Company Registration No. 03191608 (England and Wales)

WESTERN MORTGAGE SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

WESTERN MORTGAGE SERVICES LIMITED

COMPANY INFORMATION

Directors	A P Brown	
	I R Coventry	(Appointed 23 September 2019)
	T F Vanoverschelde	(Appointed 25 February 2019)
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

WESTERN MORTGAGE SERVICES LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

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

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 its subsidiaries is hereafter referred to as "the Group". The Company operates within the Capita Specialist Services 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.

As shown in the Company's income statement on page 11, the Company's revenue has increased from £57,227k in 2018 to £64,182k in 2019 driven by one-off release of deferred income of £13,200k during the year on account of termination of old contract with Cooperative bank. Operating profit has increased from £31,214k in 2018 to £39,023k in 2019 driven by aforementioned one-off release of deferred income during the year. As a result of the termination of the old contract, the operating profit is expected to reduce from 2020 onwards given that the majority of the deferred income pertained to the transformation and transition activities under the old contract have been released by December 2019.

The balance sheet on page 12 & 13 of the financial statements shows the Company's financial position at the year end. The Company's net assets have increased from £34,130k in 2018 to £65,021k in 2019 majorly due to profits earned during the year and aforementioned one-off release of deferred income during the year. Details of amounts owed by/to its parent Company and fellow subsidiary undertakings are shown in notes 11 and 13 to the financial statements.

The Company adopted IFRS 16 Leases during the year which sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Company has applied IFRS 16 using modified retrospective approach, the effect of which is explained in notes 5,9,16 ad 23.

Key performance indicators used by Capita plc are operating margins, free cash flow 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 2019 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 indirectly 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.

The Company has adequate capital resources and there are no foreseen events which may cause an adverse impact on capital requirement. Capital requirement calculation shown on the following page:

MIPRU 4.2.19	**£'000**
Revenue from home finance administration	58,085
Minimum Capital Requirement, higher of:	
Minimum Capital Requirement	100
10% of annual income	5,809
Actual Requirement	**5,809**
MIPRU 4.2.11	
Revenue from Home Finance Mediation and Insurance Mediation	3,951
Minimum Capital Requirement, higher of:	
Minimum Capital Requirement	5
2.5% of annual income	99
Actual Requirement	**99**
Total Actual Capital Requirement	**5,908**
Shareholder Funds	65,021
Less : Intangibles	-
Total New Assets less Intangibles (including goodwill)	**65,021**
Surplus	59,113
Coverage	11x

The Company assesses amount of regulated capital and restricted cash that it requires to hold on a quarterly basis. It does so by reviewing its forecast future cashflow along with current restricted cash balance to ensure it has sufficient capital for foreseeable trading period. The Company also assesses its capital requirements based on risks identified as part of the risk management processes detailed below. The management have assessed that there is minimal risk from any other source and no additional 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 an end date of December 2025.

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.

Data Protection risk
The risk in this area is critical because there are new threats which need to be managed as well as programmes of work to be completed to enhance the control around data and IT systems. The risks and its potential impacts are as follows:

- loss of client or customer data;
- loss of one of Company's data centres and not having disaster recovery and/or business continuity plans in place;
- loss of service availability to Company and/or its customers due to cyber-attack;
- unauthorised or inappropriate access to data due to cyber-attack;
- reputational damage leading to loss of existing contracts and difficulty when bidding for new business; and
- potential or significant regulatory fines.

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 an 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.

Section 172 Statement

The following disclosure describes how the Directors have had regard to the matters set out in section 172(1a) to (f) and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

The Company forms part of the Specialist Services Division of the Capita plc Group and Capita plc's section 172 statement applies to both the Division and the Company to the extent it relates to the Company's activities. Common policies and practices are applied throughout the Group via divisional management teams and a common governance framework. The section 172 statement for Capita plc can be found on page 39 of Capita plc's Annual Report & Accounts 2019.

The following table references our key stakeholders, the strategic issues affecting them and the impact of engagement methods and outcomes.

