



Our purpose

Capita is a purpose-led organisation which exists to 'create better outcomes' for all its stakeholders.

Our stakeholders

We create better outcomes for:

Our people by providing an environment in which they can thrive and develop

Clients and customers by delivering solutions, transforming businesses and services, and by delighting them

Suppliers and partners by treating them fairly and encouraging them to deliver

Investors by delivering improving returns

Society by acting as a responsible business for the communities we serve

Read more on stakeholder engagement on pages 38 and 39

Cautionary statement

The directors present the Annual Report for the year ended 31 December 2020, which includes the strategic report, corporate governance, and audited accounts for this year. Pages 1 to 108 of this Annual Report comprise a report of the directors which has been drawn up and presented in accordance with English company law, and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law. Where the directors' report refers to other reports or material, such as a website address, this has been done to direct the reader to other sources of Capita plc information which may be of interest. Such additional materials do not form part of this report.

Strategic report

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Our values

Everyone at Capita strives to create better outcomes for all our stakeholders by living our values of being:

- Open
- Ingenious
- Collaborative
- Effective

We bring these values to life through our day-to-day behaviours and by putting our purpose at the centre of everything we do.

We are committed to being a progressive, responsible business – in how we operate, serve society, respect our people and the environment, and deliver improving returns to our investors.

Our response to Covid-19

Capita has provided a resilient response to the challenges of the pandemic. More details can be found in the CEO's review on page 10 and on our website. Details of our Covid-19 framework can be found on page 8.

 [capita.com/
our-thinking](https://capita.com/our-thinking)

Group performance

Financial performance

Adjusted revenue¹

£3,181.2m

(2019: £3,501.0m)

Reported revenue

£3,324.8m

(2019: £3,678.6m)

Adjusted profit before tax¹

£65.2m

(2019: £197.7m)

Reported loss before tax

£(49.4)m

(2019: £(62.6)m)

Adjusted earnings per share²

4.19p

(2019: 9.30p)

Reported loss per share

(0.41)p

(2019: (4.18)p)

Adjusted free cash flow³

£238.6m

(2019: £(23.2)m outflow)

Reported free cash flow

£303.8m

(2019: £(213.0)m outflow)

Non-financial performance

Colleague engagement

Positive points swing in employee net promoter score (eNPS)

+7pts

(2019: +14pts)

Clients and customers

Positive points swing in customer net promoter score (cNPS)

+17pts

(2019: +22pts)

Adherence to fair business terms

Suppliers paid within 60 days

95%

(2019: 97%)

1. Refer to alternative performance measures (APMs) on pages 204 to 206.

2. Refer to note 2.7 to the consolidated financial statements.

3. Refer to note 2.10 to the consolidated financial statements.

About us

Capita is a consulting, transformation and digital services business.

We deliver innovative solutions to simplify the connections between businesses and customers, and between government and citizens.

We partner with clients to transform their businesses and services.

We do complex and difficult things so clients don't have to.

Part of the fabric of UK society, we help millions of people every day.

But we know that, to be a truly responsible business, Capita must change and improve; and that is why we are transforming – on behalf of our clients, the people and societies we serve, and all our stakeholders.

Our strategy

Our plan is to do fewer things, better

We are simplifying and strengthening to succeed as a business that: is truly responsible and predictable; generates sustainable revenue growth and cash flows; simplifies services, reduces costs and frees up time; creates better experiences for end-customers; is innovative and creative; has an improved reputation, based on competence and integrity; and creates better outcomes for all stakeholders.

Simplify

Simplify

- More focused business with strong positions and growth potential
- Using common, scalable capabilities
- Empowering our people to deliver
- Further streamlined cost base

Strengthen

Strengthen

- Winning more of the right work
- Improving cash generation
- Non-core disposal proceeds to pay liabilities
- Extend debt maturities
- Investment in asset base, technology and people

Succeed

Succeed

- Progressive, purpose-led, responsible business
- Innovative and creative
- Generates sustainable revenue growth and cash flows in 2022

Our people

Capita is the UK's largest business processes outsourcing (BPO) provider with 37,000 employees across the country.

But we also deliver services, develop software and digital solutions, and provide support functions across a global network, with more than 18,000 of our overall 55,000 people based outside the UK. We have around 7,000 colleagues in India, 3,900 in South Africa, and others in Germany, Ireland, Poland, Switzerland, the United Arab Emirates and the United States.

The new Capita is a consulting, transformation and digital services business whose purpose is to deliver better outcomes for all its stakeholders – and which values all its people, whatever their roles and wherever they work.

 More about our people strategy can be found on pages 40 to 43.

Our clients

We work across a range of sectors, partnering with our clients and providing the insight, innovative solutions and cutting-edge technologies that give time back, allowing them to focus on what they do best and making people's lives easier and simpler.

Private sector

- Financial services
- Pensions
- Retail
- Telecoms and media
- Transport
- Energy and utilities

Public sector

- Central government
- Local government
- Education
- Defence and security
- Health and welfare
- Justice and emergency services

Our divisions

Capita has six operating divisions: five – Software, People Solutions, Customer Management, Government Services, and Technology Solutions – are focused on key growth markets; and the sixth, Specialist Services, contains standalone businesses being managed on a portfolio basis to maximise value. The six divisions are supported by a common set of company-wide capabilities and functions.

Growth platforms

Software

Vertical market, specialised, enterprise products and services



People Solutions

Integrated human resources services and products



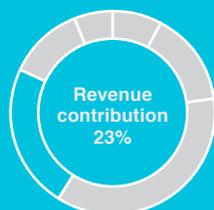
Customer Management

Transforming customer experience for our clients



Government Services

Tech-enabled, public sector business services



Technology Solutions

Digital IT and connectivity solutions



Value platform

Specialist Services

Standalone businesses managed for value



 Divisional details and performance can be found starting on page 26.

Divisional financial performance (see pages 26 to 37) is presented on an adjusted basis. Reported is not included, as the Board assesses divisional performance on adjusted results. The calculation of adjusted figures and our key performance indicators (KPIs) are contained in the APMs on pages 204 to 206.

A challenging year



“Our purpose – to ‘create better outcomes’ for all stakeholders – remains fundamental to the company’s transformation.”

Sir Ian Powell
Chairman

As for so many businesses, 2020 was a tough year for Capita and its people. The organisation is part-way through a complex, multi-year transformation which, despite continuing progress, was already proving harder than we had originally envisaged.

The impact of the Covid-19 crisis disrupted some of our plans; and it proved to be a disappointing year for our investors, of which we remain acutely conscious. I would like to thank our shareholders for their patient and continued support.

Our purpose – to ‘create better outcomes’ for all stakeholders – remains fundamental to the transformation of the company. Underpinned by our commitment to that purpose, the professionalism of our 55,000 people has allowed us to navigate our way through the pandemic – and we ended the year with evidence of renewed momentum.

I would like to thank all our colleagues for their hard work and commitment during such difficult times, and also our clients for working with us so collaboratively to help counter the exceptional challenges of the Covid crisis.

Strategy and performance

Significant progress has been made in many aspects of Capita’s transformation over the past three years; and the actions taken to address underinvestment in many key areas, together with operational and cultural changes, enabled us to deliver a decisive and resilient response to the pandemic.

The controls and technology systems were in place for a strong senior leadership team to adapt to the crisis at very short notice; and it allowed us to bring the wellbeing of our employees to the top of our agenda and ensure the vast majority of our people could very quickly work from home. At the same time, we were able to continue to deliver services to our clients and customers in a safe and secure way. Both our employee and customer net promoter scores rose in 2020.

Financially, we weren’t able to deliver the growth that was planned, but through our response we addressed the challenges of a significant fall in revenue and profit with robust cost and cash action, and with a strong focus on the balance sheet. By the end of 2020, positive signs had emerged: we had secured a number of disposals, signed significant new contracts and had a healthy pipeline in place.

We will continue to implement our ‘simplify, strengthen, succeed’ strategy, which has guided the transformation so far. Our priority in 2021 is to continue to further strengthen the balance sheet, through a combination of refinancing our current debt arrangements and continuing with the disposal of non-core businesses.

The Board is also pleased to have announced the next phase of our transformation, consolidating the current divisional structure to continue to remove complexity and create a more focused, client-centric and streamlined business; more details of this are outlined in the Chief Executive Officer’s review on page 10.

The Board and governance

We have continued to improve the governance of the company, at both Board level and across the wider organisation. We seek to make sure that we have the right senior management team in place, supported and challenged by the Board, to take the company forward. As part of that, we are grateful for the contribution played in such a short space of time by Gordon Boyd as interim Chief Financial Officer.

We have continued to keep the constitution of the Board under review, aiming to bolster its increasingly impressive range of knowledge, skills, diversity and perspectives. The

“I am confident we will continue to make progress towards becoming a more profitable, sustainable business for the long term.”

Our values and behaviours remain more relevant than ever.



Community investment

£2.1m

(2019: £2.8m)

For more information about our community investment, go to: www.capita.com/responsible-business

contribution of our two employee directors, Lyndsay Browne and Joseph Murphy, has been significant, providing a vital perspective.

The recent appointments of non-executive directors David Lowden and Neelam Dhawan have been very positive moves and will benefit Capita hugely. As a former chief executive, chairman and director, David brings extensive strategic and board skills; while Neelam's wealth of leadership and board experience will provide us with a fresh global and technology perspective.

I would like to thank all the Board members for their hard work and great flexibility during such a challenging year. I would also like to thank outgoing directors Gillian Sheldon and Andrew Williams for their significant contributions throughout their long tenures; as well as Patrick Butcher, former Chief Financial Officer, for the important part he played in our ongoing transformation.

Values and culture

The real test of a corporate purpose is how it manifests itself in a crisis and ours has proved resilient during the Covid pandemic. It has continued to guide the company and our

people, even while they have faced such disruption in their lives at work and at home.

The focus on our purpose, underpinning our drive as a responsible business, has also contributed to the continued improvement in Capita's reputation. This has in turn – alongside our turnaround in operational performance, and improved client relationships and levels of trust – helped strengthen our ability to win important new work.

Diversity remains an especially strong focus for us. As for so many organisations, the killing of George Floyd and the subsequent issues raised by the Black Lives Matter movement was a seminal moment for Capita. We recognised that the actions we were taking to create an inclusive workplace for many of our Black, Asian and minority ethnic colleagues were not happening fast enough. We therefore instigated a series of practical and strategic actions to tackle racism, as well as to enhance ethnic diversity.

We are very conscious, however, that we need to do more to increase diversity and inclusivity in all parts and at all levels of the organisation. We also remain committed to improving our

gender pay gap which continues to disappoint. We strive to be a truly responsible business, mindful of our place in society and the communities we serve, and of our responsibility to people and the environment.

Looking forward

There remains a large amount of work still to do to ensure a stable, sustainable and less complex Capita; but there was material progress in 2020, despite the disruption caused by the pandemic.

This progress needs to manifest itself in terms of better financial performance. We need to focus on restructuring the balance sheet to give the business a stable financial base, and we must deliver improving returns to investors.

However, as we move onto the next phase of our transformation – and look to further simplify and strengthen – I am confident that we will continue to make progress towards Capita becoming a more profitable, sustainable business for the long term, for the benefit of its people, clients and customers, suppliers and partners, investors, and society.

How we create value

Capita is a consulting, transformation and digital services business. We are focused on creating value and better outcomes, by working collaboratively with our clients as partners. We provide consulting and professional services, drawing on our practical experience; provide digitally enabled services and solutions, often under multi-year contracts; and sell software licences and support. We consult, transform and deliver.

Our expertise and resources

Market expertise

We have deep understanding of our clients and their markets; for example, in customer engagement, government services, recruitment processes and technology solutions.

Technological resources

We offer technology-led, digitally enabled services and solutions. We are investing in digital and software development. We partner with global technology leaders.

Client relationships

We form longstanding partnerships with a wide range of clients, from blue-chip businesses to the public sector, to transform their businesses by delivering insight and innovative solutions.

Our people

We are a people-focused business, built around 55,000 skilled and committed employees who have deep understanding of our clients' markets and needs.

International infrastructure

We have growing international operations, with more than 18,000 people delivering technology solutions and customer engagement services, principally in Europe, India and South Africa.

What we do as a business

At Capita, we provide consulting, transformation and digital services.

Our consultants:

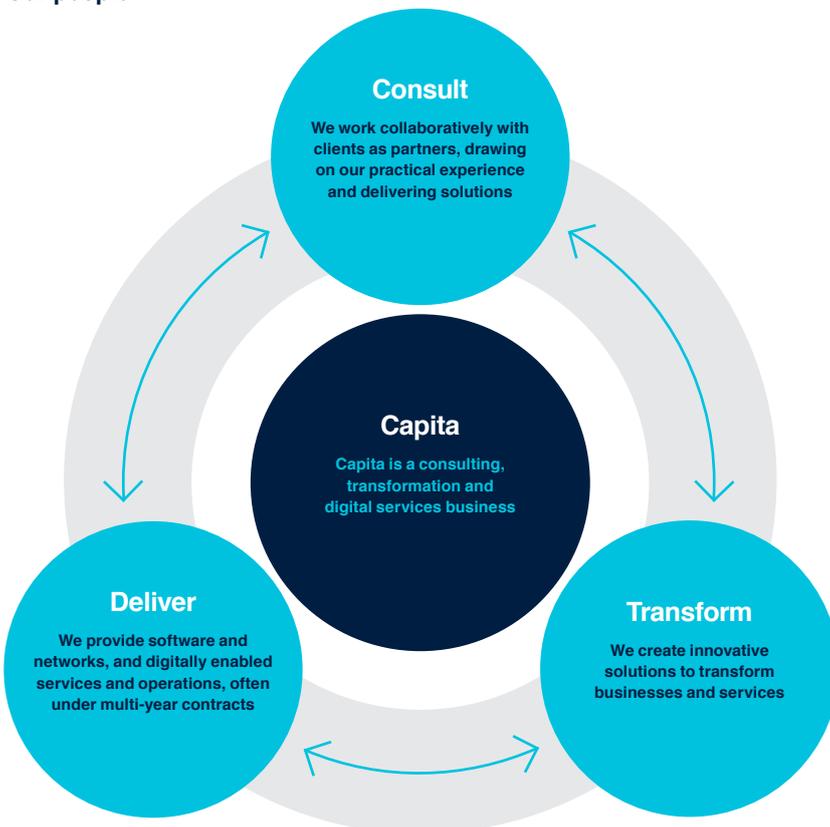
- Work collaboratively with clients as trusted consultants and long-term strategic partners
- Proactively identify opportunities within client businesses
- Generate forward-looking insights by analysing, researching and debating trends and data
- Support the design, development and implementation of better solutions for clients
- Maximise opportunities on behalf of all Capita, driving our pipeline and creating pull-through revenue

Our transformation services:

- Improve process quality, reliability and efficiency
- Help reduce risk and cost
- Create new opportunities for clients
- Allow clients to focus on what they do best

Our digital services:

- Help simplify clients' services
- Assist better decision making
- Provide information
- Contribute to process acceleration
- Free up time
- Improve end-customer experiences



Generating financial value

We operate in large and growing markets, at scale and often with significant market share. We generate revenue, profit and cash flow by providing valuable services to our clients, consistently and efficiently over the long term.

Transformational services

Clients procure our digitally enabled services and network solutions through contracts, often long-term, to effect significant change in their businesses. In 2020, approximately 88% of Group revenue was underpinned by contracts of one year or more. Our order book at 31 December 2020 was £5.9bn.

Software licences and services

We provide clients with business-critical software products, earning recurring revenue from implementation, annual licence fees and revenue from 'software as a service' arrangements. Approximately 8% of adjusted revenue¹ is derived from Software.

Transactional services

Approximately 12% of adjusted revenue¹ comes from our transactional businesses where we sell products and professional services to our clients across a wide range of functions. In 2020 this represented £393.2m of adjusted revenue¹, reflecting a particular impact from Covid-19.

Efficient operations

Running our business as efficiently as we can allows us to pass savings through to our clients and customers over the long term, as well as generating value for our stakeholders. During 2020, we delivered transformation cost savings of £145.2m by reducing the cost of poor quality, structuring our business better and adopting efficiency-generating technologies such as automation.

Generating cash flow

In the early stages of our multi-year turnaround we committed significant funds to fixing and stabilising the business to reduce the significant cash cost of poor quality. During 2020 we improved adjusted free cash flow¹ from £(23.2)m to £238.6m.

1. Refer to alternative performance measures (APMs) on pages 204 to 206.

Better outcomes for stakeholders



We are focused on creating better outcomes for all our stakeholders.

Our people

by providing an environment in which they can thrive and develop

+7pts

Positive points swing in employee net promoter score (2019: +14pts)

Clients and customers

by delivering solutions, transforming services and delighting them

+17pts

Positive points swing in customer net promoter score¹ (2019: +22pts)

Suppliers and partners

by treating them fairly and encouraging them to deliver

95%

Suppliers paid within 60 days² (2019: 97%)

1. Measured from 2017 baseline via our annual client survey, demonstrating the number of clients who would recommend Capita as a supplier.
2. Data includes invoices paid through Capita UK companies.
3. Refer to note 2.10 to the consolidated financial statements.
4. Reduction in carbon footprint based on emissions per headcount from 2018 baseline.

Investors

by delivering improving returns

£238.6m

Adjusted free cash flow³ (2019: £(23.2)m outflow)

Society

by acting as a responsible business for the communities we serve

40%

Reduction in carbon footprint⁴ (2019: 5.9%)

 Read more about our stakeholders on page 38 and 39.

Capita and its people have, like thousands of other businesses, faced numerous challenges and uncertainties over the past 12 months.

But, thanks to the hard work and professionalism of our colleagues, we have delivered a strong operational response to the Covid-19 crisis. This has only been possible due to the actions already taken and changes previously made as part of our multi-year transformation strategy to simplify and strengthen the organisation.

Impact on operations

Our priority throughout the Covid-19 crisis has been to protect the welfare and safety of our colleagues.

85%

of people working from home at the height of the pandemic

21,500

average visits per month to the Wellbeing Hub since its launch in April 2020

+7pts

movement in employee net promoter score (eNPS)

6%

of colleagues furloughed at peak

Discover how we are helping customers evolve for a new tomorrow
www.capita.com/evolving-tomorrow



Our Covid-19 framework

01



Review

Early monitoring of the developing external situation and internal health and guidance. Business continuity preparations and scenario planning begins.

02



Respond

Endurance as we manage the crisis and protect the health safety and wellbeing of colleagues. The way we work adjusts to ensure business continuity and stability in the 'eye of the storm'.

03



Reimagine

Ongoing sense of stability is established as we begin to emerge from the crisis. This temporary 'new normal' allows us to begin planning for the future ways of working.

Financial impact

While the majority of our revenue remained resilient, our transactional and face-to-face operations were significantly affected. Covid-19 has been net negative for Capita.

5%

of adjusted revenue¹ lost (£153m)

£105m

total contract value (TCV) of Covid-related wins

£122m

cash preservation savings

119

locations temporarily closed at peak

£32m

travel savings – expected to continue

Client response

We took decisive action to ensure that we maintained a high level of service for our clients.

90%

compliance with operational KPIs (2019: 91%)

11.2m

letters sent to vulnerable people on behalf of the NHS

70,000

children protected through provision of safeguarding monitoring

10,000

council and NHS trust staff helped with remote working infrastructure

13,600

devices delivered to disadvantaged children

Reimagining our future

We can make some of the benefits of Capita permanent. We are talking to our people and clients to define future ways of working.

77%

of employees now want to spend the majority of their time working from home

49

permanent property closures

11%

reduction in office space in 2020; a further 15% expected in 2021

1. Refer to alternative performance measures (APMs) on pages 204 to 206.

04



Return

The transition to future ways of working begins, although social distancing and modified ways of working are still required to manage the ongoing risks of Covid-19.

05



Reform

Following the end of the crisis, supporting health and wellbeing remains a priority as we fully embrace the changes we have made. Our future ways of working become reality and the new normal is business as usual.

Maintaining progress



“Capita is a much better business than it was at the start of the transformation, with stronger positions and improved growth prospects.”

Jon Lewis
Chief Executive Officer

We started 2020 expecting to continue to strengthen the business operationally and to deliver more evidence of improvement – to be reflected in modest revenue growth and significant free cash flow generation.

We continued to make progress with many aspects of our transformation, but the impact of Covid-19 set us back and increased some of the challenges we faced.

I am pleased with our operational response to the pandemic, prioritising our colleagues and ensuring we could continue to deliver for our clients. The majority of our revenue has been resilient and we took decisive cost and cash action to manage the impact where it affected us. I do not believe we would have achieved this without the progress made in strengthening Capita over the preceding two years.

Adjusted revenue

£3,181.2m

(2019:£3,501.0m)

Adjusted profit before tax

£65.2m

(2019:£197.7m)

The fall in revenue and profit due to Covid-19 has put pressure on our balance sheet. But our cash preservation initiatives ensured that we met our covenant obligations, with net debt significantly better than at the end of 2019. We also took the decision to accelerate strategic actions to provide further financial support and dispose of non-core software assets, including Education Software Solutions (ESS), which sold for initial proceeds of £299m.

Despite the challenges of 2020, Capita is a much better business than it was at the start of the transformation, with stronger positions and improved growth prospects. With a more solid operational foundation in place, we are now moving onto the next phase of our transformation plan to ‘simplify, strengthen and succeed’. We will be consolidating our current structure into three divisions. This comprises two core divisions – Capita Public Service and Capita Experience – focused on specific client needs and distinct markets where we know we can win. We will also have a third, enlarged portfolio of non-core businesses we intend to exit in due course; and a smaller overhead, generating additional long-term cost savings.

With respect to the balance sheet, our focus in 2021 is to ensure that we meet our upcoming debt maturities of £440m over the next two years, and put in place a longer-term financing solution. We have therefore started the process to extend our revolving credit facilities and we are targeting gross disposal proceeds of at least £700m, comprising £200m from three non-core disposals currently under way, and ESS proceeds of £299m that we have now received, with another £200m to come thereafter. Further support comes from benefits of the planned new structure and lower ‘below the line’ cash costs. We plan to issue longer-term debt when market conditions allow.

Our simpler new structure will support our inflection to sustainable cash generation in 2022 – as we continue to build a more focused, client-centric and streamlined business.

“With a more solid operational foundation in place, we are now moving onto the next phase of our transformation plan.”



We have been chosen to transform and modernise the Royal Navy’s shore-based training across 16 sites in the UK as the lead partner in a consortium called Team Fisher. The contract, worth an estimated £1bn over 12 years, will see us leading the delivery of the new training programme, utilising our expertise in transformation, learning and the delivery of complex, technology-enabled defence projects. We are partnering in the consortium with Raytheon UK, Elbit Systems UK, and Fujitsu, as well as with several smaller British suppliers.

“Our priority throughout the Covid crisis has been to protect the welfare and safety of our colleagues.”

Financial results

Our financial performance in 2020 was significantly affected by the impact of Covid-19, despite the resilience of our operational response. To protect the business we took action to save a further £122m and, as a result, we were able to meet our covenant obligations at the year end and reduced net debt to £1,077.1m.

Adjusted revenue^{1,2}, fell by 9% during the year to £3,181.2m (2019: £3,501.0m) as a result of the impact of Covid-19, particularly on our transactional businesses such as Capita Travel & Events and Pay360, as well as due to prior-year contract losses in areas such as local government. This was partially offset by encouraging contract renewals and wins, as well as Covid-related work, mostly for the Government.

Adjusted profit before tax^{1,2} decreased to £65.2m (2019: £197.7m), reflecting the loss of high-margin Covid-impacted transactional revenue and revenue from lost contracts, mitigated by a combination of £145.2m of planned transformational cost savings and £122m of cost and cash preservation taken in response to the pandemic. Including the impact of restructuring costs and accounting adjustments, reported loss before tax was £49.4m (2019: £62.6m loss). Reported earnings per share was (0.41)p (2019: (4.18)p).

Our strong cash performance in the year included strong working capital management and other short-term measures taken to protect the business, with around £50m expected to be sustainable. Adjusted free cash flow¹ increased to £238.6m (2019: £23.2m outflow) as we improved cash from trading operations, reduced capital expenditure significantly, and from strong client cash collection. The overall improvement in net debt was boosted by cash preservation benefits such as the £118.8m VAT deferral, offsetting cash costs of restructuring of £64.1m. Net debt at 31 December was £1,077.1m (2019: £1,353.2m) and we were well within the covenants.

