments

Investments and other financial assets

Classification

Applicable from 1 January 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date (that is, the date on which the Company commits to purchase or sell the asset). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cashflows are solely payment of principal and interest.

1 Accounting policies **(Continued)**

1.10. Financial instruments (continued)

Impairment

From 1 January 2018, the Company assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Company applies the simplified approach permitted by IFRS 9, resulting in trade receivables recognised and carried at original invoice amount less an allowance for any uncollectible amounts based on expected credit losses.

Accounting policies applied until 31 December 2017

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy, as shown below:

All investments are initially recorded at their fair value. Subsequently they are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Investment loans are measured at amortised cost using the effective interest method.

Available-for-sale financial assets are measured at their fair value with unrealised gains or losses being recognised directly in equity. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement.

Financial assets at fair value through the income statement (disclosed in investment income) include financial assets designated upon initial recognition as at fair value through the income statement.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the assets are part of a Company of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy.

Trade and other receivables

The Company assesses on a forward looking basis the expected credit losses associated with its receivables carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Company applies the simplified approach permitted by IFRS 9, resulting in trade receivables recognised and carried at original invoice amount less an allowance for any uncollectible amounts based on expected credit losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are meas ur ed at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of 3 months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

1 Accounting policies **(Continued)**

1.11 Impairment of non-financial assets

At each reporting date, the company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the company makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use is determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability..

1.12 Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

2 Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires the Directors to make judgements and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported income and expense during the reported periods. Although these judgements and assumptions are based on the Directors' best knowledge of the amount, events or actions, actual results may differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year is the measurement of provisions and measurement of revenue and resulting profit recognition. The measurement of provisions reflects management's assessment of the probable outflow of economic benefits resulting from the existing obligation. Provisions are calculated on a case to case basis and involve judgement as regards the final timing and outcome of any financial outlay. The measurement of revenue and resulting profit recognition – due to the size and complexity of some of the Company's contracts, there are significant judgements to be applied, including the measurement and timing of revenue recognition and the recognition of related balance sheet items (such as contract fulfilment assets, capitalisation of costs to obtain a contract, trade receivables, accrued income and deferred income) that result from the performance of the contract.

3 Revenue

The total revenue of the Company for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

4 Operating profit

	2018	**2017**
	£'000	**£'000**
Operating profit for the year is stated after (crediting)/charging:		
Depreciation of property, plant and equipment	59	155
Operating lease rentals - plant and machinery	8	86
Operating lease rentals - other assets*	1,145	1,145

*The Company does not hold title to the lease on the other assets. Rather the company is recharged these costs by the leaseholder. Therefore, per note 13 the entity has nil lease commitments.

Audit fees are borne by the ultimate parent undertaking, Capita plc. The audit fee for the current period was £16,900 (2017: £12,600). The Company has taken advantage of the exemption provided by regulations 6(2)(b) of The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 not to provide information in respect of fees for other (non-audit) services as this information is required to be given in the group accounts of the ultimate parent undertaking, which it is required to prepare in accordance with the Companies Act 2006.

5 Income tax

The major components of income tax expense for the years ended 31 December 2018 and 2017 are:

	2018 £'000	2017 £'000
Current income tax		
Current income tax (credit)/charge	(3,658)	2,430
Adjustments in respect of prior years	(197)	(733)
	(3,855)	**1,697**
Deferred income tax		
Origination and reversal of temporary differences	8,582	2,935
Total tax expenses	**4,727**	**4,632**

The reconciliation between tax expense/(credit) and the product of accounting profit multiplied by the UK Corporation tax rate for the years ended 31 December 2018 and 2017 is as follows:

	2018 £'000	2017 £'000
Profit before tax	31,214	29,869
Notional charge at UK corporation tax rate of 19% (2017: 19.25%)	5,931	5,750
Expenses not deductible for tax purposes	3	5
Impact of changes in statutory tax rates	(1,010)	(390)
Adjustments in respect of current income tax of prior years	(197)	(733)
Total adjustments	**(1,204)**	**(1,118)**
Total tax expense reported in the income statement	**4,727**	**4,632**

The UK corporation tax rate decreased from 20% to 19% on 1 April 2017 and will decrease further to 17% from 1 April 2020. The deferred tax balances have been adjusted to reflect this change.