Stakeholder	Principle decisions (Para or bullets)
Clients and Customers	• The key client is The Co-operative Bank and their Customers and our other clients. • Capita is investing in both its existing and new products and markets by engaging and communicating on continuous basis with our stakeholders to defend and grow the business, with the aim of achieving mid to high single digit revenue growth whilst at least maintaining margins. • In 2020 the Company will be investing in broadening its scope of services within the financial services industry, seeking to expand its operation with market offerings to mortgage BPO clients, servicing of securitised portfolios and providing back-up servicing.
Our People	• Western Mortgage Services Ltd is a people-focused business and the leadership team is committed to putting our people at the very centre of how we and Capita operate, and to respecting and valuing all of them. This will change the way we attract, develop, reward and retain our talented employees and they will start to experience the positive changes taking place within the business. We want our people to feel part of the Company's success, and to be excited and motivated to work hard to help achieve it. Capita has appointed two employees as non-executive Directors, becoming the first FTSE 250 company since the late 1980s to appoint employees to its Board. In their new non-executive roles, they provide an employee's perspective and expertise, and input into strategic decision-making with the same level of authority as other Directors. Capita remain very focused on increasing diversity and inclusion at Capita and have improved gender diversity statistics. • There is tangible evidence that our employee value proposition is improving, in that the average tenure of our people is increasing and that they are more satisfied as measured by our own employee net promoter score and external Glassdoor rating.

Section 172 Statement (continued)

Stakeholder	**Principle decisions (Para or bullets)**
Suppliers and Partners	• Western Mortgage Services Ltd values the business relationships it has with suppliers and seeks to build lasting relationships, treating our suppliers and partners fairly and paying promptly. We have produced a 'supplier charter', outlining how we operate and work together with our suppliers, laying out the core principles by which the Company does business and what Capita expects from its suppliers in return. Western Mortgage Services complies with this Charter. • The charter covers a range of business and operational areas from health and safety to human rights, diversity and inclusion, cyber security, and how any non-compliance with the charter principles are addressed. Capita have met the requirements of the Government prompt payment code, paying over 95% of our suppliers within 60 days in aggregate over the last year, and have set ourselves more challenging targets. • Our commercial model increasingly includes a commitment to client outcomes such as improvements in the net promoter score, revenue generation, customer acquisition and cost-to-serve, deploying a range of operational, technology and process capabilities from within both Specialist Division and the wider Capita group.

On behalf of the board

T F Vanoverschelde
Director

15 September 2020

WESTERN MORTGAGE SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

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

Results and dividends

The results for the year are set out on page 11.

No dividend was paid during the year (2018 : £nil).

Directors

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

A P Brown	
I R Coventry	(Appointed 23 September 2019)
T F Vanoverschelde	(Appointed 25 February 2019)
J D Vincent	(Resigned 7 May 2019)

Political donations

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

Employees

Details of the number of employees and related costs can be found in note 18 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 C ompany'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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

T F Vanoverschelde
Director

15 September 2020

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 2019 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 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 ; 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.

Material uncertainty related to going concern

We draw attention to note 1.1 to the financial statements which indicates that the company is reliant on its ultimate parent undertaking, Capita plc, in regard to its ability to continue as a going concern. Under a severe but plausible downside scenario Capita plc may require completion of its planned disposal programme, which requires shareholder approval and approval from the group's lenders. These agreements with third parties constitute a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF WESTERN MORTGAGE SERVICES LIMITED

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; or
- the Directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF WESTERN MORTGAGE SERVICES LIMITED

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

15 September 2020

WESTERN MORTGAGE SERVICES LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £'000	2018 £'000
Revenue	3	64,182	57,227
Cost of sales		(19,458)	(20,573)
Gross profit		**44,724**	**36,654**
Administrative expenses		(5,701)	(5,440)
Operating profit	**4**	**39,023**	**31,214**
Net finance cost	6	(63)	-
Profit before tax		**38,960**	**31,214**
Income tax charge	7	(8,069)	(4,727)
Total comprehensive income for the year		**30,891**	**26,487**

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 15 to 39 form an integral part of financial statements.