Net debt

£1,077.1m
(2019: £1,353.2m)

Response to Covid-19

Our priority throughout the Covid-19 crisis has been to protect the welfare and safety of our colleagues and I would like to thank them all for their dedication. In February 2020, we set up a pandemic planning team and, within a few weeks, we had successfully mobilised 85% of our people to work from home, while ensuring we had secure workplaces for key workers who needed them.

Reflecting the critical nature of many of the services we provide to our clients, most of our revenue remained resilient. We delivered client services on a remote basis, building software and digital platforms, managing IT solutions and shifting to remote provision. However, we have been significantly affected in areas such as our travel business, and where our work is transactional and therefore affected by lower economic activity.

Offsetting this impact, we secured c.£100m of Covid-related business in 2020, including providing 1,200 contact-centre workers to a Government department and sending 11.2 million letters to the vulnerable on behalf of the NHS.

We won work in the private sector, where our resilient delivery model and onshore location meant we could offer services to key retail and telecoms clients that some of our major competitors could not.

We implemented a range of cost-saving initiatives to mitigate the revenue impact of the pandemic, sustaining these through the second half of the year and into 2021. We achieved £122m of savings in total, including discretionary expenditure of £64m, staff-

related savings of £48m, and £10m mainly in variable property costs, as we temporarily closed 168 of our 294 properties at the height of the first lockdown.

We have also participated in the Government's VAT deferral scheme, benefiting the Group by £118.8m; postponed £56.7m of scheduled additional pension contributions; and entered into receivables financing arrangements. We expect these temporary cash saving measures to be paid back over the next 12 months.

Our experience with Covid-19 has enabled us to take steps to sustain some of the benefits and cost savings, mainly in travel and property.

Operationally, we have demonstrated to clients that remote working can be secure and productive, while maintaining our service KPIs. This has given fresh impetus to rationalising our property footprint. We have permanently closed 11% of our floor space in 2020, including our head office in London. We are now moving to a more flexible workspace model, allowing collaboration when needed but also recognising that our people want to spend more time working at home than before the pandemic. We plan to reduce office space by another 15% in 2021.

Responsible business

Being a responsible business continues to be a fundamental part of Capita's strategy. Putting our purpose – to create better outcomes – at the centre of all we do will benefit all of our stakeholders in the long term and has helped improve our reputation sentiment with external stakeholders.

In 2020, we delivered on our commitment to pay our UK employees the real living wage as a minimum. Our employee engagement continues to make progress, although there is clearly much more to be achieved. The employee net promoter score (eNPS) maintained its upward trajectory, increasing by seven points during the year and up 21 points since 2018.

We value our relationships with our suppliers, spending £2bn in 2020 with more than 24,540 direct suppliers in 87 countries. We pay 95% of our suppliers in 60 days or less, in line with the Government's prompt payment code. We are

1. Refer to alternative performance measures (APMs) on pages 204-206.

2. Adjusted results for both 2020 and 2019 exclude Education Software Solutions (ESS) as it is a business exit at 31 December 2020. ESS adjusted revenue and adjusted profit before tax in 2020 were £90.6m and £51.3m respectively. Covenant calculations adjust for ESS being excluded from EBITDA.

“Our eNPS increased by seven points.”

now looking to strengthen relationships with smaller suppliers.

Throughout 2020, we maintained our focus on our environmental impact. We reduced our carbon footprint by 40%, as we reduced travel and vacated offices. We have published our first statement on climate-related financial disclosure in our 2020 Responsible Business report and, in February 2021, we were accredited by the Science-based Target Initiative for our company carbon reduction targets, which will form the foundation of our commitment to get to net zero.

Transformation: building for revenue growth

Our revenue each year comes from a combination of longer-term, committed contracts that we report in our order book, framework contracts whose volumes are variable (but usually reliable), and transactional revenue that is won in-year.

While our target to grow revenue for the first time in many years was significantly affected by the pandemic, our track record of winning business showed tangible signs of improving during 2020, as we saw the first benefits from our investment in our clients, our structure and our capabilities.

Total contract value (TCV) won in the year was £3.1bn, £233m more than in 2019, which included framework and transactional wins. This represented 8% growth in TCV, or 11% in our core divisions (excluding Specialist Services). Our contract renewal rate of 90%, based on further improved client relationships, was a key driver. We have started 2021 strongly, with a £1bn contract to train the Royal Navy for the next 12 years. As would be expected, we also lost some contracts that impacted the second half of 2020 and will have a further impact in 2021.

The Group's order book declined to £5.9bn in 2020 (2019: £6.7bn), with £2.4bn recognised as revenue in the year and £1.6bn won in order book-qualifying revenue. Book-to-bill has increased from 0.79x to 0.94x on a Group basis and, following the win of the Royal Navy training contract in January 2021, this has now risen to 1.26x.

An increasing amount of Capita's revenue comes from framework and transactional revenue. Revenue won that was recognised in 2020 (in-year revenue) was flat at £1.2bn, despite the significant Covid-19 impact. Customer Management and Government Services were particularly strong, increasing by 72% and 92% respectively, benefiting from: Covid-related work; extensions for Transport for London (TfL); and big framework wins, such as a renewal for a European telecoms client.

Better structured with the right tools

As set out in 2018, our transformation growth strategy has been to win work through improving the capability and discipline in our sales function. We are now leveraging our new customer relationship management (CRM) platform better, giving us more insight and capability to predict future revenue. During the year we refined processes and the quality of our pipeline data, impacting pipeline in Q1 2020. We are winning more of the right work through the discipline of our contract review committee (CRC). In 2020, we maintained an average double-digit margin on the bids processed by the CRC, although with a slightly lower-margin mix of work.

Focusing on the client

The way we sell and the way that clients want to engage has been changing. As we have simplified and strengthened across Capita, we have moved from selling one bespoke product to each client, to selling solutions based on standardised platforms and which bring people and products together from across Capita. We then use our sector and business insight to offer the right solution to a client need.

As we have invested in operational improvement, as well as offering more relevant and better propositions, we have seen strong support from our clients. We have seen another significant improvement in our customer net promoter score, which increased by 17 points from +15 to +32. In our top 20 accounts this focus translated into pipeline growth of 40%.

During 2020, we streamlined the portfolio to focus on high-value propositions, as we build our understanding of what, to whom, and

where, we should be selling. As a result, during the year 80% of TCV sold derived from 20 value proposals, out of a total portfolio of around 120.

With stronger client perception and better propositions to sell, account management was a major part of our sales performance in 2020. 43% of our 2020 TCV was won from our top 20 client accounts. Notable wins during the year were the TfL congestion charge and ultra-low emission zone extension (£355m), the RPP army recruitment extension (£140m), a European telecoms client's new framework extension (£114m), and the Teachers' Pension extension (£60m).

Transition to consulting-led sales

A consulting-led business model remains a key part of our revenue growth proposition, securing pull-through transformational and delivery work, enabling us to move up the value chain, win more business and improve the margin mix of Group revenue. Despite being hit hard by Covid-19, consulting revenue in 2020 focused on a highly specialised team with deep expertise in government, financial services and critical infrastructure, alongside three core practice areas: data and AI; transformation; and cloud.

A significant example of a consulting-led innovative and data-driven client solution was for the Financial Services Compensation Scheme (FSCS). In the face of a surge of claims to the FSCS, Capita and the FSCS worked in partnership to design a solution using data, AI and automation to allow them to process regulated, highly-complex claims more quickly and accurately, at around 30% of normal cost and taking two years less than normal. Having built this platform, we see opportunities to use it in other regulated industries.

Our markets are also gradually changing in nature, away from traditional business process outsourcing (BPO) to higher value business process services (BPS) and business process as a service (BPaaS). As a market leader in UK Government BPS, where the solution is delivered through a combination of people and

2. Nelson Hall/Tech Market View
3. Tussell March 2020

a bespoke digital platform, we are now investing in BPaaS capabilities, which is a standardised, process-specific solution deliverable to many clients.

Consulting and transformation revenue comprised just over 15% of total Group revenue won in 2020. We expect to improve both margins and cash generation by increasing this type of revenue, as well as doing more BPS and BPaaS work.

Market positioning

Supporting the more client-focused approach, we are leveraging our strong market positions to bring more insight into our specific markets than competitors.

Capita is one of the biggest IT services suppliers³ to the UK Government which spends around £1bn⁴ each year with us. Through improved contractual delivery, we now have a stronger relationship with the Government at a time when they are increasingly targeting investment in digital services and IT infrastructure. We also have a strong private sector position as the biggest customer experience partner in the UK, with specific expertise in the financial services, telecoms and utilities sectors. When we bring our understanding of complex solutions together with specific digital capabilities and combine them with our IT ecosystem partners such as Microsoft Azure, AWS and Cisco, our competitive position is now very strong.

Our better service delivery, investment in digital and IT capabilities, and more targeted marketing activities have all contributed to an improved market reputation with existing and potential clients in our chosen markets.

Sales outlook

The outlook for 2021 is promising, with a strong unweighted pipeline of £9.7bn (2019: £8.0bn), out of a total unweighted pipeline of £18.2bn (2019: £16.9bn), including a big increase in Government Services. It also includes contract bids that were delayed from 2020, such as the Royal Navy training contract which has now been won.

Transformation: reducing cost and targeting margin increases

We have continued to target and deliver significant, sustainable cost reductions, through greater efficiency and structural 'cost-out' opportunities. In 2020, we secured a further £145.2m of transformation cost savings (4% of the total cost base), taking the total across the last three years to £305m of sustainable savings. This is in addition to the £122m of Covid savings in 2020.

“Better service delivery, investment in digital and IT capabilities, and more targeted marketing activities have all contributed to an improved market reputation.”

Contractual targets reached

90.3%

(2019: 91.4%)

Operational excellence and improvement

Despite the pandemic, we maintained our high level of service KPIs at 90.3% for 2020 (2019: 91.4%), including slightly better year-on-year performance in Customer Management, Government Services and People Solutions. This contributed to further improving our service credits, which reduced from £11m in 2019 to £4m in 2020.

We also significantly reduced the cash drag from major contracts, in particular in Government Services. The number of operationally and financially challenged contracts have reduced during the past two years from 16 to two (PCSE and Electronic Monitoring), where we expect to resolve key outstanding issues in 2021 and deliver significant benefits in 2022.

We are now also better at delivering large transformation projects. On RPP, we delivered another year of high KPI achievement; and our performance on the new Defence Fire and Rescue contract was exemplary, with all operational KPIs delivered on target, good cost and cash performance, and with additional revenue from contracts won to work at six more Ministry of Defence sites during the year.

We saved £73m in 2020 simply by doing things better, including from the benefits of operational maturity, process improvement, reducing our cost of poor quality and reducing margin erosion through performance failures.

Structural optimisation

One of the major objectives of the transformation has been the simplification of a highly complex and inefficient organisation. Leveraging data from our new HR platform, we

have optimised structures to align with our target operating model, delivering efficiency and overhead savings of £25m in 2020 and we see similar opportunity in 2021.

Technology

We are making significant technology savings through better governance, major efficiencies driven by consolidation of resource from across the Group, and through associated third-party procurement savings as we consolidated our supplier base. These were £30m in 2020 and we have significant further opportunity in 2021.

We are bringing all of our IT services together to be managed in one place, giving clarity of management and more efficient use of resource, with lower future maintenance and investment costs. We also made further progress in consolidating our software development resource from across the divisions under the umbrella of the digital development centre in the UK and India.

Group and overhead costs

We accelerated our property consolidation programme, closing 49 offices in 2020 and reducing the office footprint. This delivered savings of £11m in the year, with an annualised run rate of £25m in 2021. Procurement savings also generated £4m of cost savings during the year, focusing on scale benefits, in particular as we consolidated previously fragmented third-party purchasing behaviours.

Better
outcomes

We signed a contract with the Department of Education to continue the administration of the Teachers' Pension Scheme. The extension, which is due to start in October 2021, is worth £60m over four years. We will continue to deliver a fully integrated administration service for more than two million TPS members which includes the collection of contributions from over 11,200 employers, and the calculation and payment of pensions to more than 700,000 pensioners and beneficiaries.

Next phase of the transformation

Over the past three years we have improved governance, addressed inefficiency, and focused on historical underinvestment and on delivering better outcomes for our clients. Capita is now a simpler business with a stronger operational platform to underpin its future development than it was in 2018. Last year we announced the disposal of our Specialist Services division, which is delayed but ongoing, as well as announcing our intention to dispose of non-core software products, starting with Eclipse and ESS. Structurally, our core business is now more orientated to growth markets and focused on our clients.

With this stronger foundation in place, we are now moving onto the next phase of our transformation, consolidating down to three divisions: two core divisions – Capita Public Service and Capita Experience – focused on distinct market and client needs and a third Capita Portfolio division. This will comprise an enlarged portfolio of valuable but non-core businesses of which we are not the best owner and which we intend to exit when appropriate, with proforma revenue of around £700m.

We now have a clearer insight into where we can win, with most of our 2020 contract wins in clearly defined and focused areas – in specific parts of the UK Government market and in our core Customer Management industries. Both Public Service and Experience will adopt our 'consult, transform, deliver' business model with an increasing focus on digital transformation work. This structure will in turn drive out complexity and require a smaller, leaner Group overhead, from which we expect to save £50m on an annualised basis from 2022.

Public Service will integrate and simplify our offering to government, currently spread across four divisions, to focus on addressing their need to implement policy, transform productivity and improve citizen experience. The UK Government market is currently worth around £69bn. The fastest-growing parts of that, at around mid-single digit CAGR growth, are business process and technology-enabled services. As the number one strategic supplier of IT and software, Capita is already well positioned in this large and growing market, with a 2021 unweighted pipeline of £3.5bn. The proforma revenue of this division is expected to be around £1.2bn.

Experience will bring together our experts in designing, transforming and delivering frictionless customer experiences for blue-chip clients, including our regulated businesses, and a number of assets from three of the existing divisions. The global market is worth around £56bn and expected to grow at around 5% pa for the next three years. Currently one

“Capita is now a simpler business with a stronger operational platform to underpin its future development.”

of the customer experience market leaders in the UK, and with a solid foothold in Germany and Switzerland, Capita has an opportunity to leverage its sector expertise, digital ecosystem and global delivery centre to become a pan-European leader. The proforma revenue of this division is expected to be around £1.3bn.

We plan to complete this next phase of the transformation this year and will provide more detail to the markets later this year.

Balance sheet

Our focus in 2021 is to address our upcoming debt maturities and put in place a longer-term financing solution.

Our plan at the beginning of 2020 was that net debt would increase slightly, before the disposal of the Specialist Services portfolio, in order to complete key elements of the transformation; but thereafter sufficient sustainable free cash flow would be generated to allow us to reduce headline net debt to EBITDA to within our target range of 1x to 2x (pre-IFRS 16). We had also planned a bond issue to extend our debt maturities. We were, however, unable to do either of these in 2020.

Instead, we protected the balance sheet through successful cost and cash preservation and the bringing forward of our plans to dispose of non-core software products. We repaid £218.4m of maturing debt, remained well within financial covenants at both the half year and full year, and reduced net debt through a combination of good cash management, disposal proceeds and the deferral of VAT and pension payments.

In the short term, our priority is to lengthen our current debt maturity profile as our free cash flow strengthens and to continue to be able to invest in our business.

However, we face significant short-term loan note maturities, with £440m due over the next two years. We plan to address this as follows:

- We recently received proceeds of £299m from the completion of the ESS disposal, which provides £220m of available liquidity, with a further £45m contingent on CMA clearance of buyer Montagu's subsequent transaction with ParentPay.
- We expect to renew and extend the maturity of our revolving credit facility.
- We are continuing to dispose of non-core assets, with three processes currently under way: namely our 'blue light' emergency services software; our specialist insurance businesses in partnership with Artificial Labs; and our Axelos joint venture with the UK Government, with combined expected proceeds of at least £200m. We anticipate proceeds to come through in the second half of the year. Further non-core disposals are expected to realise around £200m, including from more off-the-shelf software assets, as well as Specialist Service businesses that will be sold once recovery from the Covid crisis is well established.

We plan to put in place longer-term debt funding solutions, likely to be later in the year and subject to market conditions.

Outlook

Despite national lockdown through Q1, we are still targeting our first year of organic revenue growth for six years.

We plan to deliver improving profitability and cash flow from trading operations, offset by reversal of VAT savings, pension commitments and significant ongoing restructuring charges.

We are targeting disposal proceeds of £700m, with £500m in 2021.

Our new simpler structure supports inflection to sustainable cash generation in 2022.

We are continuing to build a more focused, client-centric and streamlined business, in order to deliver improving returns to investor.

Measuring our performance

Financial performance indicators

Adjusted profit before tax (£m)^{1*}

2020	65.2
2019	197.7

Adjusted operating margin (%)¹

2020	3.5
2019	7.3

Adjusted earnings per share (p)²

2020	4.19
2019	9.30

Adjusted free cash flow^{3*}

£238.6m

(2019: £(23.2)m outflow)

Return on capital employed⁴

3.8%

(2019: 7.8%)

Headline gearing: headline net debt to adjusted EBITDA⁵

3.1x

(2019: 2.7x)

Non-financial performance indicators

Our people

Our employee net promoter score (eNPS) continued its upward trend demonstrating our ability to maintain our overall employee engagement in unprecedented times.

Employee net promoter score Positive points swing in eNPS

+7pts

(2019: +14pts)

Our suppliers and partners

We are signatories to the UK Government's Prompt Payment Code, reporting our payment practices and performance to the government every six months.

Adherence to fair business terms Suppliers paid within 60 days

95%

(2019: 97%)

Our clients and customers

We actively seek the views of our clients through a customer net promoter score (cNPS) survey. In 2020, we received feedback from more than 1,020 individuals across 638 clients.

Customer net promoter score Positive points swing in cNPS

+17pts

(2019: +22pts)

1. Refer to alternative performance measures on pages 204 to 206.

2. Refer to note 2.7 of the consolidated financial statements.

3. Refer to note 2.10 of the consolidated financial statements.

4. Post IFRS 16.

5. The Board's view is that the appropriate headline leverage ratio for Capita over the medium term should be between 1.0 and 2.0 times headline net debt to adjusted EBITDA (prior to the adoption of IFRS 16). At 31 December 2020, the Group's headline gearing ratio was 2.4x (2019: 2.1x) excluding the impact of IFRS 16, as a result of the lower adjusted EBITDA due to the impact of Covid-19. The Board has not formally reviewed the target range, but taking account of the adoption of IFRS 16, the range would increase arithmetically to be between 1.7 and 2.7x headline net debt to adjusted EBITDA. At 31 December 2020, this ratio exceeded this range at 3.1x (2019: 2.7x) for the same reasons as the pre-IFRS 16 ratio.

* Measures used to determine variable remuneration, see page 93.

Focused on the balance sheet



“Our priority for 2021 is to address the short-term debt maturities through extending our committed credit facilities and issuing new long-term debt instruments, while continuing to strengthen the balance sheet.”

Gordon Boyd
Chief Financial Officer (interim)

Summary of financial performance

	Financial highlights					
	Adjusted ¹ results – continuing operations			Reported results – continuing operations		
	Adjusted ¹ 2020	Adjusted ¹ 2019	Adjusted ¹ YOY change	Reported 2020	Reported 2019	Reported YOY change
Revenue	£3,181.2m	£3,501.0m	(9)%	£3,324.8m	£3,678.6m	(10)%
Operating profit/(loss)	£111.0m	£254.5m	(56)%	£(32.0)m	£0.4m	(8,100)%
Profit/(loss) before tax	£65.2m	£197.7m	(67)%	£(49.4)m	£(62.6)m	21%
Earnings/(loss) per share	4.19p	9.30p	(55)%	(0.41)p	(4.18)p	90%
Free cash flow	£238.6m	£(23.2)m	1,128%	£303.8m	£(213.0)m	243%
Net debt	£(1,077.1)m	£(1,353.2)m	£276.1m	£(1,077.1)m	£(1,353.2)m	£276.1m

events, resourcing, face-to-face training, and the payment services software we use to collect the London congestion charge. We continued to see resilient revenue performance in the majority of our operations from long-term contracts with a stable government and blue-chip customer base, and saw contract wins with the DWP and the NHS.

Adjusted profit before tax¹ was impacted by new contract wins not yet replacing profits from lost contracts, reduced transactional revenue, mostly due to the pandemic, and scope and volume reductions. These were partially offset by cost savings from our ongoing transformation plan and cost saving actions taken to offset the financial impact of Covid-19, particularly in those businesses of a more transactional nature. There were, however, other cost increases, including inflation, additional depreciation, amortisation and running costs on completed transformation programmes, and an increased bad debt provision. The Group participated in the job retention scheme made available by the Government to help ease the impact Covid-19 otherwise would have had, including potentially additional headcount reductions. The grant income of £21.3m was recorded in the year and offset against the associated payroll costs.

Cash from trading operations was improved by contractual working capital movements more than offsetting the decline in adjusted operating profit¹. Adjusted free cash flow¹ was underpinned by this improvement in cash from trading operations, shorter public sector payment cycles as part of the Covid-19 response, the impact of lower revenue, and better working capital management, lower capital expenditure and lower spend on certain transformation projects as the Group

Overview

The onset of the Covid-19 crisis interrupted the pace of our ongoing transformation at Capita, as well as planned disposals and refinancing plans.

A small decline in adjusted revenue¹ was expected in the first half of 2020 due to contract losses reported in 2019 and the first quarter of 2020 was broadly in line with expectations. However, the economic impact of Covid-19 resulted in lower revenue in a number of businesses through the rest of the year. The weaknesses in transactional revenue and volume-related framework contracts related to businesses such as travel and

¹ Refer to alternative performance measures on pages 204 to 206.

focused on managing cash in the face of economic uncertainty.

As part of our drive for simplification, and strengthening the balance sheet, we continue to seek to dispose of a number of non-core businesses. In June 2020, we completed the disposal of Eclipse Legal Services for net cash proceeds of £50.0m, realising a gain of £43.3m, and in February 2021 we received cash proceeds from the disposal of the Education Software Solutions (ESS) business of £298.5m, of which £50.1m was payable to the Capita defined benefit pension scheme to obtain legal title to the intellectual property rights used by the ESS business. Proceeds from both of these disposals will strengthen the Group's balance sheet by reducing net debt and pension liabilities. The Board has approved a disposal programme and further disposals will be considered in due course where there are opportunities to maximise the value from exiting these non-core businesses.

Liquidity at 31 December 2020 was £708.6m, made up of £452.0m of our committed revolving credit facility and £150.0m backstop liquidity facility which expired on completion of the ESS disposal, none of which were drawn at 31 December, and £106.6m of unrestricted cash and cash equivalents net of overdrafts. The Group was in compliance with its financial covenants at 31 December 2020.

Our priority for 2021 is to address the short-term debt maturities through extending our committed credit facilities and issuing new long-term debt instruments, while continuing to strengthen the balance sheet. We had planned a bond issuance in 2020, to extend our debt maturities; however, due to market appetite, we were unable to do this.

The move to a new corporate structure in the second half of 2021, that is more focused and client-centric, will also drive further cost savings from reduced overheads.

Summary of financial performance

Adjusted results

Capita reports results on an adjusted basis to aid understanding of business performance. The Board has adopted a policy to disclose separately those items that it considers are outside the underlying operating results for the particular period under review and against which the Group's performance is assessed. In the directors' judgement, these need to be disclosed separately by virtue of their nature, size and/or incidence for users of the financial statements to obtain a proper understanding of the financial information and the underlying in-period performance of the business. Those items which relate to the ordinary course of the Group's operating profit remain within adjusted profit.

Adjusted revenue¹ bridge by key driver

	£m
Year ended 31 December 2019	3,501.0
One-offs in 2019	(39.3)
Year ended 31 December 2019 rebased	3,461.7
Losses	(212.1)
Scope and volume	(51.8)
Transactional	(1.1)
Wins	122.4
One-offs in 2020	14.7
Year ended 31 December 2020 – pre-Covid-19	3,333.8
Covid-19 – scope and volume	(112.3)
Covid-19 – transactional	(110.7)
Covid-19 – wins	70.4
Year ended 31 December 2020	3,181.2

In accordance with the above policy, the trading results of business exits, along with the non-trading expenses and gain on disposals, were excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 2019 comparatives have been re-presented to exclude 2020 business exits. Education Software Solutions was classified as a business exit and therefore excluded from adjusted results in both 2020 and 2019.