	Balance sheet 2018 £'000	Balance sheet 2017 £'000	Income Statement 2018 £'000	Income Statement 2017 £'000
Deferred tax assets				
Decelerated capital allowances	309	366	57	-
Deferred income liability	-	8,525	8,525	2,935
Net deferred tax asset	**309**	**8,891**		
Deferred income tax expense			**8,582**	**2,935**

5 Income tax **(Continued)**

Impact of adoption of IFRS 15 on income tax balances

Due to the changes in assets, liabilities, income and expenses recognised as a result of the application of IFRS 15, there are consequent IAS 12 Income taxes differences that arise, and are reflected in the restated 31 December 2017 balances.
Due to the changes in the pattern and timing of revenue recognition under IFRS 15, a deferred income liability was recognised on the balance sheet from 1 January 2017, which will be recognised through the income statement in subsequent periods. The impact of these revenue recognition changes is only recognised for tax purposes via a one-off transitional tax adjustment on 1 January 2018, so no tax deduction was available in 2017 for the reduction in historic revenue recognised.
Under the principles of IAS 12, the restated balance sheet for 31 December 2017 reflects a net movement of £8.5m, arising from an increase in deferred tax assets as a result of the transition to IFRS 15. As a result of the tax one off transitional adjustment noted above in 2018, the deferred tax asset on deferred income liability as at 31 December 2017 converts into current tax at 31 December 2018.

6 Property, plant and equipment

	Fixtures and fittings	Computer equipment	Total
	£'000	£'000	£'000
Cost			
At 1 January 2018	43	314	357
Asset retirement	(12)	(291)	(303)
At 31 December 2018	31	23	54
Depreciation			
At 1 January 2018	28	262	290
Depreciation	8	51	59
Asset retirement	(12)	(291)	(303)
At 31 December 2018	24	22	46
Net book value			
At 31 December 2017	15	52	67
At 31 December 2018	7	1	8

7 Trade and other receivables

Current	2018 £'000	Restated 2017 £'000
Trade receivables	276	2,751
Prepayments	270	586
Accrued income	1,555	665
Amounts due from parent & fellow subsidiary undertaking	45,535	8,066
	47,636	**12,068**

Non-current	2018 £'000	2017 £'000
Prepayments	25	-
	25	**-**

8 Cash

	2018 £'000	2017 £'000
Cash at bank and in hand	26,380	11,058
	26,380	**11,058**

9 Trade and other payables

Current	2018 £'000	2017 £'000
Trade payables	63	660
Other taxes and social security	207	2,512
Accruals	859	639
Amounts due to parent and fellow subsidiary undertaking	531	1,324
	1,660	**5,135**

Non-current	2018 £'000	2017 £'000
Amounts due to parent and fellow subsidiary undertaking*	3,500	3,500
	3,500	**3,500**

*Represents an interest free intercompany loan from Capita Financial Services Holdings Limited. Capita Financial Services Holdings Limited has the right to demand repayment of the loan no earlier than 3 August 2022 and the directors are of the view that earlier settlement of the loan is not probable.

10 Deferred income

	2018 £'000	Restated 2017 £'000
Current		
Deferred income	18,359	19,022
	18,359	**19,022**
Non-current		
Deferred income	17,214	32,688
	17,214	**32,688**

The deferred income balances solely relates to revenue from contracts with customers. Movements in the deferred income balances were driven by transactions entered into by the Company within the normal course of business in the year.

11 Provisions

Current

	Dilapidation £'000	Others £'000	Total £'000
As at 1 January 2018	315	412	727
Additions	-	245	245
At 31 December 2018	**315**	**657**	**972**

The Company is required to perform repairs on leased properties prior to the properties being vacated at the end of their lease term. Dilapidations for such costs are made where legal obligation is identified and the liability can be reasonably quantified.

Other provisions relate to provisions in respect of termination expenses on some of the Company's contract. These are likely to unwind over a period of 12 months.