WESTERN MORTGAGE SERVICES LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Property, plant and equipment	**8**	1	8
Right-of-use assets	**9**	1,369	-
Contract fulfilment assets	**10**	1,589	-
Trade and other receivables	**11**	21	25
Deferred tax	**7**	392	309
Total non-current assets		**3,372**	**342**
Current assets			
Trade and other receivables	**11**	47,373	47,636
Income tax receivable		-	1,477
Cash	**12**	36,182	26,380
Total current assets		**83,555**	**75,493**
Total assets		**86,927**	**75,835**
Current liabilities			
Trade and other payables	**13**	5,451	1,660
Deferred income	**14**	6,914	18,359
Provisions	**15**	521	972
Lease liabilities	**16**	542	-
Income tax payable		4,494	-
Total current liabilities		**17,922**	**20,991**
Non-current liabilities			
Trade and other payables	**13**	-	3,500
Deferred income	**14**	2,822	17,214
Lease liabilities	**16**	1,062	-
Provisions	**15**	100	-
		3,984	**20,714**
Total liabilities		**21,906**	**41,705**
Net assets		**65,021**	**34,130**

WESTERN MORTGAGE SERVICES LIMITED

BALANCE SHEET (CONTINUED)

AS AT 31 DECEMBER 2019

	Notes	2019 £'000	2018 £'000
Capital and reserves			
Issued share capital	**17**	37,550	37,550
Retained earnings/(deficit)		27,471	(3,420)
Total equity		**65,021**	**34,130**

The notes on pages 15 to 39 form and integral part of financial statements.

Approved by Board and authorised for issue on 15 September 2020

T F Vanoverschelde
Director
Company Registration No. 03191608

WESTERN MORTGAGE SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Retained (deficit)/earnings	Total equity
	£'000	£'000	£'000
At 1 January 2018	**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**
Total comprehensive income for the year	-	30,891	30,891
Contribution in respect of share based payment charge	-	1	1
Settlement of share based payment charged by intercompany	-	(1)	(1)
At 31 December 2019	**37,550**	**27,471**	**65,021**

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)/earnings - Represents accumulated losses of the Company/ net profits kept to accumulate in the Company after dividends are paid and retained in the business as working capital.

The notes on pages 15 to 39 form and integral part of financial statements.

WESTERN MORTGAGE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

1.1 Basis of preparation

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

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

In determining the appropriate basis of preparation for the annual report and financial statements for the year ended 31 December 2019, the Directors are required to consider whether the Company will be able to operate within the level of available facilities and cash for the foreseeable future, being a period of at least 12 months following the approval of these accounts. The Directors have concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts, key uncertainties and sensitivities, including the potential impact of COVID-19 as set out below.

Since late March 2020, the Group and the Company have faced challenges and uncertainties due to the COVID-19 pandemic.

The Directors expect revenue over the rest of the year to remain resilient, given the client base and the long-term nature of our contracts. Nevertheless, to enable a robust assessment of the medium term forecast financial performance the Directors commissioned an exercise in June 2020 to revisit the outlook to the end of 2021 ahead of the normal business plan process. The high level of uncertainty as to how the COVID-19 pandemic might evolve over the remainder of 2020 and into 2021, including whether or not there will be a second wave and what impact this may have on the operation of the business, makes precise forecasting challenging. There is a higher degree of uncertainty than would usually be the case in making the key judgements and assumptions that underpin the Company's financial forecasts.

The bottom-up forecasts have been subject to review and challenge by management and the Directors. The forecasts include overlays for additional financial benefits that are expected to be driven by the Group transformation programme. These include sales growth together with margin improvements and further cost out targets. The Directors have approved the 2021 outlook which, on the assumption that the overlays are successfully delivered, supports the base case and time period assessed as part of the going concern review for these financial statements.

In addition to the base case, the Directors considered severe but plausible downside scenarios, recognising there is execution risk associated with a transformation programme of such magnitude that has been impacted by the broader political and economic uncertainty introduced by COVID-19. Offsetting these risks the Directors have considered available mitigations within the direct control of the Company, including (restructuring and limiting variable rewards). Finally, the assessment has considered the extent to which the Company is reliant on the Group.