In 2019, International Financial Reporting Standard 16 Leases (IFRS 16) was adopted, and to aid comparison with 2018, the primary adjusted measures used by the Board for evaluating performance were presented before the impact of IFRS 16. For 2020, adjusted results are presented after the impact of IFRS 16 and 2019 has been re-presented on the same basis.

Reconciliations between adjusted and reported operating profit, profit before tax and free cash flow are provided on the following pages and in the note to the financial statements.

Adjusted revenue

Adjusted revenue¹ reduced year on year by around 9%. The adjusted revenue¹ bridge details the movements:

- One-off benefits from contract termination payments and deferred income releases.
- Contract losses, mainly the impact of local government hand backs in Government Services, such as Birmingham and Southampton councils, and a number of losses in Specialist Services.

- Contract wins which include the first year of revenue on the Ministry of Defence's fire and rescue project (DFRP) contract, a project performed in Customer Management, and a number of smaller wins across all divisions.
- As happened in 2019, a number of one-offs arose from deferred income releases associated with contract terminations and modifications (detailed further below).
- Net reduction of £152.6m (5%) attributed to Covid-19, largely due to lower transactional revenues in our businesses heavily impacted by the pandemic in travel and events, enforcement, Government Services and People Solutions, including a number of our framework agreements which are driven by volumes. This was offset by additional revenue won, predominantly within Government Services and Customer Management, to assist with the UK's response to the Covid-19 including contracts with the DWP and various NHS schemes, with some of these continuing into 2021.

Order book

The Group's consolidated order book was £5,851m at 31 December 2020 (2019: £6,720m) as additions from contract wins and extensions in 2020 (£1,573m), including TfL congestion charge and Army recruitment extension, did not offset the reduction from revenue recognised in the year (£2,365m) and contract terminations and scope changes (£77m). In January 2021 the Group signed a contract with the Royal Navy which represents a £0.9bn addition to the order book which is not reflected in the December 2020 order book.

¹ Refer to alternative performance measures on pages 204 to 206.

Adjusted profit before tax¹ bridge by key driver

	£m
Year ended 31 December 2019	197.7
One-offs in 2019 – contract-related	(28.2)
Year ended 31 December 2019 rebased	169.5
Contract losses	(48.0)
Contract wins	37.0
Scope and volume	(81.0)
Other costs	(65.7)
Transformation cost savings	145.2
Transactional	(67.9)
One-offs in 2020 – contract-related	(23.9)
Year ended 31 December 2020	65.2

Adjusted operating profit to adjusted free cash flow¹

	2020 £m	2019 £m
Adjusted operating profit¹	111.0	254.5
Add: depreciation/amortisation and impairment property, plant and equipment and intangible assets	182.0	184.9
Adjusted EBITDA	293.0	439.4
Contractual working capital movement (deferred income, contract fulfilment assets and accrued income)	(42.5)	(215.7)
Cash from trading operations*	250.5	223.7
Net capital expenditure	(72.4)	(172.9)
Other/working capital	60.5	(74.0)
Adjusted free cash flow¹	238.6	(23.2)

* Cash from trading operations defined as adjusted EBITDA less contractual working capital movements.

Adjusted profit before tax

Adjusted profit before tax¹ declined in 2020. The adjusted profit before tax¹ bridge breaks out the revenue and cost impacts on profit:

- One-off contract related items in 2019 relating to the release of deferred income and write-off of contract assets arising from contract terminations, settlements and modifications.
- The benefit from contract wins (which includes the initial loss on the DFRP contract of £15m (refer to note 2.1 of the consolidated financial statements)) are not yet replacing margin from lost contracts.
- Scope and volume reductions described earlier, and other cost increases, are partly mitigated by cost savings from the transformation cost competitiveness programme (see below).

- Other cost increases, such as, inflation (including the commitment in the UK to the real living wage), additional depreciation, amortisation and running costs on completed transformation programmes, and an increase in bad debt provision.
- Reduction in transactional revenue (mostly attributable to Covid-19) which has a high initial margin impact due to fixed and semi-fixed cost base. This could not be fully mitigated by cost reduction actions, for example the impact of furloughing employees.
- Unplanned contractual one-offs, including the release of deferred income and write-off of contract assets arising from contract terminations, settlements and modifications, provisions recognised on onerous contracts and contract related asset impairments (see further below).

The cost competitiveness programme delivered £145.2m of savings in 2020 and cumulative savings since 2018 of £305m, which were used prior to 2020 to increase investment in strengthening functions and build the platforms for growth, as well as to partially offset the decline in revenue. The

savings continued to be generated through simplifying the organisation, reducing management layers and rationalising the IT and property portfolios.

The adjusted revenue¹ and adjusted profit before tax¹ were impacted by a number of material unplanned contractual one-off items, netting to a charge of £23.9m. These items are not excluded from adjusted results as they are considered to be normal course of business and not associated with the transformation plan. These included:

- Net gain of £14.1m from the release of deferred income and contract fulfilment asset utilisation from a contract termination in Customer Management. Where a contract is terminated early, all deferred revenue is recognised in the year of termination, which would otherwise have been deferred over the expected life of the contract in line with the Group IFRS 15 policy. Similarly, any associated contract assets are written off in the year of termination, unless there are alternative uses on other contracts.
- Contract related provisions of £17.3m, including an onerous contract provision of £11.2m in Customer Management.
- Contract related asset impairments of £16.4m on challenging contracts in Government Services and Customer Management.

Adjusted free cash flow

Adjusted free cash flow¹ in 2020 was an inflow (£238.6m). This inflow was due to improved contractual working capital movements and inflows from other working capital more than offsetting the decline in adjusted operating profit¹.

There are also a number of items that can lead to significant differences between profit and the generation of free cash flow, including:

- Timing of profits compared to the cash received. Typically, cash receipts are aligned to costs incurred whereas, under IFRS 15, revenue is more evenly distributed in the early years on the contract. This typically results in lower profits in early years on contracts which have significant restructuring costs or higher operating costs prior to transformation. The cash received is deferred and released as we deliver against our obligations to provide services and solutions to our clients rather than matched against costs as they are incurred. We have set out in note 2.1 a graphical presentation of the profits and cash flows on a typical outsourcing contract, and have also provided explanations, to aid an understanding of how the differences arise.
- Contract terminations and modifications, which can lead to major gains or losses in the year of termination or modification, and where cash inflows/outflows have occurred in prior years.

¹ Refer to alternative performance measures on pages 204 to 206.

Revolving credit facility

£452.0m

at 31 December 2020

Reported cash flow

£308.8m

(2019: £(213.0m outflow))

“The cost competitiveness programme delivered £145m of savings in 2020 and cumulative savings since 2018 of £305m.”

We have analysed working capital between ‘contractual’ – being those balances which relate to contract movements of deferred income, accrued income and contract fulfilment assets to derive cash from trading operations – and ‘other/working capital’, which represents routine normal working capital items such as trade receivables, trade payables and prepayments, and interest and tax. Cash from trading operations is a more helpful way to think about these movements rather than describing them as working capital outflows and provides a more stable and consistent view of operating cash flows.

Cash from trading operations improved to £250.5m (2019: £223.7m) due to a reduction in contractual working capital outflows, as previously expected.

Contractual working capital improved with an outflow of £42.5m (2019: outflow £215.7m). This movement arises from:

- An increased accrued income inflow of £27m, driven by invoice phasing in Technology Solutions and the impact of lower volumes across People Solutions and Software.
- A reduced deferred income outflow of £154m, largely from advanced receipts and higher activity levels on the DFRP contract where cash has been received in 2020 in respect of transformation and invoice timing on a contract with a telecom customer, compared to an outflow in 2019 which included the £78m one-off impact of ending local government contracts, offset by:
- An increased contract fulfilment asset outflow of £8m, mostly from an increase in additions on Government Services contracts, the most significant being on the DFRP contract, offset by contract asset write-offs in Customer Management and Government Services.

Adjusted¹ to reported profit bridge

	Operating (loss)/profit		(Loss)/profit before tax	
	2020 £m	2019 £m	2020 £m	2019 £m
Adjusted¹	111.0	254.5	65.2	197.7
Amortisation and impairment of acquired intangibles	(33.9)	(49.9)	(33.9)	(49.9)
Impairment of goodwill	—	(41.4)	—	(41.4)
Business exit – trading	51.0	46.6	51.0	46.6
Business exit – non-trading expenses	(41.9)	(52.1)	(41.9)	(52.1)
Business exit – gain on business disposals	—	—	31.4	—
Business exit – on hold disposal costs	(7.5)	—	(7.5)	—
Significant restructuring	(109.6)	(159.4)	(109.6)	(159.4)
Other	(1.1)	2.1	(4.1)	(4.1)
Reported	(32.0)	0.4	(49.4)	(62.6)

Other working capital related cash inflows reflected shorter public sector payment cycles as part of the Covid-19 response, the impact of lower revenue, and actions taken to improve working capital.

Net capital expenditure decreased in 2020 in line with previously planned reductions as we drove focused investment and Group cash preservation methods in response to the pandemic. This included reduced spend on finance transformation and functional IT programmes, such as Workday, Salesforce and SAP.

Reported results

The Board presents adjusted key measures of profit and cash, in addition to reported measures, where items are significant in size and either they do not form part of the trading activities of the Group or their separate presentation enhances understanding of the underlying financial performance of the Group. Given the wide-ranging scope of the transformation plan, including for 2020 property portfolio management, the Board has again sought to provide a clear understanding of the underlying and continuing performance of the businesses. This has been achieved by separating and disclosing separately

significant adjusted items as set out in the following table. The Board will continue to keep under review the presentation of alternative measures.

Adjusted operating profit¹ and adjusted profit before tax¹ exclude a number of specific items, including significant restructuring costs of £109.6m, the amortisation and impairment of acquired intangibles, including goodwill, of £33.9m, and business exits of £9.1m, to aid understanding of business performance.

Business exits are businesses that have been disposed of or exited during the year, or are in the process of being disposed of or exited. At 31 December 2020 these comprised:

- The Eclipse business whose disposal completed on 30 June 2020.
- The Capita Workplace Technology business whose disposal completed on 1 August 2020.
- The Employee Benefits business whose disposal was completed on 30 November 2020.

¹ Refer to alternative performance measures on pages 204 to 206.

“In response to Covid-19, we have had to adapt and reassess our restructuring activities which will now extend into 2021.”

Adjusted to reported free cash flow

	2020 £m	2019 £m
Adjusted¹	238.6	(23.2)
Pension deficit contributions	(29.5)	(71.1)
Significant restructuring	(64.1)	(148.5)
Business exits	33.9	32.5
Business exits – on hold disposal costs	(7.5)	—
Non-recourse trade receivables financing	13.6	—
VAT deferral	118.8	—
Other	—	(2.7)
Reported	303.8	(213.0)

- Two businesses, including the Education Software Solutions business, which were in the process of being exited and which met the held-for-sale criteria. Accordingly, these businesses were treated as disposal groups held-for-sale at this date. The sale of both businesses completed subsequently, and
- The exit costs relating to further planned disposals, including professional fees and separation planning costs.

In accordance with our policy, the trading results of these businesses, along with the non-trading expenses and gain or loss on disposal, were included in business exits and therefore excluded from adjusted results. To enable a like-for-like comparison of adjusted

results, the 2019 comparatives have been re-presented to exclude 2020 business exits.

During the period, the Group was in the active process of disposing of a number of businesses. However, due to the impact that the Covid-19 pandemic had on the underlying trading of these businesses, the disposal process was put on hold. The costs incurred in respect of these disposals are excluded from the Group's adjusted results but disclosed separately to the continuing business exits given their materiality. These costs included professional fees in respect of legal and financial due diligence, and separation planning costs.

Further disposals are planned as part of the Group's simplification strategy. As these disposals did not meet the definition of business exits or assets held-for-sale at 31 December 2020, their trading results were included within adjusted results.

In 2018, the Board launched a multi-year transformation plan to support the objectives of simplifying and strengthening Capita. The plan has extended to property rationalisation, procurement centralisation, transformation of support functions, including investment in growth, and transformation of finance, and operational excellence, including investment in automation. These activities are designed to improve the cost competitiveness of the Group, secure Capita's position in the markets it serves, and strengthen governance and control. In response to the varied impacts of Covid-19 we have had to adapt and reassess our restructuring activities which will now extend into 2021.

The costs of the transformation plan, including redundancy costs, are excluded from adjusted operating profit¹ as significant restructuring. We will keep this presentation under review to ensure it remains appropriate.

Further detail of the specific items charged in arriving at reported operating profit for 2020 is provided in note 2.4 to the consolidated financial statements.

Reported free cash flow was an inflow in 2020 reflecting the inflow from adjusted free cash flow explained above, the benefit from the Government VAT deferral measures, the utilisation of a non-recourse trade receivables financing facility, and cash from the trading of business exits and net proceeds on the disposal of businesses in the period. These

¹ Refer to alternative performance measures on pages 204 to 206.

Net debt	2020 £m	2019 £m
Opening net debt	(1,353.2)	(466.1)
Adoption of IFRS 16	—	(643.9)
Opening net debt post adoption of IFRS 16	(1,353.2)	(1,110.0)
Cash movement in net debt	344.1	(241.2)
Non-cash movements	(68.0)	(2.0)
Closing net debt	(1,077.1)	(1,353.2)
Remove closing IFRS 16 impact	508.1	562.6
Headline net debt (pre-IFRS 16)	(569.0)	(790.6)
Cash and cash equivalents net of overdrafts	141.1	122.8
Debt net of swaps	(710.1)	(913.4)
Headline net debt (pre-IFRS 16)/adjusted EBITDA¹	2.4x	2.1x
Headline net debt (post-IFRS 16)/adjusted EBITDA¹	3.1x	2.7x

Liquidity	2020 £m	2019 £m
RCF	452.0	414.0
Backstop liquidity facilities	150.0	—
Less: drawing on facilities	—	—
Undrawn committed facilities	602.0	414.0
Net cash, cash equivalents net of overdrafts	141.1	122.8
Less: restricted cash ¹	(34.5)	(42.1)
Liquidity	708.6	494.7

were offset by spend on known commitments, including pension deficit contributions (which the directors consider to be debt-like in nature), and restructuring costs.

A non-recourse trade receivables financing facility was put in place to mitigate the risk of customer receipts slippage due to the Covid-19 pandemic. This facility and the VAT deferral were both excluded from adjusted free cash flow¹.

Impact on net debt

Net debt at 31 December 2020 was £1,077.1m (2019: £1,353.2m) reflecting the cash inflow in the year. The reduction in net debt was largely from the improved adjusted free cash flow¹, the deferral of VAT, and proceeds from the Eclipse disposal.

The Board's view is that the appropriate headline leverage ratio for Capita over the medium term should be between 1.0 and 2.0 times headline net debt to adjusted EBITDA¹ (prior to the adoption of IFRS 16). At 31 December 2020, the ratio exceeded the top of our range at 2.4 times (2019: 2.1 times) as a result of the lower adjusted EBITDA, which as explained above, was due to the impact of Covid-19.

The Board has not formally reviewed the target range, but taking account of the adoption of IFRS 16, the range would increase arithmetically to be between 1.7 and 2.7 times

headline net debt to adjusted EBITDA¹. At 31 December 2020, this ratio exceeded this range at 3.1 times (31 December 2019: 2.7 times) for the same reasons set out above.

We will keep our leverage target under review as the economic circumstances develop and our balance sheet strengthens following asset disposals.

We were compliant with all debt covenants at 31 December 2020.

The impact of IFRS 16 adoption on the Group's adjusted net debt to adjusted EBITDA¹ debt covenant ratio is neutral, as the Group covenants are calculated based on frozen GAAP, with the exception of the US private placement loan notes. The US private placement loan notes covenant test includes the income statement impact of IFRS 16 but not the balance sheet impact, and therefore adoption of IFRS 16 is favourable on this covenant measure. At 31 December 2020, the US private placement loan notes ratio was 1.8 times.

Interest cover¹ covenant was 8.5 times for the US private placement loan notes (2019: 11.2 times) and 7.8 times for other financing arrangements (2019: 10.8 times).

Capital and financial risk management

Liquidity remains a key area of focus for the Group. Financial instruments used to fund operations, including the transformation plan, and to manage liquidity comprise US private placement loan notes, euro fixed-rate bearer

notes, a Schuldschein loan, a revolving credit facility (RCF), backstop liquidity facilities, leases and overdrafts.

We have been very focused on conserving cash and maximising liquidity and this has resulted in an improved liquidity since the end of 2019.

The Group's RCF of £452.0m at 31 December 2020 (31 December 2019: £414.0m) provides flexible liquidity available to fund operations and a reasonable liquidity buffer allowing for contingencies. The facility is available until 31 August 2022, extendable for a further year to 31 August 2023 with the consent of the lenders by 31 August 2021. At 31 December 2020 the committed RCF was undrawn (31 December 2019: undrawn).

Additionally, the Group secured a committed backstop liquidity facility of £150.0m in February 2020. This reduced to £93.5m on 30 June 2020 with the disposal of the Eclipse business. It was then supplemented by a second backstop liquidity facility, bringing the combined value of the two facilities back to £150.0m. Neither facility was drawn at 31 December 2020. Both backstop liquidity facilities terminated on 1 February 2021 with the receipt of proceeds from the disposal of the ESS business.

¹ Refer to alternative performance measures on pages 204 to 206.

“The Group has a strong track record of executing major planned disposals and a successful history of securing effective refinancing.”

As part of the Group's mitigation of the impact of Covid-19, in June 2020 a non-recourse invoice discounting facility was executed. The value of invoices sold under the facility at 31 December 2020 was £13.6m. The Group's intention is that the facility will be used only while Covid-19 continues to impact the business.

At 31 December 2020, the Group had £141.1m of cash and cash equivalents net of overdrafts, and £765.1m of private placement loan notes, fixed-rate bearer notes, and Schuldschein loan. These debt instruments mature over the period to 2027, with repayments of £209.9m and £230.2m, in 2021 and 2022 respectively.

The Group intends to extend the average term to maturity of its debt, and thereby reduce refinancing risk, by issuing new long-term debt instruments in 2021, market conditions permitting.

As noted previously, as part of our simplification drive, we also decided to dispose of a number of non-core businesses in 2020. The anticipated disposal proceeds will provide options to reduce the Group's debt. We will continue to pursue these in 2021.

Going concern and viability assessments

The Board closely monitors the Group's funding position throughout the year, including monitoring compliance with covenants and available facilities to ensure it has sufficient headroom to fund operations. In addition, to support the going concern assumption and viability statement the Board conducts a robust assessment of the projections, considering also the committed facilities available to the Group.

Year end liquidity

£708.6m

(2019: £494.7m)

Headline leverage post IFRS 16

3.1x

(2019: 2.7x)

The Board has considered risks to the projections under a severe but plausible downside. This includes adverse impacts arising from the execution risk associated with the transformation plan and the unprecedented economic uncertainties introduced by Covid-19.

To mitigate these the Board is focused on introducing significant new funds to the Group via a continuation of the approved disposal programme, and refinancing of the debt maturities. The Group is already engaged in discussions with its RCF lenders regarding an extension to the existing facility which matures in August 2022, targeting completion of a refinancing during 2021, which it expects will include an RCF with a maturity at least a year later.

Any refinancing and future disposals, should the severe but plausible downside crystallise, will require third party agreements and approvals which represent events that are outside the direct control of the Company. Accordingly, at the time of signing these financial statements there remain material uncertainties, as defined in auditing and accounting standards, related to events or conditions that may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern.

The Group has a strong track record of executing major planned disposals and a successful history of securing effective refinancing. Therefore, after careful consideration and reflecting also the Board's confidence in the transformation plan, the Board has concluded that the Group and Parent Company will continue to have adequate financial resources to realise their assets and discharge their liabilities as they fall due over the going concern period to 31 August 2022. Consequently, these financial statements do not include any adjustments which would be required if the going concern basis of preparation is inappropriate.

The Board's assessment is set out in more detail in Section 1 of the consolidated financial statements and summarised in the viability statement on page 58.

Pensions

As a result of the last triennial valuation at 31 March 2017, deficit-repair contributions totalling £176.0m, were agreed and these will be fully paid in the first half of 2021. It was expected that the combination of the deficit contributions and the scheme's investment strategy would largely eliminate the deficit identified in 2017. Looking to the valuation at March 2020, the Trustees will need to take into account the impact of Covid-19 and the planned delivery of the transformation of the Group. The impact being that we expect a further deficit will be identified as a result of more prudent assumptions. The Company and Trustees will continue their commitment to an open dialogue between them, ensuring the financial health of the scheme is maintained in a proportionate way with all other stakeholders. We expect to conclude the triennial valuation in the first half of 2021, including agreement with the Trustees with regards to repairing the deficit in the next three to six years.

¹ Refer to alternative performance measures on pages 204 to 206.

Balance sheet

The consolidated net liabilities were £81.1m at 31 December 2020 (2019: £64.0m). The increase in net liabilities is predominantly driven by the actuarial loss on the Group's defined benefit pension schemes.

Finance transformation

In 2018, the Board launched a multi-year transformation plan to support the objectives of simplifying and strengthening Capita. The plan includes transformation of finance to improve the Group's financial reporting systems, processes and controls, by increasing standardisation, automation and the quality of available data.

The new financial systems were due to go live in the second half of 2019. While progress was made, we took the decision to defer the go-live as more work was required on the core processes and procedures before the system would be effectively implemented. As such, we impaired £12.3m at 31 December 2019, representing areas that we expected to redesign before going live. Several interim activities were progressed during 2020 and the technical asset including the IT infrastructure, software and codebase have been preserved and remain ready to deploy. No impairment has been recorded in 2020 as we believe the solution remains fit for purpose. The carrying value of the investment remains unchanged at 31 December 2020 at £58.6m. The carrying value of the asset will be kept under review through the next phase of the Group's transformation to assess for any triggers for impairment should there be a material change to the Group's operating model.

The Group has continued to invest in shared service centres and offshoring, and in making improvements to the Group's existing reporting systems, processes and controls.

Contingent liabilities

In September 2020, the Group settled a liability relating to past services received under supplier software licence agreements. The settlement requires a cash payment of £5m (payable in USD) in January 2021, and with a commitment to future purchases of £79m of which £6m (payable in USD) is over the period to 31 December 2021 and £73m (payable in USD), is over the period to 30 June 2024.

In June 2020 the Group made a provision for the cash settlement at 31 December 2020 and excluded this from adjusted results. The future purchases will be at the usual discounted prices available to the Group, and the Group has forecasts that support the requirement for such products and services. These products are important in supporting the delivery of

“As part of our drive for simplification, and strengthening the balance sheet, we continue to seek to dispose of a number of non-core businesses.”

future performance obligations and digital solutions for our customers. Accordingly, there is no provision to record as the committed future purchases will benefit the Group and do not represent an economic outflow of resources. As the future purchases are made, the cost if expensed will be recorded in adjusted results.

Refer to note 2.4 of the consolidated financial statements for the 'adjusted operating profit and adjusted profit before tax' disclosure note and note 6.2 for the 'commitments' disclosure note.

Forward planning assumptions

The uncertainties created by the current and potential future impact of Covid-19 on our business means that forecasting is inherently uncertain and so guidance is not provided. However, our current planning assumptions are:

- **Revenue:** despite lockdown in the first quarter of 2021, targeting organic revenue growth.
- **Adjusted profit before tax and cash from trading operations:** underpinned by net cost savings (further £50m savings in 2022 from future Capita).
- **Restructuring:** continuation of restructuring programme, broadly in line with 2020.
- **Pensions:** triennial valuation agreement targeted for the first half of 2021, deficit reduction programme expected over the next three – six years.
- **Net debt:** broadly flat year on year – before disposals.

¹ Refer to alternative performance measures on pages 204 to 206.

Software

Software provides application software and other solutions to clients in the local government, emergency services, healthcare, utilities and energy, professional and financial services, and payments sectors.

Adjusted revenue

£246.0m

(2019: £252.1m) -2.4%

Adjusted operating profit

£43.4m

(2019: £50.7m) -14.4%

Following a strategic review of our Software division, we decided to focus on a portfolio of core software capabilities which are better aligned with and support our consulting, transformation and digital business process outsourcing (BPO) services, and the vertical markets of the rest of the Group. We will retain our software assets that are catalysts for growing our other services and plan to dispose of the standalone software products that have little overlap or cross-sell with the rest of Capita.