12 Issued share capital	2018 Numbers	2017 Numbers	2018 £'000	2017 £'000
Allotted, called up and fully paid				
Ordinary shares of £1 each				
At 1 January 2018	50,000	50,000	50	50
Issue of shares	37,500,000	-	37,500	-
At 31 December	**37,550,000**	**50,000**	**37,550**	**50**

13 Operating lease commitments

At the reporting date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Land and buildings		Other	
	2018	**2017**	**2018**	**2017**
	£'000	**£'000**	**£'000**	**£'000**
Within one year	53	87	-	14
Between two and five years	53	-	-	12
Total	**106**	**87**	**-**	**26**

14 Employee benefits

The Company participates in both defined benefit and defined contribution pension schemes.

Contributions in respect of the defined contribution schemes payable by the Company during the year amounted to £1,568,270 (2017: £1,661,746).

The Company has current and former employees who were members of the Capita Pension and Life Assurance Scheme (the "Capita DB Scheme"), a defined benefit scheme.

The Capita DB Scheme is a non-segregated scheme but there are around 200 different sections in the scheme where each section provides benefits on a particular basis (some based on final salary, some based on career average earnings) to particular groups of employees.

The Capita DB Scheme closed to future accrual of benefit on 30 November 2017 for the majority of active members. Consequently, all of the Company's employees who had been active members of the Capita DB Scheme on 30 November 2017 were offered membership of the group's principal defined contribution scheme. As the Company ceased to employ any active members in the Capita DB Scheme a section 75 debt fell due to the Trustees of the Capita DB Scheme and this was settled by Capita Business Services Limited, a fellow subsidiary undertaking, in early 2018. As a result, the Company is no longer a participating employer in the Capita DB Scheme.

The pension charge for the Company in relation to the Capita DB Scheme for the year was £nil (2017: £23,756).

A full actuarial valuation of the Capita DB Scheme is carried out every three years by an independent actuary for the Trustee, with the last full valuation carried out at 31 March 2017. Amongst the main purposes of the valuation is to agree a contribution plan such that the pension scheme has sufficient assets available to meet future benefit payments, based on assumptions agreed between the Trustee and the Principal Employer. The 31 March 2017 valuation showed a funding deficit of £185m (31 March 2014: £1.4m). This equates to a funding level of 86.1% (31 March 2014: 99.8%).

As a result of the funding valuation, the Principal Employer and the Trustee agreed the payment of additional contributions totaling £176m between November 2018 and 2021 with the intention of removing the deficit calculated as at 31 March 2017 by 2021.

In addition, the Principal Employer agreed an average employer contribution rate of 28.1% (excluding employee contributions made under a salary sacrifice arrangement) towards the expected cost of benefits accruing.

(Continued)

14 Employee benefits

The next scheme funding assessment will be carried out with an effective date of 31 March 2020.

For the purpose of the consolidated accounts of Capita Plc, an independent qualified actuary projected the results of the 31 March 2017 funding valuation to 31 December 2018 on the relevant accounting requirements.

The major assumptions for the valuations at 31 December 2018 were as follows: rate of price inflation RPI/CPI 3.2% pa/2.2% pa (2017: 3.2% pa/2.2% pa); rate of the salary increase - 3.2% pa (2017: 3.2% pa); rate of increase for pensions in payment (where RPI inflation capped at 5% pa applies - 3.1% pa (2017: 3.1% pa); discount rate - 2.85% pa (2017: 2.5% pa).

The Capita DB Scheme assets at fair value at 31 December 2018 totalled £1,136.0m (2017: £1,101.3m). The actuarially assessed value of Capita DB Scheme liabilities at 31 December 2018 was £1,342.7m (2017:£1,493.4m) indicating that the Capita DB Scheme had a net liability of £206.7m (2017: net liability of £392.1m). These figures are quoted gross of deferred tax. The full disclosure is available in the consolidated accounts of Capita plc.

15 Employees

The average monthly number of employees (including non-executive directors) year were:

	2018 Number	2017 Number
Operations	682	482
Administration	13	264
	695	**746**

Their aggregate remuneration comprised:

Employee costs	2018 £'000	2017 £'000
Wages and salaries	15,144	17,749
Social security costs	1,453	1,567
Pension costs	1,568	1,686
Shared based payments	17	24
	18,182	**21,026**

16 Directors' remuneration

	2018	2017
	£'000	£'000
Remuneration for qualifying services	309	471
Company pension contributions to defined contribution schemes	16	35
	325	**506**

Two Directors were paid by Western Mortgage Services Limited. The number of Directors for whom retirement benefits are accruing under defined contribution scheme amounted to 2 (2017:3).