The Company is reliant on the Group in respect of the following:

- provision of administrative support services and should the Group be unable to deliver these services the Company is confident that with the necessary changes put in place it would be able to continue to operate independently of Group support.
- participation in the Group's notional cash pooling arrangements, of which £43,164,814 was advanced by the Company at 31 July 2020. In the event of a default by the Group, the Company may not be able to access this facility; and
- recovery of receivables of £41,578,490 from fellow Group undertakings as of 31 July 2020.

Given the reliance the Company has on the Group, the Directors have considered the financial position of the ultimate parent undertaking as disclosed in its most recent financial statements, being for the six months ended 30 June 2020.

1 Accounting policies **(Continued)**

Ultimate parent undertaking – Capita plc

The Capita plc Board ('the Board') concluded that it was appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts, key uncertainties and sensitivities, including the potential impact of COVID-19, when preparing the Group's consolidated financial statements for the six months to 30 June 2020. These financial statements were approved by the Board on 17 August 2020 and are available on the Group's website (www.capita.com investors).

To address the medium-term resilience of the Group, the Board have announced the planned disposal of the Education Software Services business ('ESS'). It is the Board's expectation that these funds will provide the necessary liquidity headroom to address any potential shortfalls arising in the downside scenarios evaluated, albeit with potentially limited covenant headroom as at 30 June 2021. It is also the Board's expectation that these funds will provide for compliance with all covenants although in certain circumstances this headroom is potentially limited at June 2021. The Board has confidence in the robustness of its primary mitigation (the ESS disposal) against the downside scenarios considered. The Board has several other options which are being actively pursued to provide further resilience in the event of a downside scenario. These include additional disposals and a refinancing of short- term maturities.

Material uncertainty

The disposal of ESS is subject to shareholder and lender approval, both of which are outside the control of the Company. Accordingly, this gives rise to material uncertainty, as defined in auditing and accounting standards, relating to events and circumstances which may cast significant doubt about the Group's ability to continue as a going concern.

The Board is confident that the ESS disposal will be approved by shareholders and lenders, and based on this expectation believes that, even in a plausible but severe downside scenario, the Group will continue to have adequate financial resources to realise its assets and discharge their liabilities as they fall due over the period to 31 December 2021.

Conclusion

Although the Company has a reliance on the Group detailed above, even in a severe but plausible downside for both the Company and the Group, the Directors are confident the Company will continue to have adequate financial resources to realise its assets and discharge its liabilities as they fall due over the period to 31 December 2021. Consequently, the annual report and financial statements have been prepared on the going concern basis and do not include any adjustments which would be required if the going concern basis of preparation were to be deemed inappropriate.

However, as the Group's disposal of ESS is subject to shareholder and lender approval, both of which are outside the control of the Group, this gives rise to a material uncertainty relating to events and circumstances which may cast significant doubt about the Group and therefore also the Company's ability to continue as a going concern.

1 Accounting policies **(Continued)**

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;
- Certain disclosures as required by IFRS 15 Revenue from Contracts with Customers;
- Certain disclosures as required by IFRS 16 Leases; 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
- Certain disclosures required by IFRS 13 Fair Value Measurement and the 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 16 Leases. In addition, the Company has adopted a new IFRIC as detailed below.

Initial adoption of IFRS 16 Leases

IFRS 16 (effective 1 January 2019) replaces IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Company applied IFRS 16 using the modified retrospective approach, under which the Company has measured the right-of-use assets at the value of lease liability. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported under IAS 17 and related interpretations. The updated policy on IFRS 16 is set out in note 1.6. The Company has applied IFRS 16 using modified retrospective approach, the effect of which is explained in notes 5,9,16 and 24.