Our markets and growth drivers

Our existing markets remain the focus. While the payments market is expected to grow by double digits through to 2025, and our payments business is a successful challenger in this high-growth market, the remaining markets are expecting low to mid-single-digit growth in the next five years.

We are focusing on cross-selling opportunities in existing and adjacent markets, and strategic expansion into new markets.

At a macro level, market growth continues to be driven by software's deepening role in every aspect of business and consumer life, which has been further accelerated by the Covid-19 pandemic. The growth of cloud solutions and software as a service (SaaS) continued during 2020 and our investment reflected this shift, as we continued to replatform our core products ahead of segment demand.

Our strategy

Software capability remains critical to Capita. Our vertical market domain expertise and industry class software development capability, ensure we are the differentiating catalyst for Capita's digitally enabled BPO services.

While we will continue to sell direct to market, we will increasingly create microservices and other digital componentry as a powerful enabler of our BPO services. We will also seek opportunities to embed our software and microservices in other third-party software.

We see increasing benefits from our global digital development centre (DDC) in India and the UK, which is now considered a top capability, as evidenced by the Capability Maturity Model Integration Institute's award of a 'maturity level 5' for development and support – an accreditation shared by IBM, Accenture and Deloitte.

We intend to leverage the DDC for the benefit of all of Capita and work is underway to transition to a pan-Capita DDC model, which is expected to drive Group cost savings in addition to the highest standards of software development.

Financial performance

Adjusted revenue in 2020 fell by 2.4% to £246.0m, with go-lives in Secure Solutions and Services, US growth and increased volumes in AMT Sybex, offsetting contracts ending. Covid-19 adversely impacted the volume-driven payments business and delayed pipeline delivery.

Adjusted operating profit decreased by 14.4% to £43.4m, due to an increase in depreciation and amortisation, and increased costs of the DDC. The Covid-related transactional decline also adversely impacted profit.

Adjusted cash from trading operations improved by 21.7% to £58.8m with the reduction in profit more than offset by improvements in contractual working capital, driven by advance billing and lower contract fulfilment asset (CFA) additions in Secure Solutions and Services and AMT Sybex.

Cost and operational excellence

Swift action was taken to protect the business from the impact of Covid-19 and we sustained delivery on 96% of our service-level agreements. Our rapid response strengthened client relationships, with very positive feedback from local government and ambulance services and an increase in our cNPS of 26 points.

Our cost-saving initiatives helped to mitigate amortisation and inflationary cost increases; key programmes included organisational restructure, technology and procurement.

Our investment in standard software tools, developing best practice processes and shortened development cycles allowed us, for example, to develop and embed healthcare decision software within Microsoft's 'Azure Health Bot', allowing healthcare organisations around the world to build and deploy large-scale AI-powered, compliant, conversational healthcare experiences. This is an example of how, by embedding software in third party software, we can distribute at scale and low marginal cost, and we expect to see benefits beginning in 2021.

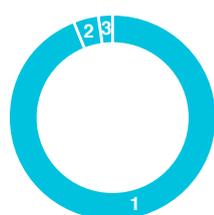
Investing in growth

In 2020, we invested £15m in new product development, and reduced development cycles, and increasingly focused on microservices and digital componentry as a catalyst for pan-Capita digital services.

We also used products in new markets; for example, ResponsEye has been assisting social housing organisations with the maintenance of properties.

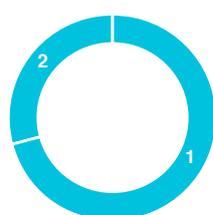
At 31 December 2020, the total unweighted pipeline was £1,037m, an increase of £252m from February 2020 (post divisional restructure), with £389m of total contract value (TCV) won. The order book at the year end was £510.9m, a decrease of £67.5m, from 31 December 2019. Our renewals rate across all opportunities was 88%, and 98% on those that we bid for.

Adjusted¹ revenue by type (%)



- 1 94% Long-term contractual
- 2 4% Short-term contractual
- 3 2% Transactional

Revenue by market (%)



- 1 71% Public sector
- 2 29% Private sector

Financial performance

Divisional financial summary	2020	2019	Change %
Adjusted revenue (£m)	246.0	252.1	(2.4)
Adjusted operating profit (£m)	43.4	50.7	(14.4)
Adjusted operating margin (%)	17.6	20.1	
Adjusted cash from trading operations (£m)	58.8	48.3	21.7
Order book ² (£m)	510.9	578.4	(11.7)

1. Refer to alternative performance measures on pages 204 to 206.
 2. Includes £92m for ESS, derecognised upon disposal completion in 2021.

Business units

- Local Government
- Healthcare
- Payments
- Resource Management
- Emergency Services
- Utilities, transport and assets

Employees

- 3,500

Client distribution

- UK, India, US and Australasia

Competitors

- Civica
- Northgate
- WorldPay
- Saviom
- Mavenlink
- Frequentis
- Ulligroup
- Global enterprise – SAP, Microsoft, Oracle, Salesforce

Major contract wins and renewals

- £6m, five-year contract with a local city council
- £19m, seven-year, regional NHS contract
- £2m, three-year contract with Royal London
- Renewal worth £4m over two years, with a major UK police force
- Strategic new logo win with Marble for AMT-Sybex



We have successfully completed the integration of location finding app, what3words, into our ControlWorks solution. This will enable emergency services – such as police, and fire and rescue services – to respond to incidents when callers are unable to describe their exact location.

People Solutions

People Solutions provides expert human resources advisory and digitally enabled services to large public and private sector organisations. Areas of expertise include learning, resourcing, pensions and HR outsourcing services business.

Adjusted revenue

£472.0m

(2019: £535.0m) -11.8%

Adjusted operating profit

£52.5m

(2019: £68.9m) -23.8%

We aim to refocus on the parts of these markets that are attractive and where we have an ability to win. During 2020, we sold the sub-scale employee benefits business, which provided flexible benefits and brokerage services, in order to focus our investments on our pensions business, where we have a leading UK market position.

Our markets and growth drivers

People are at the centre of our clients' stated business strategies, creating significant growth opportunities for our business. According to NelsonHall, the HR outsourcing market in the UK is estimated to be worth £7bn and is expected to grow at approximately 3% a year through to 2024.

The key market growth drivers are: (i) our clients' needs for financial sustainability for both themselves and their employees; (ii) a better employee experience; and (iii) the need to have access to skills, whether they are bought, borrowed or built internally, enabling them to be fit for a digital future. Legislation such as IR35 or judgments, such as McCloud and guaranteed minimum pension equalisation, offer continuous opportunities.

Our strategy

The core guiding principle of our divisional transformation journey is client centricity. We aim to retain and grow our existing clients through strong account management discipline. This involves working in partnership with our clients, understanding their issues and needs, increasing service levels, and providing digital solutions alongside data and insights.

Financial performance

Adjusted revenue decreased in 2020 by 11.8% to £472.0m, due to contract losses in learning services; the transition of historic pension contract losses and volumes on frameworks in learning. Covid-19 significantly adversely impacted learning and resourcing volumes.

Adjusted operating profit declined by 23.8% to £52.5m, as revenue decreases and increased investment in the pensions business adversely impacted profit. Cost containment became the focus due to the higher fixed-cost base of learning and resourcing, with Covid-related declines partially offset by savings.

Adjusted cash from trading operations fell by 8.8% to £64.0m, reflecting the decline in profit, which was partially offset by improvements in contractual working capital as a result of CFA balance unwinds and advanced receipts on some contracts.

Cost and operational excellence

We delivered a fast and effective response to Covid-19. The division performs critical processes for clients, including payroll and pension payments as well as recruitment and assessment for the British Army (RPP). We maintained continuity of these critical services by moving 91% of our colleagues to home working and assigning key worker status to others.

In order to serve our clients better, operational excellence and digital transformation are critical. During 2020, despite Covid, we invested in operational excellence tools and processes across our portfolio. This helped us manage a remote workforce, while maintaining a resilient service for our clients. Progressing along an ambitious digital roadmap remains a priority, particularly in our pensions administration business.

We are improving our core products and platforms while working towards standard management information tools across all businesses. We are also strengthening our analytics capability and technological partnerships with key enterprise resource planning providers.

The successful transformation of the RPP contract resulted in a two-year contract extension worth £140m, starting in March 2022.

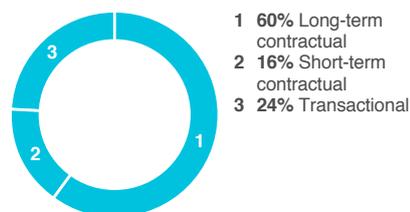
Investing in growth

We reorganised our business to align more closely with our clients so that we not only execute on their contracts but also solve their ever-changing challenges.

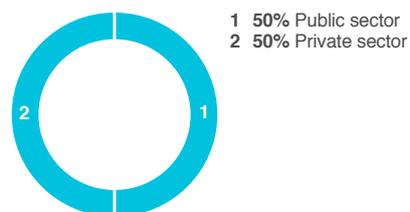
We invested in the development of our products, mainly the completion of product development for: Security Watchdog and Onboarding; a digital platform for learning; and a CRM system to improve employee experience in HR Solutions. We are also investing in digital remote training capabilities as a result of Covid, and we continued investment in the pensions member experience and the development of Axelos products.

At 31 December 2020, the total unweighted pipeline was £2,039m, an increase of £659m since February 2020, with £736m of TCV won. The order book at the year end was £534.4m, an increase of £37.2m since 31 December 2019. In 2020, client value retention and client renewals increased to 78% and 84% respectively. Our renewals rate across all opportunities was 80%, and 81% on those that we bid for.

Adjusted¹ revenue by type (%)



Revenue by market (%)



Financial performance

Divisional financial summary	2020	2019	Change %
Adjusted revenue (£m)	472.0	535.0	(11.8)
Adjusted operating profit (£m)	52.5	68.9	(23.8)
Adjusted operating margin (%)	11.1	12.9	
Adjusted cash from trading operations (£m)	64.0	70.2	(8.8)
Order book (£m)	534.4	497.2	7.5

1. Refer to alternative performance measures on pages 204 to 206.

Business units

- Pensions
- Resourcing
- HR Solutions
- Learning
- Recruiting Partnering Project

Employees

- 4,900

Client distribution

- UK, US and Europe

Competitors

- Alexander Mann Solutions
- AON
- Equiniti
- GP Strategies
- Mercer
- Paychex
- Randstad
- Willis Towers Watson

Better outcomes

We signed a contract extension with a major high street bank worth £35m over 18 months. This contract delivers an end-to-end managed learning service which includes supporting our client in learning advisory and consulting, procurement services, data analytics, design and delivery services.

Major contract wins and renewals

- Covid-related wins of £3m
- Renewal worth around £8m over two years with a major financial services organisation
- Extensions to learning contracts in the health and defence sector worth over £29m under a Crown Commercial Services Framework
- Renewal worth £35m over 18 months with a major high street bank
- Expansion and renewal worth £60m over four years with the Teachers' Pension Scheme
- Renewal worth £24m over seven years for a pensions scheme
- Renewal worth £11m over 10 years in the utilities sector
- RPP extension worth £140m over two years

Customer Management

Capita is a leading provider of multi-channel customer engagement services, serving clients in financial services, retail and consumer goods, energy and utilities, telecommunications and media, and government and transport sectors from a mix of locations in Europe, India and South Africa. The division also provides remediation, complaints management and collections services, and serves both regulated and non-regulated customer needs.

Adjusted revenue

£1,139.7m

(2019: £1,150.6m) -0.9%

Adjusted operating profit

£105.9m

(2019: £119.8m) -11.6%

Our approach is to build partnerships based on shared outcomes and value, while continuing to deliver transactional supply where this helps our clients to meet customer demands. The value we bring to our clients is increasingly built around transforming the customer experience through the application of digital services underpinned by data insight and analytics.

Our markets and growth drivers

According to NelsonHall, the UK market is estimated to be worth £4bn a year and is expected to grow at approximately 3% a year through to 2024. We are expecting several key segments to grow above this rate, with financial services, telecommunications and retail expected to grow at 4%, 4% and 6% respectively.

We are the largest provider of customer management services in the UK and Ireland.

Customer experience and digitisation are at the forefront of our clients' strategies, with the Covid-19 pandemic further accelerating these. We expect the biggest impacts in markets such as, telecommunications, online retail and digital entertainment, and increasingly see these setting the standard for both consumer and business-to-business expectations.

Our strategy

We have a differentiated strategy and core-value proposition in our markets; our approach is customer experience-led, tech-enabled and underpinned by contracted commitment to business outcomes. We are building capability to 'make great customer experience happen'. 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.

Financial performance

Adjusted revenue decreased in 2020 by 0.9% to £1,139.7m. Prior year one-offs and contract losses, as well as reduced volumes on telecommunications clients, were broadly offset by contract wins. While Covid adversely impacted scope and volume on contracts with challenged end-markets, we secured a number of Covid-related projects and the majority of revenue was resilient.

Adjusted operating profit fell by (11.6)% to £105.9m, due to the change in revenue mix. Salary inflation, including the impact of the adoption of the real living wage in the UK, and the impairment of contract assets on our mobilcom-debitel contract, adversely impacted profit. The reversal of 2019 one offs also led to the reduction in profit. This was partly offset by Covid-related savings and the ongoing cost-efficiency programme.

Adjusted cash from trading operations improved by 77.6% to £73.0m, with the decline in profit being partially offset by contractual working capital improvements, driven by a reduction in net accrued and deferred income outflows, predominantly due to agreed changes to the timing of invoicing on a telecoms contract and impact of asset impairments on CFA inflows.

Cost and operational excellence

Operational delivery was challenging for both clients and providers, due to the significant change in operating model working practices and the effect of local lockdowns on the global economy throughout 2020. We maintained a high service level to clients throughout, remaining agile and focused on adjusting to the local requirements through our pandemic

planning approach. We accelerated investment in computer equipment, customer experience and digital platforms, such as collaboration tools, chatbots and cloud technologies, which allowed more than 75% of the division to work from home at any one time, including 95% of our employees in India.

We maintained a number of critical services, operating with key workers for banks, telecommunications companies and utilities in a Covid-safe environment throughout 2020. In addition, we set up new services for retailers, governments and charities, including setting up a 1,000+ seat virtual contact centre in 10 days.

Improvements in the sales process, and adoption of the project management tool Evolve, allowed us to mobilise both large and targeted pieces of work, such as in our Covid-related Department for Work and Pensions (DWP) and NHS support work, in short timescales, and we have had no significant issues on recent wins.

We delivered cost improvements in 2020, particularly from efficiency gains and operating model initiatives, technology updates and procurement.

The transformation phase of our mobilcom-debitel contract is now complete, and therefore reached the inflection point during the year. There are still a number of opportunities yet to be delivered which remain key to the future lifetime profitability.

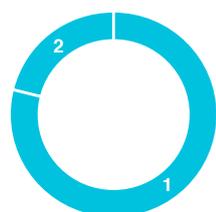
Our closed-book life insurance administration business is in structural decline, as books run off. Some customers, such as the recent partial Phoenix exit, are switching to suppliers who can provide a single digital platform for all their life books, and we are working with them to ensure a smooth transition. We continue to focus on our regulated businesses and growth areas in insurance, finance, pensions and mortgages.

Investing in growth

We continue to upgrade our infrastructure and tools, including in our analytics capability which increasingly allows real-time monitoring of our business and provides insights to our clients on their customers' behaviours and preferences.

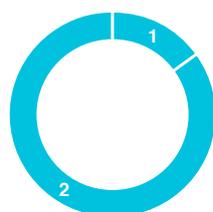
At 31 December 2020, the total unweighted pipeline was £4,206m, a decrease of £1,511m since February 2020, with £586m of TCV won. The decrease was driven by pipeline opportunity refinement and, when a consistent definition is applied throughout the period, the pipeline has increased. The order book at the year end was £2,134.7m, a decrease of £625.8m since 31 December 2019. Our renewals rate across all opportunities was 82%, and 83% on those that we bid for.

Adjusted¹ revenue by type (%)



1 79% Long-term contractual
2 21% Short-term contractual

Revenue by market (%)



1 15% Public sector
2 85% Private sector

Financial performance

Divisional financial summary	2020	2019	Change %
Adjusted revenue (£m)	1,139.7	1,150.6	(0.9)
Adjusted operating profit (£m)	105.9	119.8	(11.6)
Adjusted operating margin (%)	9.3	10.4	
Adjusted cash from trading operations (£m)	73.0	41.1	77.6
Order book (£m)	2,134.7	2,760.5	(22.7)

1. Refer to alternative performance measures on pages 204 to 206.



We signed a contract with Irish Water, worth €10m a year, over five years, to deliver the transformation and operation of its customer contact centre services. Under the contract, we will transform customer management support services for Irish Water's customers with a range of new software and digital capabilities.

Business units

- Regulated Services
- Customer Management UK
- Customer Services Ireland (CCS)
- Europe
- Global delivery centres

Employees

- 31,300

Client distribution

- UK, Ireland, Germany and Switzerland

Competitors

- Atento
- Teleperformance
- Webhelp
- Accenture
- Convergys
- TTech
- Sykes
- First Source
- In-sourcing trend

Major contract wins and renewals

- Covid-related wins of £37m
- £33m over three years with a UK retail bank
- €50m over five years with Irish Water with an option to extend for two years worth €17m
- Renewal worth £114m over two years with a major European telecoms provider
- Expansion of an existing contract worth £24m over one year

Government Services

Capita is the UK Government's largest partner in the application of digital transformation to improve the productivity of government operations and the citizen experience of public services. We do this in a socially responsible way to make public services better for citizens and government employees, and to help our clients to release resources so that they can be deployed back into frontline service priorities.

Adjusted revenue

£723.8m

(2019: £793.4m) -8.8%

Adjusted operating profit

£17.1m

(2019: £51.8m) -67.0%

We believe that quality public services, innovatively designed and powered by technology, are critical to delivering safer, greener and healthier communities that support everyone, including society's most vulnerable.

Our markets and growth drivers

According to NelsonHall, the UK Government market is expected to grow at approximately 3% a year to 2024. We expect a significant increase in central government spending over the next few years, particularly in infrastructure and digital delivery, while local government is likely to need more cost-effective service delivery, due to shortfalls in their sources of income.

Capita is the fifth largest strategic supplier to central and local government in the UK, according to Tussell, and the largest provider in the business process and technology-enabled services segments, which leverage both skilled people and technology. Within this, we have leading positions in several focused sectors where we have deep, proven experience and expertise, including education, health, transport, defence, justice, central and local government.

The UK Government has also introduced its outsourcing playbook, to provide a greater degree of collaboration with its suppliers and fairer returns, reshaping contracts at renewal, and is awarding new work under this framework. Local government markets have seen significant reshaping of the landscape, away from general outsourcing to targeted capabilities.

Our strategy

Our strategy is to: focus our business around core market sectors where we have strong positions; offer a refined set of value propositions developed by enabling our people with a defined stack of underlying, replicable digital products and capabilities; invest in a full-lifecycle digital transformation capability; and focus on excellence in our consulting, transformation and operational service delivery performance.

Financial performance

Adjusted revenue decreased in 2020 by 8.8% to £723.8m, mainly as a result of prior-year contract losses in local government and defence infrastructure organisation, partly offset by new business such as the Ministry of Defence's fire and rescue project (DFRP) contract. Covid-19 impacted transactional and volume revenue; however, this was partly offset by Covid-related projects in health and welfare.

Adjusted operating profit fell by 78.6% to £11.1m due to the impact of contract losses, and DFRP adversely impacted profit due to the one-off initial loss. Transformation delays on contracts and bid costs relating to contract wins further reduced profit. The impact of Covid-19 was offset by cash preservation actions.

Adjusted cash from trading operations significantly improved to £5.3m as the decline in profit relates predominantly to the 2019 contract handbacks that were non cash-backed.

Operational excellence

We continued to execute on client delivery across government, and received positive feedback from clients in all verticals, despite the external, Covid-driven challenges including 70% of the division servicing the contracts from home. Throughout the year, we successfully reduced the number of legacy problem major programmes to two. The GP payment and pensions element of the Primary Care Support England PCSE and Electronic Monitoring Service (EMS) contracts transformation have incurred additional cost due to poor quality and delays exacerbated by Covid but significant progress was made on both and we expect them to be substantially complete in early 2021. We expect the contracts to reach the inflection point in 2021

and 2022 respectively. Inability to achieve key milestones could lead to reduced contract profitability and a risk of impairment of the associated contract assets. Since 2018, the major contracts within the division have moved to an overall cash inflow from an overall cash loss, demonstrating the progress made to date.

Operational excellence continues to be the driving force for savings in the division, generating cost savings of £15m by taking out overhead costs and improving the operating model. We continue to work towards a more agile service structure based on leveraging best practice between our chosen verticals.

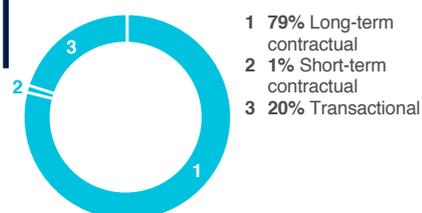
While the legacy contract base caused some challenges, which were exacerbated by Covid-19, recent contracts progressed well and in line with expectations. DFRP's strong start to service and programme delivery along with the establishment of a truly collaborative relationship led to the transfer to Capita of additional service delivery responsibilities. The ultra-low emission zone contract (ULEZ) with Transport for London (TfL) is also progressing well towards the scheme go-live in October 2021.

Investing in growth

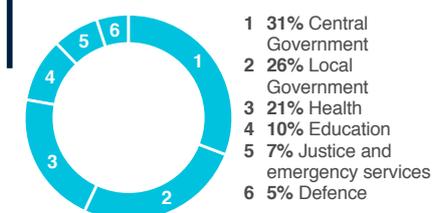
We continue to innovate and launched two new digital business process as a service (BPaaS) platforms, Grants and Resolvix, which are successfully delivering for their first customers in central and local government.

At 31 December 2020, the total unweighted pipeline was £8,516m (including the £0.9bn Royal Navy training contract won in early 2021), an increase of £1,743m since February 2020, with £838m of TCV won. The order book at the year end was £2,057.0m, a decrease of £119.7m since 31 December 2019. Pipeline growth has been generated by TCV increases on existing opportunities, such as from changes in contractual arrangements, and a number of large FY21 onwards opportunities. Our renewals rate across all opportunities was 100%, and 100% on those that we bid for.

Adjusted¹ revenue by type (%)



Revenue by market (%)



Financial performance

Divisional financial summary	2020	2019	Change %
Adjusted revenue (£m)	723.8	793.4	(8.8)
Adjusted operating profit (£m)	11.1	51.8	(78.6)
Adjusted operating margin (%)	1.5	6.5	
Adjusted cash from trading ops (£m)	5.3	(19.7)	126.9
Order book (£m)	2,057.0	2,176.7	(5.5)

1. Refer to alternative performance measures on pages 204 to 206.

Business units

- Defence and security
- Local government
- Justice and central government
- Education
- Transport
- Health and welfare

Employees

- 8,600

Client distribution

- UK

Competitors

- BT
- Atos
- CapGemini
- DXC
- Sopra Steria
- IBM
- TCS
- Serco
- Agilisys
- Mitie
- G4S

Major contract wins and renewals

- Covid-related work of £56m (with service delivery often being provided across Capita)
- Renewal of electronic monitoring worth £114m over three years
- Extension of a local authority contract worth £13m over four years
- Extension and expansion with TfL ending October 2026 worth £355m
- Expansion of DFRP contract worth £67m over ten years



We delivered the first 54 new firefighting vehicles as part of the company's 12-year DFRP contract. This includes 19 high reach extendable turret strikers and 28 multi-purpose response vehicles – both providing state of the art firefighting technology. The arrival of these appliances is a key milestone in Capita's work to manage and modernise the Ministry of Defence's fire and rescue capability.

Technology Solutions

Capita is a top-10 service provider of digital IT and connectivity solutions in the UK, focused on the mid-sized enterprise market. We consult, transform and deliver digital solutions to help businesses improve, realise their digital strategies and provide better business outcomes.

Adjusted revenue

£385.0m

(2019: £449.9m) -14.4%

Adjusted operating profit

£34.9m

(2019: £58.0m) -39.8%

We have strategic partnerships with leading global IT vendors, have invested in our portfolio of hosted platforms and operate our own UK-wide network and data centres. Technology Solutions is also responsible for the delivery of IT services and support within the Capita Group.