Remuneration disclosed above include the following amounts paid to the highest paid Director:

	2018	2017
	£'000	£'000
Remuneration for qualifying services	179	181
Company pension contributions to defined contribution schemes	7	12

In addition to the above, the Directors of the Company were reimbursed for the expenses incurred by them whilst performing business responsibilities.

17 Controlling party

The immediate parent Company is Capita Financial Services Holdings Limited, a Company registered in England and Wales, and the ultimate parent Company is Capita plc, a Company registered in England and Wales. Capita plc prepares group financial statements and copies can be obtained from 30 Berners street, London, England, W1T 3LR.

18 Post balance sheet event

There are no significant events which have occurred after the reporting period.

19 Reconciliation of 2017

The Company adopted IFRS 15 Revenue from Contracts with Customers on 01 January 2018 using the full retrospective method. Following note details the impact on adoption of IFRS 15 in the comparitive period of 2017 :

Income statement restatement for the year ended 31 December 2017:

2017	**Foot note**	**2017 £'000**	**IFRS 15 impact**	**Restated 2017 £'000**
Revenue	AI	41,765	17,425	59,190
Cost of sales		(25,324)	-	(25,324)
Gross profit		**16,441**	**17,425**	**33,866**
Administrative expenses		(3,997)	-	(3,997)
Operating profit		**12,444**	**17,425**	**29,869**
Income tax expense	AIV	(1,670)	(2,962)	(4,632)
Total comprehensive income for the year		**10,774**	**14,463**	**25,237**

19 Reconciliation of 2017 (continued)

Balance sheet restatement as at 31 December 2017

2017	Footnote	2017 £'000	IFRS 15 impact	Restated 2017 £'000
Non-current assets				
Property, plant and equipment		67	-	67
Deferred tax assets	AIV	365	8,526	8,891
		432	8,526	8,958
Current assets				
Trade and other receivables	AII, AIII	13,103	(1,035)	12,068
Cash		11,058	-	11,058
Total current assets		24,161	(1,035)	23,126
Total assets		24,593	7,491	32,084
Current liabilities				
Trade and other payables		5,135	-	5,135
Deferred income	AI	-	19,022	19,022
Provisions		727	-	727
Income tax payable		869	-	869
Total current liabilities		6,731	19,022	25,753
Non-current liabilities				
Trade and other payables		3,500	-	3,500
Deferred income	AI	2,592	30,096	32,688
Total non-current liabilities		6,092	30,096	36,188
Total liabilities		12,823	49,118	61,941
Net assets/(liabilities)		11,770	(41,627)	(29,857)
Capital and reserves				
Issued share capital		50	-	50
Retained deficit		11,720	(41,627)	(29,907)
Total equity		11,770	(41,627)	(29,857)

Footnotes:

Note A: The Company adopted IFRS 15 Revenue from contracts with customers in 2018 using a fully retrospective application which includes restatement of prior period comparatives. Refer to below for explanatory notes in respect of adjustments as applicable:

Note AI : Revenue recognition in line with output

Under the previous accounting, revenue for certain contracts was recognised under the percentage of completion method based upon costs incurred to date as a proportion of the estimated full cost of completing the contract, and applying the percentage to the total revenue expected to be earned.

Under IFRS 15, all elements of the contract are combined and now have revenue recognised in line with their output measured on a contract specific basis. As such, revenue is now spread over the expected life of the contract rather than in line with the costs profile.

Note AII: Decrease in trade and other receivables

The decrease in trade and other receivables relates to the restatement of accrued revenues as detailed in adjustments AI above.

Note AIII: Reversal of accrued income impairments

Impairment of historic accrued income may have been recognised. Under IFRS 15, this accrued income would not have been originally recognised as the timing of revenue recognition has changed in comparison to the previous accounting policy and may lead to the reversal of these previous impairments.

Note AIV : Tax

Due to the changes in assets, liabilities, income and expenses recognised as a result of the application of IFRS 15, there are consequent IAS 12 Income taxes differences that arise including deferred tax.