On adoption of IFRS 16, the Company immediately recognised right of use asset representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 (effective 1 January 2019) addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. The Company has initially applied IFRIC 23 Uncertainty over Income Tax Treatments at 1 January 2019. The Company applies judgement in quantifying uncertainties over income tax treatments and has considered whether it should adjust its uncertain tax provisions in line with this new criteria. There is no impact on the Company's financial statements due to the application of IFRIC 23 (2018: £ nil).

In addition, the Company has adopted the new amendments to standards detailed below but they do not have a material effect on the Company's financial statements.

New amendments or interpretation	Effective date
Prepayment features with negative compensation (Amendments to IFRS 9)	1 January 2019
Plan amendment, curtailment or settlement (Amendments to IAS 19)	1 January 2019
Annual improvements to IFRS Standards 2015-2017 cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)	1 January 2019

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 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 of outsourced 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 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.

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.

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.

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

1 Accounting policies **(Continued)**

1.4 Revenue recognition (continued)

Contract fulfilment assets

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. 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.

Utilisation: The utilisation charge is included within cost of sales. The Company utilises contract fulfilment assets 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. Judgement is applied to determine this period.

Derecognition: A contract fulfilment asset is derecognised either when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

Impairment: 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.

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), and software licence costs (generally in scope of the Company's accounting policy for intangible assets), .

1 Accounting policies **(Continued)**

1.4 Revenue recognition (continued)

Capitalisation of costs to obtain a contract

The incremental costs of obtaining a contract with a customer are recognised as an asset if the Company expects to recover them. The Company incurs costs such as bid costs, legal fees to draft a contract and sales commissions when it enters into a new contract.

Judgement is applied by the Company when determining what costs qualify to be capitalised in particular when considering whether these costs are incremental and whether these are expected to be recoverable. For example, the Company considers which type of sales commissions are incremental to the cost of obtaining specific contracts and the point in time when the costs will be capitalised.

The Company has determined that the following costs may be capitalised as contract assets

i. legal fees to draft a contract (once the Company has been selected as a preferred supplier for a bid): and
ii. sales commissions that are directly related to winning a specific contract. Costs incurred prior to selection as preferred supplier are not capitalised but are expensed as incurred.

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 Accounting policies **(Continued)**

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

The Company has taken land and buildings on lease.

The determination whether an arrangement is, or contains, a lease is based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The following sets out the Company's lease accounting policy for all leases with the exception of leases with low value and term of 12 months or less which we have taken the exemption in the standard. These are expensed to the income statement.

At the inception of the lease, the Company recognises a right-of-use asset and a lease liability. A lease liability is recognised in the balance sheet which comprises the present value of minimum lease payments determined at the inception of the lease. A right-of-use asset of equivalent value is also recognised. Right-of-use assets are depreciated using the straight-line method over the shorter of estimated life or the lease term. Depreciation is included within the line item administrative expenses in the income statement.

The Company as a lessee - Right-of-use assets and lease liabilities

Right-of-use assets are measured at cost, which comprised the initial amount of the lease liability adjusted for any lease payments made on or before the adoption date. Depreciation is included within administrative expenses in the income statement. Right-of-use assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be fully recoverable. Right-of-uses assets exclude leases with a low value and term of 12 months or less. These leases are expensed to the income statement as incurred.

Lease liabilities are measured at amortised cost using the effective interest rate method. Lease payments are apportioned between a finance charge and a reduction of the lease liability based on the constant interest rate applied to the remaining balance of the liability. Interest expense is included within the line item net finance costs in the consolidated income statement.

The lease payments comprise fixed payments, including in-substance fixed payments such as service charges and variable lease payments that depend on an index or a rate, initially measured using the minimum index or rate at inception date. The payments also include any lease incentives and any penalty payments for terminating the lease, if the lease term reflects the lessee exercising that option. Lease liability is adjusted for any prepayment.

The lease term determined comprises the non-cancellable period of the lease contract. Periods covered by an option to extend the lease are included if the Company has reasonable certainty that the option will be exercised and periods covered by the option to terminate are included if it is reasonably certain that this will not be exercised.