Our markets and growth drivers

Technology Solutions operates in a broad and fast-changing market. The division is targeting growth in its digital business solutions, platform and cyber segments. These are the fastest growing verticals of the market at an annual rate of approximately 15% from 2019 to 2023 (TechMarketView). Cloud, cyber and automation demand have been further accelerated by the Covid-19 pandemic.

Capita is the UK's largest software and IT services supplier by revenue. Clients depend on our technology to provide high-value, mission-critical services to their customers and users. We are a trusted partner to deliver critical national infrastructure and IT transformation projects, with clients increasingly relying on our technology to extract valuable insights from their data and deliver outstanding customer experience.

Our strategy

Our strategy is to create innovative technology solutions, underpinned by a comprehensive range of services which address the needs of our enterprise clients. Our areas of expertise include: technology consultancy; digital business solutions; platform management; cyber security; digital workplace; and digital connectivity.

We are developing repeatable propositions to meet our clients' needs, with a focus on creating improved customer experience and expanding our client base. We have already started to increase the standardisation, robustness and security of the platforms and processes that underpin our products.

We are also continuing to simplify technology operations, platforms, products and suppliers to generate efficiency savings, strengthen our capabilities, and ultimately deliver greater value to our clients.

Financial performance

Adjusted revenue decreased by 14.4% to £385.0m, due to known contract losses, including BAE Systems, and reduced volumes across a range of contracts. The negative impact of Covid-19 on our transactional and volume-based businesses was partly offset by Covid wins across IT services and intelligent communications.

Adjusted operating profit decreased by 39.8% to £34.9m, due to the above contract losses and reduced volumes, which were only partially offset by cost savings. Cost increases and additional depreciation from completed infrastructure projects also adversely impacted profit. The effect of Covid-19 was almost offset by cash preservation actions.

Adjusted cash from trading operations improved by 40.4% to £72.0m with the reduction in profit more than offset by improvements in contractual working capital, driven by accrued and deferred income inflows from the phasing variations and billing improvements, partially offset by an outflow from increased CFAs largely on networks.

Cost and operational excellence

Technology Solutions was at the forefront of Capita's response to Covid-19. It was responsible for the Group's successful move to remote working with provision of equipment and connectivity for 85% of colleagues, which was only possible due to the investment to date as part of the transformation.

Covid-19 has accelerated the transformation of our working practices, with more than 69% of the division working remotely with no detriment to our operational KPIs. We provided an agile

response to client demands and enabled them to continue operating successfully, with very positive feedback from both the private and public sector.

Cost savings were driven mainly by technology, although organisational structure and operational improvement initiatives also generated benefits.

Our main strategic programme has the key purpose of improving the business resilience of hosting, security posture, service quality and ultimately customer experience. During 2020, the programme continued to build capability and successfully migrate our clients from legacy systems to secure Azure or Nuvem hybrid hosting. This helped remove complexity and the limitations of legacy infrastructure, while generating growth opportunities by providing Capita's secure and accredited hosting solution for new digital growth, and helping mitigate the risk of cyber attacks.

In recent Whitelane research, we received the highest percentage improvement for customer satisfaction against UK end-user computing competitors. This rewards a continuous, multiple-year improvement programme to deliver high-quality and resilient solutions to our clients and customers.

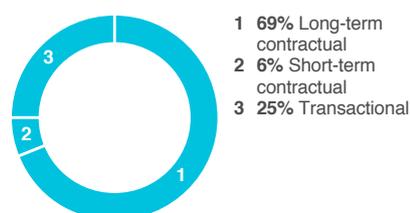
Investing in growth

We invested in our ongoing data centre consolidation and cloud migration programme. We are investing in the development of our fast, digital IT propositions – in cloud, cyber security and automation. These core digital offerings are increasingly in demand as the market adapts to new ways of working.

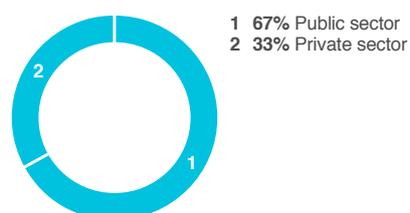
We will continue to strengthen our partnerships with key technology providers, combining our consulting and delivery expertise with their technologies. Our partnerships with UiPath and Microsoft are working well, gaining a strong reputation for delivering UiPath implementations, and we achieved the Azure advanced specialisation accreditation in windows and SQL migration.

At 31 December 2020, the total unweighted pipeline was £2,027m, an increase of £64m since February 2020, with £332m of TCW won. The order book at the year end was £370.2m, a decrease of £19.5m since 31 December 2019. Our renewals rate across all opportunities was 66%, and 75% on those that we bid for.

Adjusted¹ revenue by type (%)



Revenue by market (%)



Financial performance

Divisional financial summary	2020	2019	Change %
Adjusted revenue (£m)	385.0	449.9	(14.4)
Adjusted operating profit (£m)	34.9	58.0	(39.8)
Adjusted operating margin (%)	9.1	12.9	
Adjusted cash from trading ops (£m)	72.0	51.3	40.4
Order book (£m)	370.2	389.7	(5.0)

1. Refer to alternative performance measures on pages 204 to 206.

Business units

- IT Services
- Network Services
- Trustmarque
- Intelligent communications

Employees

- 3,500

Client distribution

- UK and Ireland

Competitors

- Adept
- BT
- Atos
- KCOM
- CapGemini
- Computa centre
- Fujitsu
- DXC
- Sopra Steria
- IBM
- Accenture
- Wipro Limited
- Softcat plc

Major contract wins and renewals

- 17 renewals of SWAN contract valued at £11m
- £8m over five years with Cheshire East Council
- One-year extension worth £3m with the Department of Justice and Equality
- £3m three-year contract with UK government's Border Force



We secured a three-year contract with major port group, PD Ports Ltd (PD Ports), to implement a managed security operations centre (SOC) and security information and event management cyber security solution. The Capita-managed SOC will support PD Ports' entire IT infrastructure, including two data centres, at 13 ports as well as warehousing and container facilities along the east coast of the UK.

Specialist Services

Specialist Services is a portfolio of businesses delivering a range of service offerings including travel, enforcement, insurance, real estate and infrastructure.

Adjusted revenue

£196.5m

(2019: £295.6m) -33.5%

Adjusted operating profit

£(4.4)m

(2019: £44.3m) -109.9%

The division is comprised of businesses which are not within Capita's growth markets. These businesses are actively managed on a portfolio basis in order to maximise value.

Our markets and growth drivers

Specialist Services includes a range of businesses serving public and private clients across multiple vertical sectors, which are generally mature.

We enjoy strong market positions in many of the verticals sectors, with strong brands and positive client perception of our services.

Our strategy

Due to the varied nature of the activities in the division, each Specialist Services business has its own strategy, uniquely tailored to their service offerings and the needs of their clients. The focus across the portfolio is on adding new name business, operational excellence and cost optimisation.

The strategy remains to prepare earmarked businesses for disposal, although the originally envisaged timetable has been impacted by Covid-19.

Financial performance

In 2020, adjusted revenue fell by 33.5% to £196.5m, due to contract losses, as a result of a combination of conscious exits and projects coming to an end, which were only partially offset by contract wins and new transactional revenue streams. Covid severely affected end-markets such as travel and enforcement. Due to the transactional nature of the divisions, with the exception of insurance, Page One, and translation and interpretation, most businesses saw a downturn in revenue.

Adjusted operating profit became a loss of £4.4m as the contract losses adversely impacted profit; these were partially offset by cost savings across all work streams. The fall in transactional revenue caused by Covid was only partially offset by furlough support and discretionary spend savings.

Adjusted cash from trading operations decreased by 78.6% to £9.3m. This was due to a significant contractual working capital inflow, as a result of lower operational volumes, this benefit will unwind when business recovers.

Cost and operational excellence

We rapidly responded to Covid-19 and maintained service levels where possible throughout the pandemic, with around 77% of staff working from home. In those businesses whose end-markets were most affected by Covid-19, we reduced service levels and, took decisive action to cut costs; however, we were unable to cut too deeply in order to ensure a timely recovery. Where possible, we restructured and rationalised to achieve a long-term reduction in our fixed cost-base, including reducing our physical property footprint by almost half.

We expect Covid-19 to have a prolonged impact on several of the division's businesses and we reviewed their long-term operating models to ensure they are fit for the future. Additional savings were generated through automation, procurement and technology.

We strengthened the existing partnership between our insurance business and Artificial, which we established through the Capita Scaling Partner relationship. By bringing together our extensive insurance industry knowledge, compliance expertise and resource, with best-in-class technology we are able to offer clients in the Lloyd's of London Market an end-to-end solution that provides expertise and consultancy across the full insurance lifecycle. The relationship was started in response to a market need for digital solutions to augment existing processing capability for insurers. Covid has exacerbated this need and, through our partnership, we are proactively addressing the changing needs of our clients

Investing in growth

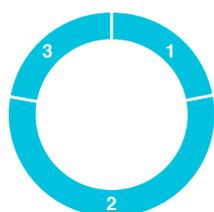
During the year, investment was targeted to preserve cash during the pandemic, with the focus of investment remaining on strengthening security and compliance, as well as developing cloud capabilities.

Our translation and interpreting business applied innovation to strengthen their technology platforms adding new features that enabled them to increase their support to the NHS and police throughout the pandemic, for example interpretation services via Zoom or MS Teams using their SmartMate and LiveLINK platforms.

At 31 December 2020, the total unweighted pipeline was £389m, a decrease of £255m since February 2020, with £182m of TCV won. The order book at the year end was £234.2m, a decrease of £72.4m since 31 December 2019. Due to the transactional nature of the division, the order book is not considered a suitable metric for growth.

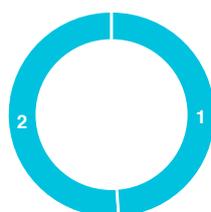
Despite the pandemic we have added a number of new names across the division throughout the year including London Fire, NHS24 (Scotland), London Borough of Hackney, M&S and Sopra Steria.

Adjusted¹ revenue by type (%)



- 1 22% Long-term contractual
- 2 56% Short-term contractual
- 3 22% Transactional

Revenue by market (%)



- 1 49% Public sector
- 2 51% Private sector

Financial performance

Divisional financial summary	2020	2019	Change %
Adjusted revenue (£m)	196.5	295.6	(33.5)
Adjusted operating profit (£m)	(4.4)	44.3	(109.9)
Adjusted operating margin (%)	(2.2)	15.0	
Adjusted cash from trading ops (£m)	9.3	43.5	(78.6)
Order book (£m)	234.2	306.6	(23.6)

1. Refer to alternative performance measures on pages 204 to 206.

Business units

- Travel & Events
- Evolvi
- Insurance Services
- Real Estate and Infrastructure
- GL Hearn
- Page One
- Tascor
- Optima
- Translation and Interpreting

Employees

- 2,900

Client distribution

- UK

Better outcomes

It has been a challenging year for the travel and hospitality industry. However, the need for organisations to consider managed corporate travel, meetings and events programmes has never been more important, with the health and safety of employee's top of the agenda. Capita's Travel and Events business has seen the highest number of new business wins in the last four years as organisations seek more comprehensive solutions, onboarding 25 new customers with a win rate of 87%.



Major contract wins and renewals

- Multiple contracts with Highways England in Real Estate and Infrastructure with a TCV of £12m
- Local authority renewal in Enforcement with a £3m TCV
- FloodRE extension worth £2m
- London Borough of Hackney win with Enforcement worth a potential £5m+ TCV

Engaging with our stakeholders



Section 172 statement

The following disclosures describe how the directors have had regard to the matters set out in section 172(1Xa) to (f) and forms the directors' statement required under section 414CZA of the Companies Act 2006.



Stakeholder	What matters to them	How we engaged
Our people	<ul style="list-style-type: none"> Flexible working Learning and development opportunities leading to career progression Fair pay and benefits as a reward for performance Two-way communication and feedback 	<ul style="list-style-type: none"> People surveys Regular all-employee communications Employee director participation in Board discussions Employee focus groups and network groups
Clients and customers	<ul style="list-style-type: none"> High-quality service delivery Delivery of transformation projects within agreed timeframes Rapid response to support pandemic planning 	<ul style="list-style-type: none"> Client meetings and surveys Regular meetings with government and annual review with Cabinet Office Created a senior client partner programme giving an experienced, single point of contact for key clients and customers
Suppliers and partners	<ul style="list-style-type: none"> Payments made within agreed payment terms Clear and fair procurement process Building lasting commercial relationships Working inclusively with all types of business 	<ul style="list-style-type: none"> Supplier meetings throughout source to procure process Regular reviews with suppliers Supplier questionnaires
Investors	<ul style="list-style-type: none"> Financial reporting Access to the Board and senior management Regular communication 	<ul style="list-style-type: none"> Financial and other reports and trading updates Regular investor programme and feedback throughout the year Governance roundtable for shareholders Remuneration consultation
Society	<ul style="list-style-type: none"> Social mobility, youth skills and jobs Digital inclusion Diversity and inclusion Climate change Business ethics 	<ul style="list-style-type: none"> Memberships of non-governmental organisations Charitable and community partnerships

Topics of engagement	Outcomes and actions	Key metrics	Further details
<p>Protection of employees during Covid-19</p> <p>HR policies during Covid-19</p> <p>Future ways of working as a result of Covid-19</p> <p>Creating an inclusive workplace</p>	<p>Issue of Capita-specific Covid-19 guidance and regular updates</p> <p>New and temporary HR policies (eg furlough scheme and voluntary salary sacrifice for high earners)</p> <p>Increased provision and support for employee wellbeing and flexible working</p> <p>Simplification of property portfolio and office space</p>	<p>Employee net promoter score</p> <p>People survey completion level</p>	<p>People section on pages 40 to 43 of the strategic report</p> <p>Responsible business section on page 44</p>
<p>Remote working on client services as a result of Covid-19</p> <p>Current service delivery</p> <p>Possible future services</p> <p>Co-creation of client value propositions</p>	<p>Feedback provided to business units to address any issues raised</p> <p>Client value propositions team supporting divisions with co-creation ideas</p> <p>Senior Client Partner Programme undertaking client-focused growth sprints to build understanding of client issues and ideas to help address them</p>	<p>Customer net promoter score</p> <p>Brand loyalty index</p> <p>Specific feedback on client engagements</p>	<p>Chief Executive Officer's review on page 13</p> <p>Client relations section on page 48</p>
<p>Supplier payments</p> <p>Sourcing requirements</p> <p>Supplier performance</p> <p>Supplier Charter</p>	<p>Alignment of payments with agreed terms</p> <p>Supplier feedback on improvements to procurement process</p> <p>Improvement plans and innovation opportunities</p> <p>Improved adherence to Supplier Charter</p>	<p>% of supplier payments within agreed terms</p> <p>Supplier Relationship Management feedback score</p> <p>SME spend allocation</p> <p>Supplier diversity profile</p>	<p>Supplier engagement section on page 48</p>
<p>Transformation progress</p> <p>Balance sheet and liquidity</p> <p>Covid-19 response and impact</p> <p>Remuneration</p>	<p>More frequent market communication</p> <p>Increased level of engagement with largest shareholders</p>	<p>Adjusted profit before tax</p> <p>Adjusted free cashflow</p> <p>Net debt and gearing</p>	<p>Shareholder engagement section on page 68</p> <p>Principal decisions table on page 69</p>
<p>Youth employment</p> <p>Tackling digital exclusion</p> <p>Workplace inequalities</p> <p>Carbon reduction targets</p>	<p>Implementation of real living wage</p> <p>Youth and employability programme</p> <p>Commitments to tackle racism and enhance ethnic diversity</p>	<p>% reduction in carbon footprint</p> <p>Amount of community investment</p> <p>Responsible business report 2020: capita.com/responsiblebusiness</p>	<p>People section on pages 40 to 43</p> <p>Responsible business section on pages 44 to 49</p>

Putting our people first

During a year like no other, we put our people first in 2020, prioritising their health, safety and wellbeing, and mobilising 85% of our workforce to work from home.

While some of our priorities had to change, we continued to deliver on our HR2020 strategy, ensuring we provided the right support and guidance to all our colleagues.

In 2020, we implemented Covid-19 guidance, policies and procedures to help our colleagues keep themselves and others safe. We continued to develop our people, using the apprenticeship levy, and now have more than 1,000 apprenticeships on the programme. Our global people management system, Workday, was rolled out across Capita; all employees can now manage their data at any time, and from any location or device. We also implemented the People Hub, centralising administrative activities to help ensure our people's queries are answered more quickly. During such a challenging year, some difficult decisions had to be made in terms of pay and reward; but, guided by our purpose, we met our commitment to pay all our UK colleagues the real living wage as a minimum. Our workforce has reduced by around 5,500 colleagues, predominantly due to: the sale of some businesses; redundancies as a result of the pandemic and ongoing transformation; and a cautious approach on recruitment. Our voluntary turnover has remained stable at 20% (23% in 2019).

Prioritising our colleagues' health, safety and wellbeing

Our number one priority throughout 2020 was the health, safety and wellbeing of our colleagues – protecting them and keeping them informed of the procedures implemented to ensure we could all continue to work in a safe manner.

Driven by our Safety, Health and Environment Team, and guided by government guidelines and best practice, we implemented Covid-19 guidance, policies and procedures that informed managers and employees of what they needed to do to protect themselves and others. These have been continually reviewed and updated to align with the latest guidance. In work sites that have remained open, social distancing measures and an enhanced

cleaning and hygiene routine were introduced. Alongside this, we rolled out health, safety and social distancing training for all our colleagues, explaining the actions being taken and their role in keeping themselves and their colleagues safe. We also improved our data reporting and management information for health and safety, to better understand trends and take appropriate action when required. This data is shared monthly with the Executive Committee and the Board.

Across the world, people have struggled to maintain mental wellbeing during the coronavirus pandemic, with many of our colleagues concerned about getting sick, government restrictions, and changes in working patterns, or worrying about when the crisis might potentially end. Recognising this, we refreshed our Wellbeing Hub, which provides online support and guidance about mental, physical, social and financial wellbeing issues, as well as promoting our employee assistance programme. Since its launch in April, the Hub has averaged 21,500 visits per month. We published our Working Apart but Together pledge, providing support for the increased number of people working from home, and encouraging ongoing connection and engagement. In May and October, we marked Mental Health Awareness Week and World Mental Health Day, raising awareness of the support we provide and encouraging our colleagues to start the conversation that 'it's ok not to be ok'.

Our new Wellbeing Framework guides the business on the actions we must take to support our managers and employees to live a well-balanced life. We have developed and implemented e-learning content and virtual labs, such as our R U OK? module, to help managers foster psychological safety, trust, emotional intelligence, resilience and a positive mindset within their teams. In October 2020, we also launched a financial wellbeing application, Level, which provides digital budgeting tools, financial education and guidance.

Workforce

55,000

people employed in 10 different countries

Performance and development

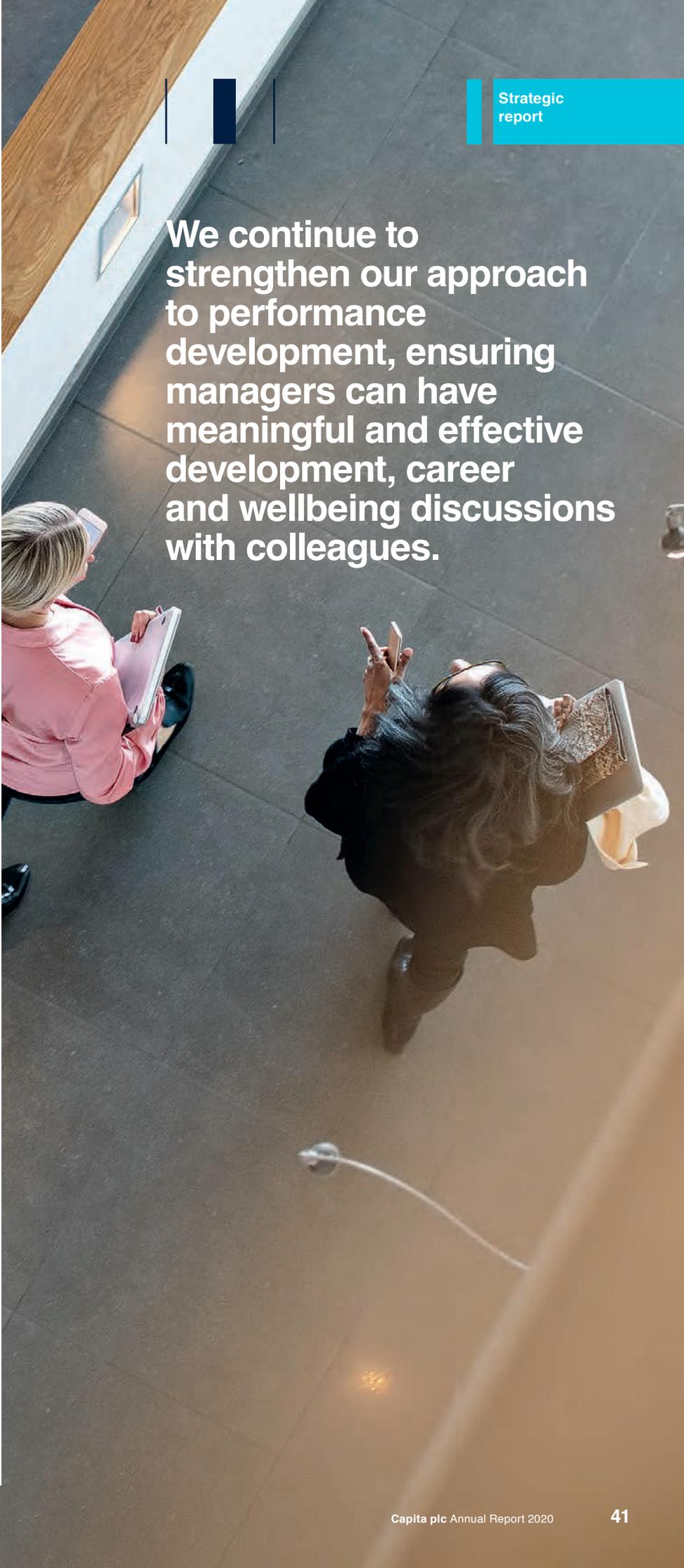
Capita Academy

In 2020, we strengthened our performance, learning and development tool, Capita Academy, providing colleagues with more consistent, streamlined, accessible opportunities to learning, and encouraging development.

We introduced a blend of online development tools, virtual workshops, toolkits and accredited opportunities focusing on both management and programme management modules, and resources for remote working, wellbeing, and diversity and inclusion to support our people as we adapt to new ways of working. In total, 25 modules are available, and almost 12,000 colleagues (around a fifth of the of the total workforce) enrolled on courses.

We also continued to invest in apprenticeships at all levels, building the skills required for the future success of the organisation to better serve our customer needs. In 2020, we were awarded a position in the National Apprenticeship Service's Top 100 Apprenticeship Employers and had approximately 1,000 apprentices on our programmes, with an aim to reach 1,400 in 2021.

Looking forward, as part of our focus on supporting young people into work, we will continue to develop technical level qualifications for school leavers, providing a mixture of classroom and job experience.



We continue to strengthen our approach to performance development, ensuring managers can have meaningful and effective development, career and wellbeing discussions with colleagues.

Developing people's potential

We continue to strengthen our approach to performance development, ensuring managers can have meaningful and effective development, career and wellbeing discussions with colleagues to build their skills for the future. In 2020, we provided managers with online learning and coaching to help them have positive conversations.

We continued to use Workday, supported by our Learning Services Team in Mumbai, to better understand the structure of our workforce, enabling us to streamline and enhance our approach to performance development, learning, talent and succession.

Supporting future leaders

Our online capability tool, My Compass, helps our managers improve their skills and identify any support they need to fulfil our managers' commitments – a key element of how we operate as a business. The tool, which includes online support materials and learning to assist in a wide range of development areas, enables managers to map their career pathways through focused learning and professional development interventions. The tool is available to all managers across our business and 296 accessed it in 2020.

We designed and launched an Executive MBA programme, with funding from the apprenticeship levy, helping high potential colleagues to develop their leadership skills, while supporting their progression at Capita with 46 colleagues taking part in the programme.