The lease liability is subsequently remeasured (with a corresponding adjustment to the related right-of-use asset) when there is a change in future lease payments due to a renegotiation or market rent review, a change of an index or rate or a reassessment of the lease term. Payments associated with leases that have a term of less than 12 months or are of low value are recognised as an expense in the income statement as incurred.

1 Accounting policies **(Continued)**

1.7 Pensions

The Company participates in a number of defined contribution schemes and contributions are charged to the income statement account in the year in which they are due. These schemes are funded and the payment of contributions is made to separately administered trust 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 that company.

1.8 Taxation

Tax on the profit or loss for year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items 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 tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred 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 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, associates and interests in joint ventures, 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 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 difference 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 tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred 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 C ompany (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

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

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.

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 measured 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.

1.11 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.

The Company has made judgements in adopting IFRS 16 such as, determining contracts in scope for IFRS 16, determining the interest rate used for discounting of future cash flows, and the lease term.

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

	2019 £'000	2018 £'000
Operating profit for the year is stated after charging/(crediting):		
Intercompany write offs	6	-
Depreciation of property, plant and equipment	7	59
Contract fulfilment asset utilisation, impairment and derecognition	31	-
Operating lease rentals - plant and machinery	-	8
Operating lease rentals - other assets	-	1,145
Depreciation of right-of-use assets	483	-

Audit fees are borne by the ultimate parent undertaking, Capita plc. The audit fee for the current period was £16,995 (2018: £ 16,900). 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 Leases under IFRS 16

	2019 £'000	2018 £'000
Depreciation of right-of-use assets	483	-
Interest expense on lease liabilities	63	-

6 Net finance costs

	2019 £'000	2018 £'000
Interest on lease liabilities	63	-
	63	-

7 Income tax

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

	2019 £'000	2018 £'000
Current tax		
UK corporation tax	7,409	(3,658)
Adjustments in respect of prior periods	743	(197)
	8,152	**(3,855)**
Deferred tax		
Origination and reversal of temporary differences	(1)	8,582
Adjustments in respect of prior periods	(82)	-
	(83)	**8,582**
Total tax charge reported in the income statement	**8,069**	**4,727**

7 Income tax **(Continued)**

The reconciliation between tax charge and the accounting profit multiplied by the UK corporation tax rate for the years ended 31 December 2019 and 2018 is as follows:

	2019 £'000	2018 £'000
Profit before taxation	**38,960**	**31,214**
Profit before taxation multiplied by standard rate corporation tax in the UK of 19% (2018: 19%)	7,402	5,931
Taxation impact of factors affecting tax charge:		
Expenses not deductible for tax purposes	6	3
Impact of changes in statutory tax rates	-	(1,010)
Adjustments in respect of current income tax of prior periods	743	(197)
Adjusments in respect of deferred income tax of prior years	(82)	-
Total adjustments	**667**	**(1,204)**
Total tax charge reported in the income statement	**8,069**	**4,727**

	Balance sheet 2019 £'000	Balance sheet 2018 £'000	Income Statement 2019 £'000	Income Statement 2018 £'000
Deferred tax assets				
Decelerated capital allowances	377	309	(68)	57
Deferred income liability	-	-	-	8,525
Other short term timing differences	15	-	(15)	-
Net deferred tax asset	**392**	**309**		
Deferred tax (credit)/charge			**(83)**	**8,582**

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset/(liability) as at 31 December 2019 has been calculated based on this rate. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This will have a consequential effect on the company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax asset would have increased by £46,036.

8 Property, plant and equipment

	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2019	**31**	**23**	**54**
Additions	-	-	-
Asset retirement	-	(23)	(23)
At 31 December 2019	**31**	-	**31**
Depreciation			
At 1 January 2019	**24**	**22**	**46**
Charge for the year	6	1	7
Asset retirement	-	(23)	(23)
At 31 December 2019	**30**	-	**30**
Net book value			
At 31 December 2018	**7**	**1**	**8**
At 31 December 2019	**1**	-	**1**

9 Right-of-use assets

	Freehold land and buildings £'000
Net Book Value	
At 1 January 2019	-
Adjustment on transition to IFRS 16 (refer note 23)	1,852
Depreciation charge for the year	(483)
At 31 December 2019	**1,369**