To improve gender diversity in senior management, we continue to support high-potential women through our Executive Committee advocacy programme and cross-company mentoring opportunities. In 2020, 40 women were enrolled in these programmes.

Employee network groups

10,000+

colleagues have joined the networks

Reward

Despite the significant challenges presented by Covid-19, we continued to develop our approach to pay and reward. We met our commitment of bringing any lower-paid UK employees up to the real living wage and implemented a number of new tools to help colleagues to improve their financial wellbeing and knowledge.

The unprecedented effect of Covid-19 meant, however, that we had to implement some short-term measures to conserve our cash and protect our people including:

- Senior and high earners taking a voluntary reduction in salary or fees for six months, with additional annual leave being provided for those on the scheme (excluding the Board of Directors).
- Offering a range of voluntary flexible working options, including reduced hours and sabbaticals to support our colleagues as they adapted to changing lifestyles as a result of the pandemic.
- Reducing long-term incentive awards and cancelling bonuses for both the 2019 and 2020 performance years.

These were difficult decisions to make, but the right ones considering the challenges that we were facing.

Resourcing

During 2020, we continued to focus on simplifying the way we recruit, creating a strong resourcing team to partner with the business – retaining and attracting the most diverse people who have the skills, values, mindset and potential we need.

We have built upon our employee value proposition (EVP) pillars following employee feedback – ‘be yourself’, ‘shape our future’, ‘make an impact’ and ‘broaden your horizons’. We are embedding these pillars into our employee engagement and recruitment campaigns, bringing them to life with role-model stories from across the business.

Demand for customer service roles has grown, driven primarily by our work to help our clients respond to the Covid-19 pandemic. Working in collaboration with our customer management teams to provide home-working solutions has revolutionised our ability to deliver client solutions remotely, and we have supported large-scale demand for these remote customer service roles. At the same time, we redeployed 1,253 colleagues across the business and provided outplacement support to those colleagues facing the prospect of exiting the business.

Our ‘internal first’ approach helped the business by using existing skillsets to fill roles that traditionally may have been filled externally. This was not only the right thing to do but also supported colleague retention.

Technology and digital solutions played a major part in 2020. The advancements made in moving to a technology-based hiring approach paid dividends, with Arctic Shores (behaviours-based assessment) changing the way we recruit and allowing different methods of candidate assessment. This was particularly appropriate in dealing with the challenges of the Covid-19 crisis.

Social change also affected the way we approached resourcing in 2020. We reviewed our approaches to diversity and reviewed all our practices through an inclusion lens. We are already doing many things the right way, but we were conscious that complacency should never be allowed to creep in, and work has been ongoing to ensure parity for all in our end-to-end hiring processes. We also made a corporate commitment to the UK Government’s Disability Confident Scheme, attaining Level 1 status – ‘Committed’.

We launched our Capita Youth Employability Programme in November 2020, in response to the UK Government’s Plan for Jobs. It is designed to support young people into work through the Kickstart Programme and through the creation of a Youth Council. We are proud at Capita to be helping to create better outcomes for the young people of the UK.

85%

approximate percentage of our workforce mobilised to work from home during Covid-19



Systems and transformation

All employees at Capita now have access to Workday, our global people management system enabling managers and employees to manage their data at any time and from anywhere or device. Having all employee data on a single system has significantly improved reporting capabilities.

In December 2019, our People Hub team in Mumbai was established. They have continued to provide administrative support across HR including, resourcing, employment relations and payroll. A key focus has been on improving service levels and tracking, which has resulted in 99% of calls to the People Hub now being answered within 30 seconds. The team have also been critical in administering and implementing the UK’s Coronavirus Job Retention Scheme for any affected Capita colleagues, and additionally supporting the redeployment process.

The People Hub team will continue to support the growth of our shared service centre for employment relations activities, as well as helping to provide existing services to other countries, standardising our processes across the business.

While we will continue to consolidate our property portfolio, we remain committed to maintaining a strong presence across the UK.



Read more about remuneration at Capita starting on page 90.

Read more about our responsible business work on pages 44 to 49.

Property portfolio

While simplifying our complex and costly property portfolio has always been a part of our ongoing transformation at Capita, it was accelerated in 2020, as a result of the impact of Covid-19 and our transition to new ways of working.

The pandemic crisis made us rethink the location, design and use of our office spaces. As a result, we know we will need in the future to invest to create more flexible and suitably equipped environments which we can use to collaborate, come together and meet with clients and stakeholders.

While we will continue to consolidate our property portfolio, we remain committed to maintaining a strong presence across the UK. We will offer both more flexible working practices and an office footprint.

Reimagining our workplace

Having successfully mobilised approximately 85% of our workforce to work from home during Covid-19, we are now preparing for what may come next – and using what we have achieved to challenge our established ways of working. By empowering our colleagues to work in the most flexible and dynamic ways their roles will allow, we are reframing our vision of work, so that it is about the outcomes we create at Capita, not the physical place we go.

We have listened to our colleagues through our Shaping Tomorrow Together initiative where we've engaged with thousands of our colleagues across the world via surveys and focus groups. Many want to continue to work more flexibly and balance their time between home and the office. It won't be possible for all of us to change how we work but, by engaging with colleagues across Capita, we are working to determine the level of flexibility that will be possible in the future.



Giving young people a voice: the Youth Council. In response to the UK Government's Plan for Jobs, and to tackle the growing youth unemployment crisis, we have developed an end-to-end youth programme with our partners, The Youth Group and Teach First. A key element of the programme is the creation of our first ever Youth Council. The council, which we launched in December 2020, aims to provide a platform for the voice of the future workforce to be heard within our organisation, ensuring that we create an inclusive organisation to attract young people as well as develop products and services which meet the needs of our future service users and consumers. The council comprises 10 voluntary members aged 18–26, representative of a diverse demographic including culture, ethnicity, gender and socio-economic background.

Seven members of the council are external to Capita and three have been selected from the internal Capita colleague community. Being a youth councillor will offer unique opportunities and experiences. Each youth councillor is assigned a youth group coach, and an external C-suite level mentor to help them maximise the benefits of their time on the council, and to develop their own skills and potential. They will have the opportunity to engage with directors and senior leaders on real business challenges, including quarterly team challenges and individual challenges aligned to their personal learning objectives.

Focusing on what matters

The Covid-19 pandemic has brought significant challenges to the way we all live and work at Capita, from a highly variable demand for our services to a rapid move to home working for the majority of our people.

But our response has been guided throughout by our purpose – we create better outcomes – ensuring we put the health, safety and wellbeing of our colleagues first while maintaining our services to clients and responding to their additional needs as quickly as possible.

Underpinned by our purpose, our responsible business strategy – which was developed following considerable stakeholder engagement and launched in 2019 – defines how we are addressing the global challenges of importance to our business and society, and has been at the heart of our response to the pandemic. During 2020, our actions focused on the challenges thrown into sharp relief because of the pandemic: the wellbeing of our colleagues; inequalities in society, and specifically how young people have been disproportionately impacted; and continuing to ensure we operate responsibly with our clients, our suppliers and throughout our business. Alongside this, events such as the killing of George Floyd and climate change demonstrations have highlighted the need to remain focused on workplace inequalities and fighting climate change.

In 2020, we followed through on our commitment to pay all UK employees the real living wage as a minimum, asking our high-earners to take salary reductions. We refreshed our Wellbeing Hub with relevant resources and tools to support our colleagues adapt to the new way of working. The Hub saw a 600% increase in visits between March and April. In response to the resurgence of the Black Lives Matter movement, we convened an advisory group to recommend a series of commitments and actions to tackle racism and anti-Black behaviour, as well as enhance ethnic diversity, and we continue to carry out these actions. Our commitment to prompt payment has also remained undiminished and we paid 95% of our suppliers within 60 days or less.

As with any crisis, communication has been crucial, and our regular internal communications have ensured colleagues stay informed and have access to the tools and support they need.

Our responsible business committee met regularly throughout the year with a focus on modern slavery, inclusion and diversity, wellbeing and climate change.

Refocusing in response to Covid-19

Our five-year responsible business strategy, which we launched in 2019, has helped to ensure we remain focused on addressing the issues where we can have the biggest impact through our own operations and through the products and services we provide to our clients.

In 2020, we refocused our priorities on the issues that mattered most – our colleagues' wellbeing and engaging with our colleagues, creating an inclusive workplace, tackling economic inequalities, fighting climate change, and ensuring we continue to operate responsibly throughout our business.

Prioritising our colleagues' wellbeing

Across the world, people have struggled to maintain mental wellbeing during the coronavirus pandemic. Recognising this, we prioritised the wellbeing of our people providing online support and guidance, as well as promoting our employee assistance programme. To find out more, please see 'prioritising our colleagues' health, safety and wellbeing' in the People section.

Engaging with our colleagues

Crucial in any crisis is clear, concise communications. We appointed a dedicated communications lead to work closely with our pandemic planning team to ensure our colleagues received accurate and easily accessible guidance and information relating to Covid-19 – focusing on their welfare as a priority and reassuring them of the steps that we were taking. We also launched a dedicated colleague website which can be accessed by all employees including anyone who was furloughed.

Given the high levels of uncertainty that emerged in 2020, it has never been more important to motivate and engage our colleagues – whether through campaigns such as #justsaythanks and our Working Apart But

Together pledge, through visible leadership, or by involving our people in shaping our future ways of working. More than 24,000 colleagues responded to our Shaping Tomorrow Together survey to tell us how they'd like to work after Covid-19, and over 3,700 colleagues regularly join these conversations on our internal Yammer community.

Our people survey

Annually we ask our people how they like working at Capita and how they think we are progressing as a progressive, purpose-led and responsible business. We use the data to understand long-term cultural and behavioural trends and to prioritise what we need to focus on in the next year to meet the needs of our people. We have made progress against what we heard in 2019: we pay all UK employees the real living wage as a minimum; we launched the Capita Academy Hub providing accessible online learning modules to all colleagues to develop them in their careers; and we launched seven employee network groups to value the diversity of our workforce and enable colleagues to share their voice.

72% of colleagues responded to Our People Survey 2020, matching our 2019 participation rate and demonstrating our ability to maintain our overall employee engagement in unprecedented times. Our employee net promoter score (eNPS) maintained its upward trend, rising by seven points this year (following a positive 14 point swing from 2018 to 2019). With results varying between our divisions, however, we will continue to work hard to create an inclusive workplace where everyone feels their voice can be heard.

2020 was the second year in which employees were able to rate their line manager's performance against our eight managers' commitments. These commitments set out the additional behaviours we expect from all our leaders and managers. Across all eight commitments, over 80% of respondents agreed that their manager was living by our values and demonstrating our behaviours. The feedback is fed into annual development discussions and can help inform managers' objectives.

We are addressing the global challenges of importance to our business and society.

People

Community

Planet

Operating responsibly

Delivering our strategy themes



Building a more inclusive organisation



Driving greater social mobility



Reducing our environmental impact



Operating responsibly for our stakeholders



Enabling better digital access

Goals

- Ensuring our workforce reflects the diversity of the communities we serve and is inclusive.
- Empowering 100,000 young people in the communities we serve to progress into the world of work by 2023.
- Equipping 10,000 people in our communities with the digital skills required for today's world by 2023.
- Seeking to reduce our carbon footprint and supporting our clients to do the same.
- Seeking to integrate environmental, social, ethical and governance considerations across our business operations.

Areas of focus

- Prioritising our colleagues' wellbeing
- Engaging with our colleagues
- Reimagining our workplaces
- Building an inclusive organisation
- Tackling youth unemployment
- Promoting digital skills for all
- Tackling environmental challenges with clients
- Improving our environmental performance
- Adapting to climate change
- Client relations
- Supplier engagement
- Ethical business

Supporting the United Nations' Sustainable Development Goals

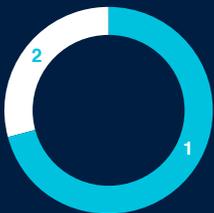


Employee gender diversity
Board



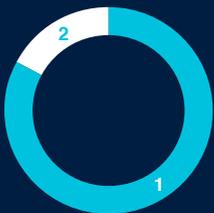
1 67% Male
2 33% Female

Executive Committee



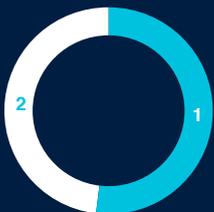
1 71% Male
2 29% Female

Senior management*



1 83% Male
2 17% Female

All employees



1 52% Male
2 48% Female

* Senior management includes directors of subsidiary legal entities as per requirements of the Companies Act section 414C(8)(c)(ii) and 414C(10)(b).

Building an inclusive workplace

During 2020, we recognised that we needed to accelerate the actions we were taking to create an inclusive organisation and deliver on our purpose to many of our Black, Asian and minority ethnic colleagues. As a result, we instigated a series of actions to tackle racism and enhance ethnic diversity. We refreshed our approach to diversity and inclusion, ensuring we remain committed to creating a workforce that reflects the diversity of the communities we serve, and a working environment in which no one feels excluded. We are focusing on: improving our data intelligence and reporting; creating a more inclusive culture by embedding inclusion throughout our employee lifecycle; and valuing difference through awareness and education.

In March 2020, we launched our Be Counted campaign to encourage our colleagues to update their diversity data in Workday. We have applied an inclusive lens to our recruitment, performance management, training and mentoring and advocacy schemes. As a result inclusive recruitment is a key pillar of our refreshed resourcing strategy and in 2020 we: expanded our cross-company mentoring schemes to support 80 participants (25% gender/75% ethnicity); launched a mutual mentoring scheme to support minority ethnic colleagues; and refreshed our diversity and inclusion training to include an anti-racist module.

We launched seven employee network groups in March. The networks, which are sponsored and championed by Executive Committee members, give more voice to our people through a two-way feedback loop between the groups and our sponsors. They encourage colleagues to share experiences and ideas on how we can create a more inclusive organisation. More than 10,000 colleagues have joined the networks.

In 2020, we celebrated and promoted inclusion and diversity through several successful, company-wide campaigns, including: Mental Health Awareness Week; Armed Forces Week; Pride; International Women's Day; Black History Month; and International Day of Persons with Disabilities. Additionally, we shared guidance with our communications team on marking religious festivals.

More information about our approach to diversity and inclusion, as well as our data on ethnicity, disability and sexual orientation can be found in our Responsible Business Report 2020 – www.capita.com/responsible-business.

Community investment

£2.1m
(2019: £2.8m)



Tackling economic inequalities

The Covid-19 pandemic has highlighted the importance of supporting our local communities. Research has shown that it is young people who have borne the brunt of the initial consequences of the crisis, from significant educational disruption through to the highest levels of job insecurity, furlough and unemployment; it is estimated that up to 40% of young people who leave education during the crisis will experience long-term employment and pay 'scarring'¹. Throughout this crisis, we have maintained our focus on equipping young people with the skills they need for the workplace and enhancing social mobility. In 2020, we invested £2.1m in our local communities through charitable donations, volunteering, gifts-in-kind and employee fund-raising.

We continued to support our corporate charity partners, Teach First and Young Enterprise, as they adapted their programmes to provide online support to young people improving their employability skills. In 2020, through our financial and in-kind contributions, we supported 6,779 young people. As part of our Young Enterprise partnership, we sponsored the Young Money Challenge which challenged young people, aged 4–19, to think about responsible consumerism and how their spending choices can impact the planet. 1,000 young people took part and our volunteer judges were hard pressed to award a winner. This was the final year of Capita being headline sponsor for the UK Social Mobility Awards and we were delighted that the team at Making the Leap made sure the awards went ahead. Enhancing our response to the issue of youth skills and employment, we also established a wider Youth Employability Programme, working with The Youth Group charity to support young people in education and as they enter the workplace.

The programme will build on the success of our charitable partnerships and fully embraces the UK Government's Kickstart programme providing 16 to 24-year-olds with a six-month work placement which could lead to permanent positions.

Fighting climate change

Covid-19 has also underlined the importance of business resilience in its broadest sense and served as a reminder of the ongoing challenge of climate change.

With many of our colleagues working from home, people not being able to travel because of Covid-19 restrictions and the ongoing optimisation of our property portfolio, we have achieved a 40% reduction in our carbon footprint (based on absolute location-based emissions). Emissions emanating from business travel have reduced by 60%. Through our Smart Data Communications Company (DCC) contract, we are supporting a lower-carbon economy by building and implementing a new secure data network to connect smart meters to the systems of energy suppliers and network operators, which is projected to save 45 million tonnes of carbon by 2034 in Britain alone. By November 2020, we had installed more than seven million smart meters onto our network, paving the way for better use of energy. By delivering Transport for London's ultra-low emission zone (ULEZ), we have helped reduce NO₂ levels in London by 44% (compared with February 2017) and 79% of vehicles entering the capital are now complying with the minimum emission standards.

In January 2021, we were proud to be accredited by the Science-Based Target Initiative (SBTi) for our company-wide carbon reduction targets, which are to reduce absolute scope 1, 2 and 3 (business travel) greenhouse gas (GHG) emissions 46% by 2030 from a 2019 baseline, and to ensure that 50% of our suppliers by spend covering purchased goods and services and capital goods will have science-based targets by 2025. Progress against our targets will be monitored annually. We also published our first disclosure statement against the recommendations of the Financial Stability Board's task force on climate-related financial disclosure in our responsible business report 2020 www.capita.com/responsible-business.

1. <https://www.resolutionfoundation.org/publications/young-workers-in-the-coronavirus-crisis/>



Responsible business report 2020:
capita.com/responsible-business

We remain committed to creating a workforce that reflects the diversity of the communities we serve, and a working environment in which no one feels excluded.

Black Lives Matter

During 2020, we recognised that the actions we were taking to create an inclusive workplace at Capita were not happening fast enough and that we had to act. The first step in our three-stage plan was to take a stand publicly in May, following the killing of George Floyd in Minneapolis, and the issues raised by the Black Lives Matter movement; we announced on our website – and via an open letter to all UK businesses – our commitment to fight inequalities, wherever they may be. Stage 2 was to sit down and listen to our Capita colleagues' concerns and get feedback on what they felt about racist behaviours and what could be done about them. We listened to more than 2,500 colleagues and, using their insight, our advisory group, which we convened with our Embrace network for race and ethnicity, recommended a series of commitments and actions that we should take as a business to tackle racism and enhance ethnic diversity. Our Executive Committee unanimously approved our commitments. Stage 3 is for us to now take action and deliver on them.

Our commitments are to:

- Ensure an inclusive culture with zero tolerance to racism.
- Have a sustainable representation of ethnic diversity, which reflects the communities we operate in, at all levels of the workplace.
- Educate about and raise awareness of racism in the workplace, through the power of our networks.

Annual greenhouse gas emissions

We measure our environmental performance by reporting our carbon footprint annually in terms of tonnes CO₂ equivalent (tCO₂e) and tonnes CO₂ equivalent per person. The data relates to Capita's owned and leased facilities under its operational control across all geographies. We report separately on our direct emissions from Capita-controlled and owned sources (Scope 1), indirect emissions from consumption of electricity, heat or steam (Scope 2), and emissions from third parties (Scope 3). This ensures our compliance to Part 7 of The Companies Act 2006 (Strategic Report and Director's Report) Regulations 2013 which requires certain disclosures in respect of greenhouse gas emissions (the Strategic Report GHG Emission disclosures). Corporate Citizenship was engaged to provide independent limited assurance over the selected greenhouse gas emissions data (highlighted in the table below with a *) using the assurance standards ISAE 3000 and 3410. Corporate Citizenship has issued an unqualified opinion over the selected data; their full assurance statement is available at www.capita.com/responsible-business.

Methodology

Our disclosures cover sources of our greenhouse gas emissions from our operations in UK, Ireland, Europe (Poland, Germany, Switzerland, Austria), India and South Africa. Capita converts the consumption data into a carbon footprint with consideration for the World Business Council for Sustainable Development and World Resources Institute's (WBCSD/WRI) Greenhouse Gas Protocol, together with the latest emissions factors from the UK Department for Environment, Food and Rural Affairs (Defra) or, where available, the latest industry factors, such as hotel stays from the Green Tourism Board Scheme.

Operating responsibly

As we have flexibly and efficiently met the needs of our clients to help them respond to the Covid-19 pandemic, we have maintained our focus on operating responsibly throughout our business.

Annual greenhouse gas emissions

	2020	2019	2018
Scope 1 (tCO ₂ e)	18,979.79*	18,960.67*	18,819.24
Scope 2 (tCO ₂ e) (location-based)	28,359.28*	41,894.14*	45,174.51
Scope 2 (tCO ₂ e) (market-based)	23,526.27*	27,651.00*	
Scope 3 (tCO ₂ e)	7,881.37*	30,822.46*	36,401.06
Total gross tonnes of CO ₂ e (location-based)	55,219.44	91,677.27	100,394.81
Total gross tonnes of CO ₂ e (market-based)	50,386.43	77,434.13	
Total gross tonnes of CO₂e/£1m revenue (location-based)	16.61	24.92	25.62
Total gross tonnes of CO₂e/headcount (market-based)	0.99	1.50	1.59

Notes:

Total gross tonnes of CO₂e/£1m revenue (location-based) in 2020 has been calculated using unadjusted revenue. In 2019 and 2018, adjusted revenue has been used.

Scope 1: Emissions from Capita sources that are controlled by us, including the combustion of fuel, company-owned vehicles and the operation of our facilities.

Scope 2: Emissions from the consumption of purchased electricity, heat or steam.

Scope 3: Emissions from non-owned sources related to Capita's activities, including business travel and waste.

Client relations

We actively seek the views of our clients through a customer net promoter score (cNPS) survey. Since 2019, the actions we have taken to address areas identified by our clients include: implementing and rolling out Salesforce as our single customer relationship management (CRM) platform; assigning a dedicated client partner to each of our key clients; and rolling out training and coaching support to our growth and account management teams.

In 2020, we received feedback from more than 1,020 individuals across 638 clients, some spanning multiple business divisions, representing a 53% response rate (up from 38% in 2019). The results gave Capita a cNPS score of +32 for 2020, a 17-point increase on 2019.

In the survey, we ask clients for feedback on our current performance and advice on areas that they would like us to focus on in future. For 2020, we also asked for insights on how we could support clients during and post the Covid-19 pandemic. This information was fed back to our teams who worked to understand any root causes of issues raised and set

actions, which will be monitored via Salesforce.

With 70% of those we surveyed in 2019 responding again, and a response from all of our elite accounts, we see this as a key indicator of the success of the steps we took during our transformation programme.

Supplier engagement

In 2020, we spent £2bn with more than 24,540 direct suppliers in 87 countries. We value, and seek to build lasting, business relationships with our suppliers, treating them and partners fairly and paying promptly. We want to work with suppliers who share our values and support us in delivering our purpose.

Our aim is to encourage and work with suppliers to achieve the highest standards within our supply chain. We are committed to working with our supply-base to ensure that together we can achieve wider social, economic and environmental benefits.

In December, we published our revised supplier charter, strengthening our commitment to: support more small and medium-sized enterprises (SMEs); increase the diversity of our supply chain; promote

Non-financial information statement

This section of the report constitutes Capita's non-financial information statement, produced to comply with sections 414CA and 414CB of the Companies Act 2006. The table below, and information it refers to, is intended to help stakeholders understand our position on key non-financial matters. This builds on reporting that we do under the following frameworks: CDP, Dow Jones Sustainability Index and the EcoVadis CSR Assessment.