10 Contract fulfilment assets

At 1 January 2019	-
Additions	1,620
Utilised during the year	(31)
At 31 December 2019	**1,589**

11 Trade and other receivables

Current	2019	2018
	£'000	£'000
Trade receivables	244	276
Prepayments	177	270
Accrued income	1,417	1,555
Amounts due from parent & fellow subsidiary undertaking	45,535	45,535
	47,373	**47,636**

Non-current	2019	2018
	£'000	£'000
Prepayments	21	25
	21	**25**

12 Cash

	2019	2018
	£'000	£'000
Cash at bank and in hand	36,182	26,380
	36,182	**26,380**

13 Trade and other payables

Current	2019 £'000	2018 £'000
Trade payables	79	63
Other payables	7	-
Other taxes and social security	111	207
Accruals	812	859
Amounts due to parent and fellow subsidiary undertaking*	4,442	531
	5,451	**1,660**

Non-current	2019 £'000	2018 £'000
Amounts due to parent and fellow subsidiary undertaking*	-	3,500
	-	**3,500**

*Includes £3,500k representing an interest free intercompany loan from a group company. The loan is interest bearing with effect from 1 January 2020. The group company has the right to demand repayment of the loan no earlier than 3 August 2022 however, the Directors are of the view that settlement of the loan will take place in 2020 and therefore classified as current. This loan was subsequently repaid by the Company on 1st June 2020.

14 Deferred income

	2019 £'000	2018 £'000
Current		
Deferred income	6,914	18,359
	6,914	**18,359**
Non-current		
Deferred income	2,822	17,214
	2,822	**17,214**

The deferred income balances solely relates to revenue from contracts with customers. Movements in the deferred income balances were driven by one-off release of deferred income for £13,200k on account of termination of old contract with Cooperative bank and transactions entered into by the Company within the normal course of business in the year.

15 Provisions

Current

	Dilapidation	Others	Total
	£'000	£'000	£'000
As at 1 January 2019	315	657	972
Additions during the year	-	521	521
Released during the year	(215)	(448)	(663)
Reclass to non-current	(100)	-	(100)
Utilisation	-	(209)	(209)
At 31 December 2019	**-**	**521**	**521**

Non-current

	Dilapidation	Others	Total
	£'000	£'000	£'000
As at 1 January 2019	-	-	-
Reclass from non-current	100	-	100
At 31 December 2019	**100**	**-**	**100**

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 of £450k in respect of staff redundancy costs on account of downsizing and £71k in respect of building improvement costs. These are likely to unwind over a period of 12 months.

16 Lease liabilities

Current	2019 £'000	2018 £'000
Lease liabilities	542	-
	542	**-**

Non-current	2019 £'000	2018 £'000
Lease liabilities	1,062	-
	1,062	**-**

In calculating the lease liability to be recognised on adoption, the Company used a weighted average incremental borrowing rate at 1 January 2019 ranging from 3.31% to 3.63%

	2019 £'000
Lease liabilities	
Operating lease commitments at 31 December 2018 disclosed under IAS 17	106
Operating lease commitment restated at 1 January 2019	2,017
Discounted using the incremental borrowing rate at 1 January 2019	(151)
Lease liabilities recognised as at 1 January 2019	**1,972**
out of which	
Current	368
Non-current	1,604

	2019 £'000	2018 £'000
Maturity analysis - Contractual undiscounted cash flows		
Less than one year	591	-
Two to five years	1,102	-
Total undiscounted lease liabilities at 31 December	**1,693**	**-**

17 Issued share capital

	2019 Numbers	2018 Numbers	2019 £'000	2018 £'000
Allotted, called up and fully paid				
Ordinary shares of £1 each				
At 1 January	37,550,000	50,000	37,550	50
Issue of shares	-	37,500,000	-	37,500
At 31 December	**37,550,000**	**37,550,000**	**37,550**	**37,550**

18 Employees

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

	2019 Number	2018 Number
Operations	656	682
Administration	11	13
	667	**695**

Their aggregate remuneration comprised:

Employee costs	2019 £'000	2018 £'000
Wages and salaries	15,116	15,144
Social security costs	1,391	1,453
Pension costs	1,696	1,568
Shared based payments	1	17
	18,204	**18,182**

19 Employee benefits

The pension charge for the defined contribution pension schemes for the year is £1,696,426 (2018: £1,568,270).

20 Directors' remuneration

	2019	2018
	£'000	£'000
Remuneration for qualifying services	133	309
Pension contributions to defined contribution schemes	1	16
	134	**325**

One Director was paid by Western Mortgage Services Limited and two Directors were paid by another subsidiary of Capita Plc. For qualifying services provided by these two Directors on the Company affairs, Directors' remuneration has been allocated to the Company during the period. The number of Directors for whom retirement benefits are accruing under the defined contribution scheme amounted to one (2018:2).

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

	2019	2018
	£'000	£'000
Remuneration for qualifying services	56	179
Pension contributions to defined contribution schemes	-	7

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

21 Related party transactions

Related party transactions

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

Nature of Transaction	Name of Company	Year	£'000 Fellow Subsidiary
Sales of Goods			
	Entrust Support Services Limited	December 31, 2019	7
		December 31, 2018	-
	Total		
		December 31, 2019	**7**
		December 31, 2018	**-**

Closing balance of Related Parties

Trade Receivables			£'000
Nature of Transaction	**Name of Company**	**Year**	**Fellow Subsidiary**
	Entrust Support Services Limited	December 31, 2019	2
		December 31, 2018	-
	Total		
		December 31, 2019	**2**
		December 31, 2018	**-**

22 Controlling party

The Company's immediate parent undertaking is Capita Financial Services Holdings Limited, a company incorporated in England and Wales. The Company's ultimate parent undertaking is Capita plc, a company incorporated in England and Wales. The accounts of Capita plc are available from the registered office 30 Berners Street, London, United Kingdom W1T 3LR.

23 Reconciliation of opening balance as at 1 January 2019

	Note reference	Carrying amount at 31 December 2018	Impact on Adoption of IFRS 16	Remeasured carrying amount at 1 January 2019
		£'000	£'000	£'000
Assets				
Right-of-use assets	A	-	1,852	1,852
Trade and other receivables	C	47,636	(68)	47,568
Liabilities				
Lease liabilities				
Current	B	-	(368)	(368)
Non-current	B	-	(1,604)	(1,604)
Trade and other payables	C	(1,660)	188	(1,472)

A) Right-of-use assets: Non-current assets have been impacted due to recognition of right-of-use assets on 1 January 2019. The right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the adoption date less any lease incentives received at or before the adoption date (reclassified on the opening balance sheet).

B) Lease liabilities: Financial liabilities have been impacted due to the recognition of lease liabilities. This liability is initially measured at the present value of the lease payments that are not paid at the adoption date, discounted using the Group's incremental borrowing rate. The lease payments comprise fixed payments, including in-substance fixed payments such as service charges and variable lease payments that depend on an index or a rate, initially measured using the minimum index or rate at commencement date. The lease liabilities have been classified between current and non-current.

C) Reclassification of balance sheet items: As noted above in 'A', the right-of-use asset is initially measured at cost plus lease payments made at or before the adoption date (prepayments), less any lease incentives received (rent free accruals) and less onerous provisions existing at the adoption date. Prepayments and rent free accrual balances have been reclassified to right-of-use asset on adoption.

24 Post balance sheet event

On 11 March 2020, the World Health Organization declared the Coronavirus (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. Many governments are taking increasingly stringent steps to help contain or delay the spread of the virus. Currently, there is a significant increase in economic uncertainty which the Directors have assessed in considering the going concern assumption.

For the Company's 31 December 2019 financial statements, the Coronavirus outbreak and the related impacts are considered non-adjusting events. The Directors have assessed that there is no impact on the recognition and measurement of assets and liabilities as a result of this subsequent event.