Reporting requirement	Policies and standards which govern our approach	Where is this referenced in this report?
Environmental matters	<ul style="list-style-type: none"> • Health, safety and environmental policy 	<ul style="list-style-type: none"> • Responsible business: sustainable innovation page
Employees	<ul style="list-style-type: none"> • Code of conduct (E) • Health, safety and environmental policy (E) • Diversity and inclusion policy (E) • Employee handbook (I) 	<ul style="list-style-type: none"> • Our people section pages 40 to 43 • Responsible business: building an inclusive workplace page 46 • Diversity data (in people section)
Human rights	<ul style="list-style-type: none"> • Human rights policy (E) • Supplier charter (E) • Modern slavery statement (E) • Information and cyber security policy (E) • Privacy policy (E) • Employment screening policy (I) 	<ul style="list-style-type: none"> • Responsible business: operating responsibly – supplier engagement page 48 • Responsible business: operating responsibly – upholding human rights page 49
Social matters	<ul style="list-style-type: none"> • Community and charity policy (E) • Community and charity standard (I) • Volunteering FAQ (I) • Matched funding FAQ (I) • Fundraising FAQ (I) 	<ul style="list-style-type: none"> • Responsible business: digital inclusion page 45 • Responsible business: youth skills and jobs page 46
Anti-corruption and anti-bribery	<ul style="list-style-type: none"> • Anti-bribery and corruption policy (E) • Financial crime policy (E) 	<ul style="list-style-type: none"> • Responsible business: operating responsibly – bribery page 49
Due diligence and outcome	<ul style="list-style-type: none"> • Risk management framework • Annual internal audit plan • Risk register • Audit and Risk Committee report 	<ul style="list-style-type: none"> • Risk management framework pages 50 to 53 • Audit and Risk Committee report pages 80 to 89
Business model		<ul style="list-style-type: none"> • Business model page 6
Non-financial key performance indicators		<ul style="list-style-type: none"> • Non-financial KPIs page 17 • Responsible business

I – Group policies, guidance and standards published internally; E – Group policies, statement and reports published externally

supply chain resilience; and encourage ambitious carbon reduction targets to tackle climate change. All new and renewing suppliers are expected to comply with this charter.

We are signatories to the UK government's Prompt Payment Code, reporting our payment practices and performance to the government every six months. In 2020, we paid 72% of micro-organisations and 85% of our SME suppliers within payment terms. In all cases, 95% of our suppliers were paid within 60 days or less.

In accordance with the UK Modern Slavery Act, we published our Modern Slavery Statement online www.capita.com/modern-slavery-statement.

Employees on the Board

Our two employee directors, Lyndsay Browne and Joseph Murphy, are nearing the end of their first term on our Board, having provided an invaluable employee perspective and voice for our employees at the most senior level. In 2020, their focus was on: providing an employee perspective on the annual people survey results; engaging with colleagues in India and South Africa at the start of the pandemic regarding governmental wage

support programmes; and providing oversight and challenge to our decisions as a result of the pandemic to the working environment, such as working from home guidance, leave arrangements and the decision to proceed with the real living wage.

Targeting bribery and corruption

We do not tolerate bribery or corruption. Our anti-bribery and corruption policy applies to all Capita businesses, employees and suppliers. The Risk & Compliance team monitors compliance, ensuring all parts of the business are aware of their responsibilities in terms of charity donations, sponsorships, facilitation payments, gifts and hospitality. All employees must complete financial crime training annually.

Upholding human rights

We aspire to conduct business in a way that values and respects the human rights of all our stakeholders. Our human rights policy details our commitments to upholding the principles of human rights, as set out in the UN declaration of human rights and the International Labour Organisation core labour principles. We comply with all relevant legislation, including the UK Modern Slavery Act which is detailed further online.

Protecting privacy

Our clients and our colleagues expect us to keep their data safe and secure, and to respect their privacy. We take this responsibility very seriously, ensuring we only process personal data in line with all applicable laws, including how we collect, store, use, retain, transfer and delete personal data.

Our privacy policy details how we expect everyone to take responsibility for privacy, including the protection of data, applying our privacy standards, procedures and guidance in their areas of the business. These requirements include maintaining information asset registers, following a comprehensive incident management process, completing privacy by design and default and data protection impact assessments. We continue to raise awareness of the importance of privacy through our mandatory training and ongoing communication programmes.

Internal control and risk management

We proactively manage risks

At Capita, we recognise that effective internal control and risk management is fundamental to helping us achieve our strategic objectives. Our ability to identify, assess and successfully manage current and emerging risks is critical in securing the success of our business and protecting long-term shareholder value. The global Covid-19 pandemic presented us with several challenges throughout the year which we successfully navigated, and we will continue to do so as the risk and government responses evolve.

Our response to Covid-19

The Board, supported by the Group Audit and Risk Committee (ARC), reacted immediately to address the unplanned and unprecedented impacts of Covid-19, and has continued to monitor the situation. Our priorities were:

- To continue to deliver the essential services that our clients and the general public rely on us for.
- Maintain the financial stability of the Group.
- Protect the wellbeing of all our colleagues.

Capita continued to protect and safeguard the wellbeing of all colleagues in the long term as the rollout of vaccines paves a way to recovery from this unparalleled pandemic. The Board has introduced measures to protect employees and clients, and to act within Government guidelines. The Group has also been active in assisting all clients to confront the pandemic, including specific support provided to the UK Government.

In response to Covid-19, the Board, ARC and Executive Committee considered a number of key areas requiring focus and immediate attention. They ranged from people, liquidity and cash preservation to continued operational excellence and regulations. Additional meetings were scheduled to approve the policies required and monitor performance against the objectives set. This was a critical response to the new risks presented by the pandemic and required the Board and committees to be agile in response, as the scenario presented could not have been pre-planned.

The Board welcomed the full engagement from all employees in addressing the risks thrown up, which touched many areas of the Group and directly impacted the ways of working and interacting with our stakeholders.

Some of the measures taken included:

- Immediate actions to safeguard the Group's cash requirements, such as putting on hold capex-intensive projects, utilising the Government schemes to defer payments including VAT, and accessing the furlough grant scheme where necessary. The Group acknowledged the impact on our supply

chain and continued to honour our commitment to prompt payments while engaging with clients on payment deferral plans.

- All senior employees within the Group consented to a pay reduction at the height of the pandemic.
- The Group developed its cash flow models to project the liquidity requirements, ensuring the Board had visibility and the most accurate view possible of future cash flows.
- We accelerated the transformation plan activities, including the closure of the Company's head office property in London and accelerating other property exits, as employees adapted to remote working. This will continue as a longer-term objective as we adopt new ways of working.
- Technology Solutions took decisive action to equip a large number of employees with the laptops and equipment required to work effectively from home. Additional measures were also introduced to protect data given the remote working conditions.
- The Board and committees scheduled additional meetings to review progress made against the objectives introduced and considered a range of scenarios, including continuity and contingency plans, to address various models related to the pandemic and the global recovery.
- Capita has reviewed its principal risks considering the pandemic and adjusted where necessary. For example, the health, safety and longer-term wellbeing of all of our employees was identified as an emerging risk.

Our internal control and risk management journey

Capita launched a transformation programme in 2018, that touches all parts of the Group and with a direct impact on driving the strategic objectives. The successful delivery of the programme requires a risk management and internal control framework to support an annual evaluation by the Board of the emerging and principal risks facing the Group. The Board conducted a robust assessment of the principal risks, including those that would

threaten Capita's business model, future performance, resilience and liquidity.

The Board asked the ARC to support the assessment by overseeing an effective risk management and internal control system, providing regular oversight over the principal risks and the strategies in place to mitigate them.

As part of the transformation programme, the ARC considered the risk management and control frameworks in place, and over recent years embarked on improvement plans to introduce greater rigour and standardisation of processes and controls, enabled by IT to underpin the effectiveness of such frameworks. Progress has been made on many aspects, and more was planned for 2020 before the impact of Covid-19.

As a result of the pandemic, the ARC had to pause certain aspects of the improvement plans in early 2020, to address the immediate pandemic risks. As the economic climate stabilised toward the end of 2020, the ARC reset the priority areas. The ARC continues to drive the improvements required to enhance the internal control and risk management processes, for these to be effective and fit for purpose for a group of Capita's size and end-market.

Improvement initiatives

The ARC has previously reported on the multiple initiatives launched to develop the risk management approach which is based on a three lines of defence model.

As the transformation of Capita has progressed, it has become evident that continued focus on our people, culture, systems, processes and controls is required – to drive greater awareness and consistency in how we identify, manage and mitigate risks. The key features are set out below:

The risk management process was redefined in 2019 with an enhanced focus on:

- Risk environment.
- Risk assessment, response, and mitigation actions.
- Monitoring and reporting.
 - the Group executive risk committee (ERC) was established to oversee and challenge the key business risks and compliance activities.
 - a specific financial services risk committee was reconstituted in 2019 to provide oversight of the regulated and financial services businesses within Capita.
 - the Group embarked on an update to the enterprise risk management framework (ERMF), and a comprehensive control risk self-assessment (CRSA) tool was developed and piloted in 2019.

– the Group embarked on a finance transformation programme to drive improved data quality and standardisation of activities performed by the finance community. This has included an evaluation of financial controls by the senior finance team to review the material financial controls in place for effectiveness. The finance transformation will be supported in the future by the introduction of a new accounting system.

The above initiatives were further advanced in 2020, supported by the following key activities:

- A key control questionnaire (KCQ) process was developed and completed which identified key entity level controls across 14 Group wide areas. Every business leader was required to attest compliance with key controls within their functional, divisional, and business areas.
- Across the finance teams, the annual control questionnaire process was enhanced and completed where every business leader attested to compliance with a set of key financial controls.
- Senior management provided an assessment of the control environment following a stabilising of the initial pandemic crisis; specific attention was given to the plans to improve cyber and IT resilience.

The next stage of the improvement plan will be ensuring that the responses to the KCQ are developed and evidenced, such that the responses can then be subject to independent assurance.

Throughout 2020, the principal risks continued to be periodically reviewed by the ERC, ARC, and the Board. Focus and attention were placed on the new emerging risks, and the lessons learnt from adapting to the risks and uncertainties introduced by the pandemic. Robust assessment of the principal risks facing the Group was regularly undertaken, including emerging risks such as the impact of Brexit and the impact of Covid-19 on our business and on the health, safety and wellbeing of our people.

The Board believes that Capita remains too dependent on managers intervening and there is too much inconsistency in process across the Group. The Board and ARC do not underestimate the journey that needs to be completed, in alignment with the transformation plan, to ensure robust internal control and risk assessment frameworks are embedded fully. Establishing and embedding frameworks that are effective, with clear accountabilities between line management and support functions which can be subject to independent assurance, is the key focus for 2021.

Risk governance

The tone for risk management is set by the Board, which is ultimately accountable for providing strategic governance and stewardship of the Company. The ARC, which has delegated responsibility from the Board for maintaining an effective risk management and internal control system, provides regular oversight over the principal risks and the strategies in place to mitigate them.

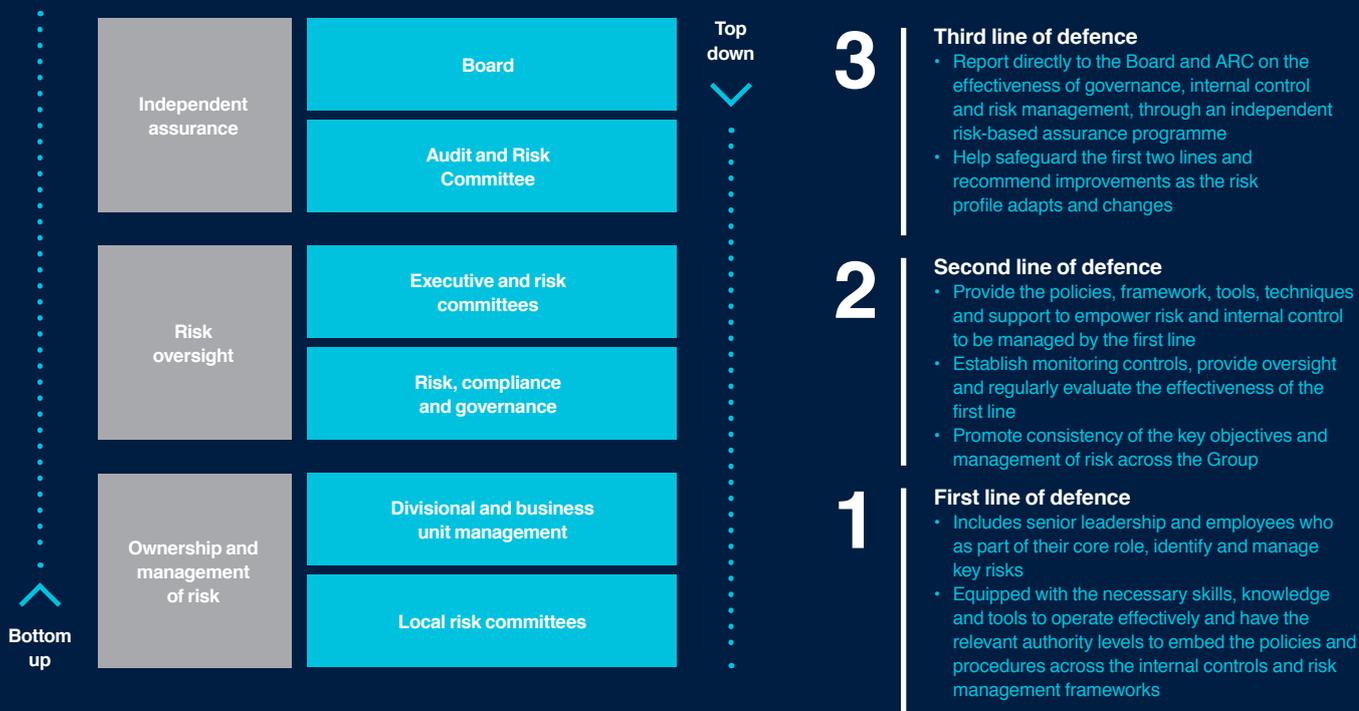
In 2020, the ARC reviewed, discussed and briefed the Board on risks, controls and assurance, including the annual assessment of the system of risk management and internal control, to monitor the effectiveness of the procedures for internal control over financial reporting, compliance and operational matters.

The role of the Group ERC is to assess, oversee and challenge key risks across all Capita's unregulated businesses and provide regular updates to the ARC. The role of the financial services risk committee (FSRC) is to provide oversight of the regulated financial services businesses. Capita recognises the importance to clients and customers of the financial services businesses it operates, and the need for specific oversight to manage and mitigate risks associated with those businesses. The FSRC is chaired by an independent non-executive and provides regular updates to the ARC.

On a day-to-day basis, senior management, divisional heads, and business unit teams manage and monitor risks that fall under their remit. The risk governance structure provides a clear distinction between Group functions, which define policies, standards and procedures, and the divisions and business unit teams, which are responsible for effective implementation of those requirements. Ongoing regular discussions take place between all levels of the organisation to agree the most effective ways to mitigate risks, and to ensure there is a clear understanding of any compound risks. Discussions also identify independent risks that require cross-functional or cross-divisional collaboration.

Further work is planned in 2021 to refresh and apply a consistent three lines of defence approach across all business activities with the aim of ensuring that assurance accountabilities are understood fully and that effective control measures are in place for the risks that have the highest potential impact. The Board gains assurance about the management of risk from the model on page 52.

Risk governance structure and assurance lines



Internal controls

A KCCQ process was developed and completed during 2020. The results serve as a baseline for improvement and while there have been notable improvements in the control environment in recent years, eg bid reviews, there is still improvement to be made. The process helped verify known control weaknesses in IT resilience and cyber security. These weaknesses are, and will continue to be, addressed at a Group and division/function level by implementing effective corrective measures.

During 2020, a Group accounting policy manual and, for some areas, newly developed standard ways of working have been issued. A financial control tool was developed during the year to document existing key control detail at a business unit level and link to standard ways of working as they continue to be developed. Actions to improve compliance with key financial controls are logged and tracked through the tool. The process of identifying and documenting the key controls is further supported by necessary assurances from divisional management.

During 2021, further work will be taken to improve elements of our control framework. Action plans supported with investment to address some of the IT resilience and cyber

security weaknesses are in place. Work will also continue to further enhance certain elements of the financial control framework. As we restructure our business, we will clarify the accountability, responsibility and strengthen our three lines of defence model, including maturing our internal control framework. The executive risk committee will provide oversight of these activities.

Risk management process

The Group works in collaboration with the divisions, Group functions and business unit teams to undertake a bottom-up identification and assessment of the key risks faced by Capita. These risks are referred to as principal risks and can be a single risk or a set of aggregated risks which, when taken together, are significant for the Group. Risk registers, which are maintained at each layer of the organisation, continue to be a core component within our risk management process. Each of the key risks identified has an assigned risk owner who reviews them, on at least a quarterly basis, as part of the risk reporting process. Principal risks are managed by a dedicated member of the executive team who has ownership and accountability for ensuring that the risk is managed within the risk appetite levels set by the Board. Divisional, functional, and business unit risks are assigned risk owners who hold senior positions within the

Group and are either members of the executive team, divisional heads or business unit team leaders. This ensures the appropriate level of attention and focus is applied in addressing the principal risks applicable to the Group.

Risks in the risk registers are assessed at both an inherent (pre-controls) and residual (post-controls) level, against two scales: (a) their likelihood; and (b) their potential consequences to the Group. The assessment of consequences includes financial, reputational, legal, and regulatory impacts. These risk assessments are designed to ensure a thorough assessment of the risks, as well as the associated controls and mitigations. They also help to identify what additional risk reduction actions may be needed to reduce the residual risk level to the risk appetite level set by the Board.

As part of the risk management process, an evaluation of financial controls is undertaken by the senior finance team to review the material financial controls currently in place and to identify areas where these might only be partially effective or be inefficient in achievement of their purpose. Any material issues are dealt with through mitigating activities to ensure the effectiveness of the existing controls over financial reporting

Capita recognises that risk cannot be completely eliminated and that there are certain risks the Board will decide are acceptable to enable the pursuit of particular business opportunities. These decisions are informed by robust risk assessment and with decisions taken at an appropriate authority level and reflect the Group's defined risk appetite.

Risk appetite

The Board is responsible for setting and monitoring the risk appetite, and articulates which risks Capita should not tolerate, which should be managed to an acceptable level and which should be accepted to deliver our business strategy. As part of the ERMF enhancement, the risk appetite is being updated to refine them into a more granular tool to develop key risk indicators (KRIs) which ultimately support the Board in its management of risk. The development of KRIs was delayed due to management's focus on addressing the evolving impact of Covid-19.

Principal risks

During 2020, our focus was managing our way through the pandemic crisis. This unparalleled scenario could not have been predicted or planned for and the Group acted swiftly, with effective oversight, to respond to it. The ERC, ARC and Board focused on the impact of Covid-19 on the principal risks; the control environment surrounding them; how the risks were managed during the pandemic; and on a view of the long-term potential impact of the principal risks. Several pandemic-specific risks were identified and mitigations put in place. These risks were either closed or subsumed within other existing risks.

Our risk management process highlighted an emerging risk around employee health and wellbeing. The mental wellbeing of our people was prioritised as the pandemic continued and as government measures were put in place.

In general, our principal risk levels remained unchanged from 2019, despite spending the first half of 2020 in Covid-19 crisis management mode. As the pandemic stabilised, we spent the second half of 2020 understanding the longer-term impact of the pandemic on our principal risks; and the severity of two of our principal risks changed as shown in the table on page 54.

The Board remains confident in our existing governance mechanisms and risk management processes, to ensure that risks (including emerging ones) continue to be identified and dealt with effectively and in a timely manner.

The Board recognises the improvements made over the past three years with our transformation at Capita, making it a simpler business with a stronger operational platform to underpin its future development, as described in the CEO's review on pages 10 to 16.

Capita is now moving onto the next phase of its transformation, as outlined on page 16. We have identified the principal risks that have been judged to be directly linked to this reorganisation; these are denoted by ● in the principal risks outlined on pages 55 to 57.

At Capita, the principal risks are considered over the same three-year period as the viability statement. They are listed and described, along with their potential impact if left unmanaged. For each risk, we disclose key mitigations and future actions to further manage the risk and improve internal controls.

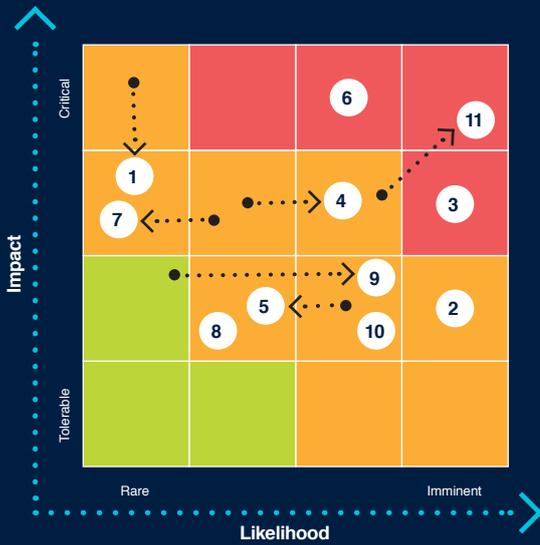
Emerging risks

The identification of emerging risks is carried out by both the business, using a bottom-up approach, and the executive, from a top-down perspective. Regular reviews of risks, including emerging risks, are included at risk committees throughout the business.

Emerging risk	Description
Health, safety and wellbeing of our people	In 2020 we witnessed the rapid spread of the Covid-19 virus with devastating consequences across the world. We responded by assessing the impact of Covid-19 on our principal risks and by establishing a dedicated team to ensure Capita was as prepared as possible for the global health emergency. However, as the initial phase of the pandemic stabilised, we began to appreciate the longer-term impacts of Covid-19 on the health, safety and wellbeing of our people, some of whom have now been working from home for almost a year, and will continue to do so for a number of months to come. In 2021, we must continue to support our managers and colleagues across the business in recognising that they are empowered to change how they and their teams work. We will achieve this through briefings, workshops, focus groups, pulse surveys, targeted communications and new training collateral. This not only covers the day-to-day work people have to do but will also have a large emphasis on wellbeing and supporting each other through these challenging times.



Principal risks at 31 December 2020



Key: Level of risk

- **Critical**
The maximum level of risk Capita can bear and remain effective at delivering its strategy. Of immediate critical concern.
- **Uncomfortable**
Risk level likely to cause problems that would put uncomfortable pressure on delivery.
- **At tolerance**
A business-as-usual risk, manageable with the right people and processes in place to respond to the threat. Recognised as an early warning indicator. A tolerable level of risk.

● -> Risk movement

No.	Risk title	Risk description
1	Living our purpose	Failure to live our purpose and failure to change stakeholder perception so we are seen to live our purpose
2	Strategy	Failure to define and resource the right medium-term strategy
3	Innovation	Failure to innovate and develop new value propositions for clients and customers to drive sustainable growth
4	People attraction & retention	Failure to attract, develop, engage and retain the right people for current and future client propositions
5	Culture	Failure to change the culture and practices of Capita in line with our responsible business agenda
6	Data protection	Failure to protect data, information and IT systems
7	Contracts	Inability to secure contracts with an acceptable risk and reward balance and that are aligned to Capita's agreed purpose, values and responsible business strategy
8	Delighting clients	Failure to delight clients and customers with software performance or project and service delivery
9	Internal control	An inadequate risk-based system of internal control
10	Political climate	Failure to plan for, influence and respond to potential changes in the political climate
11	Financial stability	Failure to maintain financial stability, viability and achieve financial targets/results

Risk	Rationale for significant risk movement
9—Failure to develop and maintain a risk-based system of internal control	In prior years, this risk primarily focused on financial control framework. The executive agreed that a system of internal controls should not be limited to financial controls but be expanded to pan-Capita internal control frameworks. The findings from the KCQ process and themes identified by Group internal audit highlighted that the system of internal controls requires improvement. The impact from Covid-19 resulted in a delay to improving elements of our risk management and of our internal control framework. The risk level increased from at tolerance to uncomfortable.
11—Failure to maintain financial stability and achieve financial targets	As a result of Covid-19, the impact of government policy, client willingness to spend less, our inability to continue to innovate and have the resources available to fulfil contractual obligations impacted our financial stability and the strength of our balance sheet. The risk level increased from uncomfortable to critical.

Principal risk	Potential impact	How we manage the risk
<p>1 Failure to live our purpose and to change stakeholder perception so that we are seen to live our purpose</p> <p>Accountable officer: CEO</p>	<ul style="list-style-type: none"> • misalignment between the strategic objectives and the purpose of the business • transformation does not change stakeholder perception • brand and reputation adversely impacted • clients, suppliers, and people don't want to work with, or for, Capita • investors lose confidence in the transformation 	<p>The pandemic put our clients, customers and our service delivery under huge pressure. While that presented challenges to our stakeholders and for our people, it did provide us with the opportunity to demonstrate how we live our values and our purpose by creating better outcomes and continuing to deliver for our clients.</p> <p>Mitigation actions in 2020</p> <ul style="list-style-type: none"> • implemented the real living wage as a minimum for colleagues in the UK • regular proactive open and honest engagement with our clients, customers, and stakeholders to better understand how we can continue to effectively support them during the pandemic • employee survey completed to seek feedback on how 'we live our purpose' and to identify improvement opportunities <p>Future actions</p> <ul style="list-style-type: none"> • review our strategic objectives and purpose of the business and ensure alignment with the new Capita operating model • engage and interact with our stakeholders and rebuild our brand, reputation, and investor confidence by fulfilling our promises
<p>2 Failure to define and resource the right medium-term strategy</p> <p>Accountable officer: CEO</p>	<ul style="list-style-type: none"> • lack of clear direction driving customer propositions • investment decisions with sub-optimal returns • difficult to prioritise investment decisions • customers, partners, and employees are not clear on priorities • difficult to articulate investment case for investors 	<p>The financial pressures from Covid-19 had a significant impact on our transformation programme, our strategic priorities, and our ability to demonstrate that anticipated benefits from the transformation programme were on target to be achieved. Instead of focusing on the delivery of our objectives, we had to focus our attention on the pandemic.</p> <p>Mitigation actions in 2020</p> <p>As set out in the CEO review, Capita is undertaking a further reorganisation that will address this risk. The future actions all focus on the successful implementation of this organisational change</p>
<p>3 Failure to innovate and develop new value propositions for clients and customers to drive sustainable growth</p> <p>Accountable officer: Chief Growth Officer</p>	<ul style="list-style-type: none"> • inability to grow and develop into new markets • failure to compete with others who are innovative • unable to maximise new technology • loss of new and existing business to competitors • eroded corporate position in the market 	<p>The pandemic has thrown up myriad challenges, as well as opportunities for new propositions for clients. Some clients are under financial pressure and will want to spend less. In addition, we have had to scale back the resource and investment in this area, which has resulted in reduced innovation initiatives.</p> <p>Mitigation actions in 2020</p> <ul style="list-style-type: none"> • improved agility in delivering to clients, maintaining market confidence • growth and consulting teams worked hard to accelerate the development of new propositions and explored more than 100 potential Covid-19 related opportunities <p>Future actions</p> <ul style="list-style-type: none"> • the reorganisation of Capita is specifically designed to enable sufficient investment to be made to capture the growth opportunities in the areas we are focusing on. See CEO report
<p>4 Failure to attract, develop, engage and retain the right people for current and future client propositions</p> <p>Accountable officer: Chief People Officer</p>	<ul style="list-style-type: none"> • inability to deliver Capita strategy • loss of key personnel/lack of succession • increased staff turnover and increase in costs from buying in short-term contractors • lack of in-house skills and inability to attract the right people with the right skills • reputational damage 	<p>The financial position and drop in our share price have had an impact on our brand and reputation. As a result of internal cost-reduction measures, ie the freeze in bonus payout and pay rise freezes, we have had some staff attrition. However, we have continued to attract and recruit staff in our operational areas and recruit senior roles including replacing senior staff who have left. Our employee survey results have shown three consecutive annual improvements in our employee net performance score (eNPS). The successful implementation of the reorganisation should attract and retain staff.</p> <p>Mitigation actions in 2020</p> <ul style="list-style-type: none"> • leadership development moved to digital delivery • performance review process launched • resourcing capability and systems improved to attract new staff virtually • employee value proposition launched • retained staff and expertise by redeployment, eg from consulting business into other parts of the business <p>Future actions</p> <ul style="list-style-type: none"> • change to more flexible future ways of working • use of levy funding to develop over 1,000 people through modern apprenticeships • introduction of bespoke MBA and diploma programme • changes to 2021 short-term incentive plan design • continue to invest in staff development

 Risk identified by the Group as particularly relevant to the reorganisation

Principal risk	Potential impact	How we manage the risk
<p>5 Failure to change the culture and practices of Capita in line with our responsible business agenda</p> <p>Accountable officer: CEO</p>	<ul style="list-style-type: none"> potential for new clients not to want to contract with Capita unable to attract and retain talent negative corporate reputation hampers ability to deliver sustainable growth climate change impact not considered in operations 	<p>Collaboration and teamwork improved during pandemic period. With a continued need to take tough decisions to bridge to the future and the change in work styles, with reduced focus, engagement, and direct interaction with our people, likely to impact our culture, value, and behaviours around openness and collaborative working. We have described earlier in this section, how Capita responded to the Covid-19 crisis which allowed us to demonstrate how we prioritised living our values in line with our responsible business agenda.</p> <p>Mitigation actions in 2020</p> <ul style="list-style-type: none"> initiated review of our operating model to identify opportunities that will enable us to further improve our culture and develop better working practices in line with our responsible business agenda and focus on our client commitments to deliver better outcomes <p>Future actions</p> <ul style="list-style-type: none"> continue to embed the reorganisation of Capita to accelerate our journey on culture, values and behaviours
<p>6 Failure to protect data, information and IT systems</p> <p>Accountable officer: Executive Officer, Technology Solutions</p>	<ul style="list-style-type: none"> loss or theft of confidential client or customer data due to cyber attack disruption to business operations to Capita and/or its customers due to cyber attack loss of one of Capita's data centres reputational damage leading to loss of existing contracts and bidding for new business 	<p>The global pandemic involving the spread of Covid-19 presented our IT business with several different challenges, primarily around how we manage our IT infrastructure to accommodate our people who were asked to work from home and to maintain our IT systems and security controls.</p> <p>Mitigation actions in 2020</p> <ul style="list-style-type: none"> created the office of the Chief Information Security Officer to identify opportunities to strengthen IT security controls within weeks of the lockdown in March 2020, we made a provision for around 85% of staff to be able to continue to work from home IT system, cyber and end user security controls improved to ensure colleagues had the capability to work from home during the pandemic, while minimising security, unauthorised access, and data leakage risks <p>Future actions</p> <ul style="list-style-type: none"> improve IT security structure, process and procedures monitor and improve information security controls to reduce the risk of data leakage or unauthorised access to Capita systems implement new tooling to help increase data security and reduce the possibility of data leakage implement additional security controls for the end user computing devices to reduce the possibility of ransomware or virus attacks enhance security over corporate domains and cloud governance, to reduce risk of unauthorised access and data loss explore opportunities for further funding to upgrade IT estate and enhance Group IT infrastructure, platforms and systems
<p>7 Inability to secure contracts with an acceptable risk and reward balance and that are aligned to Capita's agreed purpose, values and responsible business strategy</p> <p>Accountable officer: CFO</p>	<ul style="list-style-type: none"> loss of contracts lack of ability to acquire new business contract terms and service commitments are not met or understood exposure to unexpected costs/ cost overruns or onerous terms brand and reputational damage if not managed effectively risk of financial claims/ penalties and other disputes with clients adverse impact on contract profitability 	<p>The pandemic has financially impacted potential clients and customers leading to a reduced appetite to spend money and wish to pay less for services. There is a risk that Capita enters contractual arrangements with new clients that result in unacceptable commercial, regulatory, financial, or reputational exposure, or which are not aligned to Capita's agreed purpose, values, and responsible business strategy.</p> <p>Mitigation actions in 2020</p> <ul style="list-style-type: none"> the contract review committee (CRC) controls streamlined including a fast-commercial governance process contract remediation committee in place to review delivery on existing contracts transactions committee established to review acquisitions and mergers to ensure alignment with growth strategy <p>Future actions</p> <ul style="list-style-type: none"> refresh the CRC policy and deal review template, including incorporation of new H&S/ safeguarding risk assessment further refresh and roll out CRC post-deal review process develop fraud risk assessment develop and roll out standard form contracts and playbooks

Principal risk	Potential impact	How we manage the risk
<p>8 Failure to delight clients and customers with software performance or project and service delivery</p> <p>Accountable officer: Chief Transformation Officer</p>	<ul style="list-style-type: none"> loss of existing contracts brand and reputation damage limited or no new business 	<p>As a result of Covid-19, most projects are either continuing or have been change controlled, but this did not affect our ability to deliver our client commitments. The reorganisation of Capita's operating model should enhance our ability to fulfil customer requirements.</p> <p>Mitigation actions in 2020</p> <ul style="list-style-type: none"> programme and investment committee reviewed significant projects using project governance methodology implemented the weekly SLA/KPI CEO reporting implemented a new software support service on ServiceNow that enabled us to improve our service standards <p>Future actions</p> <ul style="list-style-type: none"> reorganisation of our current structure into a more focused, client-centric Group to deliver better outcomes for our clients and their customers have the right technological capability available to the divisions to deliver for customer needs, which is a fundamental part of the reorganisation to continue to build and develop client confidence in Capita and our ability to meet customer needs
<p>9 Failure to develop and maintain a risk-based system of internal control</p> <p>Accountable officer: CFO</p>	<ul style="list-style-type: none"> fraud, misstatement and inaccurate financial reporting greater regulatory or client scrutiny increased costs associated with risk remediation activities breaches of law, statutory and legal reporting leading to regulatory fines in financial services sector and loss of key contracts reputational damage and adverse media interest leading to inability to secure new contracts 	<p>In prior years, this risk primarily focused on financial controls. The executive agreed that a system of internal controls should not be limited to financial controls but should be expanded to pan-Capita internal control frameworks. The impact of Covid-19 has resulted in a delay to the improvement of elements of our risk management and internal control framework.</p> <p>Mitigation actions in 2020</p> <ul style="list-style-type: none"> KCQ self-assessment process was developed and completed against key controls a control questionnaire process was completed where every business leader attested to compliance with a minimum set of financial controls senior management provided an assessment of the control environment following a stabilising of the initial pandemic crisis; specific attention was given to the plans to improve cyber and IT resilience <p>Future actions</p> <ul style="list-style-type: none"> embed accountability, responsibility and understanding of governance, risk and controls environment with the new operating model implement a more efficient internal control framework refresh and enhance the enterprise risk management framework including updating the risk appetite into a more granular tool to develop key risk indicators for monitoring key risks establish risk and assurance committees at Group function and business unit level
<p>10 Failure to plan for, influence and respond to potential changes in the political climate</p> <p>Accountable officer: Director of Corporate Affairs</p>	<ul style="list-style-type: none"> the Government's response to Covid-19 has generated significant new policy at speed affecting the operational environment for the business the new approach by Government to innovation and public service delivery is a potential risk to Capita possibility of additional regulatory changes by new government 	<p>UK Government's absolute priority has been Covid-19 and going forward will be recovery. There may be increased volatility in government spending because of an improved opposition.</p> <p>Mitigation actions in 2020</p> <ul style="list-style-type: none"> engaged with government and other parties (eg regulators) to promote and protect reputation worked to understand business requirements and prepared for Brexit <p>Future actions</p> <ul style="list-style-type: none"> engage with government in response to Covid-19, new policies, and impact on Capita monitor and horizon scan for political, regulatory, and economic developments impacting political climate
<p>11 Failure to maintain financial stability and achieve financial targets</p> <p>Accountable officer: CFO</p>	<ul style="list-style-type: none"> continued cash outflow reduces liquidity available to invest in transformation loss of shareholder value weakens investor confidence 	<p>Covid-19 significantly impacted our ability to maintain financial stability and achieve our financial targets, due to the lockdown travel and workplace restrictions. As a result, for a short time, we were not able to fully deliver on some of our contractual obligations. We incurred loss of revenue in our transactional business and from clients in financial distress.</p> <p>Mitigation actions in 2020</p> <ul style="list-style-type: none"> early decision to reduce costs and conserve cash, supported by enhanced finance controls daily cash forecasting to understand overall Group liquidity and revolving credit facility requirements focus on ensuring minimal disruption to cash collection cycle through remote working monthly reforecasting evolved as our understanding of the financial situation developed, moving from a V-shaped recovery to business by business recovery curves. Projections extended to 2021 and the business planning process accelerated took action to address balance sheet concerns through additional asset disposals <p>Future actions</p> <ul style="list-style-type: none"> further strengthen the balance sheet, by addressing our debt maturities and targeting more non-core disposals implement the new finance target operating model to improve financial forecasting reliability

Viability statement

As previously reported, the multi-year transformation plan described in the strategic report underpins the viability of the Group and Parent Company. The successful delivery of the plan will transform Capita, driving significant revenue growth from a more competitive cost base, and with client solutions that are differentiated in the markets in which the Group operates. This underpins the Board's consideration of going concern and longer-term viability.

The global pandemic in 2020 introduced unprecedented threats for all businesses. It highlighted the need for businesses to be agile in order to prove resilience in responding immediately to the challenges presented, including the national lockdowns that were imposed. Of paramount importance was safeguarding the wellbeing of our employees and all our colleagues across our clients and supply base. Details of how Capita responded to the various challenges are set out in the Chairman's introduction and Chief Executive Officer's review on pages 4 and 5 and 10 to 16.

The base-case projections prepared for the going concern (noted on page 129) and viability assessments are derived from the 2021–2023 business plans as approved by the Board. These capture the key benefits that the transformation plan is expected to deliver, and the costs to achieve them. In assessing the resilience and viability of the Group, the Board has considered not only the execution risk associated with the transformation plan, but also risks that may crystallise with a continuation of the pandemic and associated lockdowns.

In assessing viability, the Board has considered a three-year period as there is sufficient clarity to consider the business prospects and provide a foundation to stress test against severe but plausible downside scenarios. The high level of uncertainty as to how Covid-19 might evolve over 2021 and 2022 and the continuing impact on the economies and end markets makes precise forecasting challenging. There is a higher

degree of uncertainty than would usually be the case in assessing viability. Accordingly, the Board has applied a higher level of caution than in prior years in evaluating the severe but plausible downsides in order to gauge the resilience of the Group and Parent Company to unexpected risks arising.

The risks applied have not been probability weighted but rather consider the impact should each risk materialise by applying a 'more likely than not' test (eg more than a one-in-10 chance of occurring). These include trading downside risks, which assume the transformation plan is not successful in delivering the anticipated revenue growth and assume a downside that also incorporates revenue attrition and further impact of Covid-19. The severe downside also incorporates potential adverse financial impacts that could arise from incidents such as data breaches, cyber attacks, controls failures and an assessment of the potential fines and penalties for any non-compliance with laws and regulations.

There are mitigations under the direct control of the Group that the Board can action to address some of the risks that may crystallise under a severe but plausible downside.

While these are available as possible short-term mitigations, the Board is mindful that some of these mitigations may be detrimental to the success of the transformation plan.

Therefore, to support the medium- and longer-term resilience of the Group, the Board is continuing to explore refinancing options, together with a continuation of the previously announced disposal programme.

The Board has been exploring a refinancing of the debt maturities to reprofile the debt repayments to align with the delivery of the transformation plan while also providing the financial support necessary to complete the required investments. While refinancing was not completed in 2020, the Board successfully arranged backstop facilities in February and August 2020, is in discussion with lenders, and is targeting completion of a refinancing in 2021.

In addition to the refinancing options, the Board has approved a continuation of the previously announced disposal programme, which covers businesses that do not align with the longer-term strategy of the Group.

The Group has a strong track record of executing major planned disposals and the Board is confident the approved disposal programme can be delivered, given the strength of the businesses and the value they deliver. The planned disposals will introduce considerable net cash proceeds to the Group, albeit with a corresponding removal of consolidated profits associated with these businesses.

The Board recognises that any refinancing would require third-party agreements from lenders. Furthermore, the disposal programme requires agreement from third parties, and major disposals may be subject to shareholder and lender approval. Such agreements and approvals are outside the direct control of the Company. Accordingly, these events give rise to material uncertainties, as defined in auditing and accounting standards, relating to events and circumstances which may cast significant doubt on the Group and Parent Company's ability to continue as a viable concern.

Based on this assessment, and reflecting the Board's confidence in the transformation plan, ability to refinance, and execution of the approved disposal programme, the Board has a reasonable expectation that the Group and Parent Company will be able to continue in operation and meet its liabilities as they fall due over the period of the viability assessment.

The strategic report was approved by the Board and signed on behalf of the Board:

Francesca Todd
Group Company Secretary
16 March 2021
Capita plc
Registered in England and Wales
No. 2081330

Corporate governance



Capita is committed to helping tackle climate change and recently set science-based carbon emissions reduction targets for the business to be achieved by 2030, in line with internationally agreed ambitions to limit global warming by 1.5°C.

As a purpose-led responsible business, we are well underway in defining our pathway towards becoming net zero, and we support the UK Government's initiative on mandatory climate-related disclosures. For more detail see page 44.

Chairman's report



“From the onset of the pandemic, all Board and committee meetings were successfully held remotely using video-conferencing technology.”

Sir Ian Powell
Chairman

Transparency of listed company governance has become increasingly significant, especially given the need to operate through the pandemic in 2020. I am therefore pleased to introduce the corporate governance section of this Annual Report and present my introductory statement on Board governance during 2020.

Board leadership

The directors of the Company in office at the date of this report are listed on pages 60 and 61. The only change to the Board during 2020 was the resignation of Patrick Butcher with effect from 16 November 2020 and the appointment on the same date of Gordon Boyd in his place as interim Chief Financial Officer while we recruit a permanent replacement.

Gillian Sheldon retired from the Board on 28 February 2021 after eight and a half years and was replaced as Senior Independent Director on 1 March 2021 by David Lowden who was appointed a non-executive director on 1 January 2021. We also appointed Neelam Dhawan, an experienced leader in the technology industry, to the Board as non-executive director, on 1 March 2021.

We are careful to ensure an appropriate balance of time commitments for each Board member. Directorships are reviewed twice a year and any proposed external appointment is considered carefully. With effect from 1 April 2021, Matthew Lester was appointed non-executive director of Intermediate Capital Group plc but, taking into account his non-executive portfolio, it was not considered by the Board to be excessive.

Baroness Lucy Neville-Rolfe was appointed director and chair of Crown Agents Limited, a not-for-profit international development company, with effect from 1 December 2020 and also stepped down as chairman of Assured Food Standards.

We remain committed to workforce engagement and highly value the engagement of our employee non-executive directors, Lyndsay Browne and Joseph Murphy, in Board discussions. We believe it is important to bring their contributions also into Board committee meetings hence the formal appointment during the year of Lyndsay to the Remuneration Committee and Joseph to the Audit and Risk Committee. We have also extended Joseph's two-year term as employee non-executive director by 12 months. We had intended to stagger the replacement of each employee non-executive director but, as a result of Covid-19, the Board felt it was more appropriate to postpone the selection process for 12 months.

Board diversity

A diverse board broadens perspectives, enriches debate and ultimately improves the quality of decision making, and we actively seek to improve the diversity of the Board. I am pleased that we continue to exceed the 33% target for female representation and that our ethnic diversity has improved with the recent appointment of Neelam Dhawan. Further information on diversity in the Group is on page 46.

	31 Dec 2020	1 March 2021	11 May 2021
Female representation	36%	33%	36%

Reappointment of directors

Except for Andrew Williams, all members of the Board will stand for re-election (Gordon Boyd, David Lowden and Neelam Dhawan for election) at the annual general meeting (AGM) in May. Andrew has been a valued member of the Board for over six years, but has decided not to seek re-election at the AGM due to the ongoing significant time commitment required of him as CEO of Halma plc. All continuing Board members have received a formal performance evaluation which demonstrates that each director continues to be effective and committed to the role.

Meeting schedule

The Board has a standing schedule to meet six times a year but holds further meetings as required. Board and committee meetings are structured around the Company's financial calendar. Agenda planning is undertaken in advance of every meeting to ensure an appropriate allocation of time to important topics. From the onset of the pandemic in March 2020, all Board and committee meetings were successfully held remotely using video-conferencing technology.

Senior management

We review regularly the structure of our businesses and management to ensure they remain appropriate. The Executive Committee comprises the divisional executive officers and functional heads under the Chief Executive Officer's leadership. Further detail about the Executive Committee can be found on pages 61 and 62.

Board effectiveness

Corporate governance principles

We continue to pursue high standards of corporate governance and business practice, including the principles embodied in the 2018 UK Corporate Governance Code, which permeate all aspects of the Board's activity and are reflected throughout this Annual Report. Further details on the application of these principles are signposted below:

Leadership and purpose: articulation of Capita's purpose on the inside front cover and pages 1-3.

Division of responsibilities: governance framework on page 67.

Composition, succession and evaluation: Nomination Committee report on page 78 and Board evaluation section below.

Audit, risk and internal control: Audit and Risk Committee report on page 80, and internal control and risk management statement on pages 50-57.

Remuneration: Remuneration Committee report on page 90.

Culture

Company culture is a very important element of any business transformation. The Board receives regular reports on HR activities that enable it to monitor developments in the Group's culture and provide supportive challenge to management. The dashboard below is an aggregation of key measures informing the Board's assessment of culture, and further information on each of these, and the Group's approach to investing in and rewarding its workforce, is set out in the people and responsible business sections of the strategic report on pages 40 to 49.

Metric	2020	2019
Movement in employee net promoter score (a measure of employee satisfaction)	+7 points	+14 points
People survey response rate (a measure of employee engagement)	72%	72%
Employee rating of manager commitments (a measure of how managers live our values and demonstrate our behaviours)	82%	81%
Voluntary turnover (a measure of employee commitment)	20%	23%

Board evaluation

Board evaluation is undertaken annually, with external evaluation every three years. The last external evaluation was undertaken in 2018 by Independent Board Evaluation. Key findings from the 2019 internal evaluation, together with actions taken in 2020 are set out below:

Finding from 2019 evaluation	Action in 2020
Remuneration framework – in conjunction with the Remuneration Committee allocate more time for ongoing consideration and review of framework for executive director and workforce remuneration.	During 2020 a review of the Long Term Incentive Plan for executive management was undertaken. A proposal was prepared and a consultation with shareholders commenced in December 2020. A new policy is being presented to shareholders at the forthcoming AGM. Appropriate time allocation was made to consider workforce remuneration in 2020.
Risk management framework – in conjunction with the Audit and Risk Committee have greater oversight of the developing framework for risk management.	The enterprise risk management framework was presented to the Audit and Risk Committee during 2020 and detailed presentations made to ensure even greater oversight.

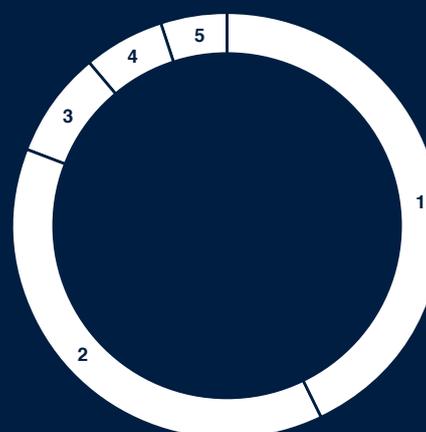
During 2020 an internal evaluation of the Board and its committees was undertaken by questionnaire and completed by each Board member. The results were collated by the Company Secretary for review by the Chairman and the findings were presented to the Board. Reports on committees were presented to the committee chairs and circulated to the Board.

The evaluation concluded that the Board had performed well during the pandemic. Continued delivery of the multi-year transformation programme, giving appropriate focus to key strategic issues to ensure milestones are met, is a principal Board objective in 2021.

At a meeting of the Board, the Directors discussed the evaluation and its findings, focusing on the following themes and objectives for 2021:

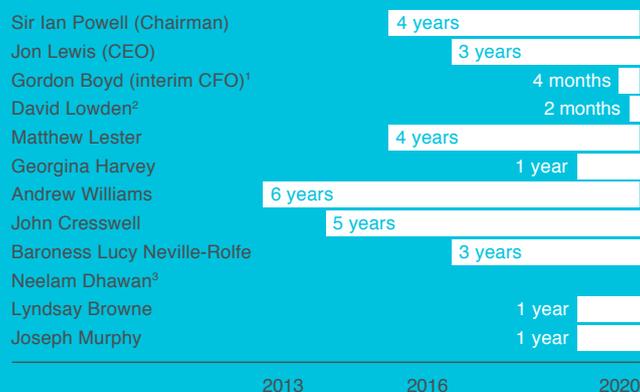
Finding from 2020 evaluation	Proposed actions in 2021
Transformation – ongoing development and delivery of the transformation strategy including balance sheet strength, reduction of operational complexity and reward incentives to reflect the objectives.	Continuation of the operational simplification and introduction of a reward structure (with the Remuneration Committee) for 2021 to support change and deliver transformation requirements. Proposals to address future balance sheet requirements would be a focus during 2021.
Risk management framework – with the Audit and Risk Committee review changing risk profiles with the transformation strategy.	Specific Board time would be allocated to further discuss risk profiles and frameworks, and ensure that these developed in line with the transformation.

Board time allocation (%)



- 1 43% Executive reports (incl. Covid-19)
- 2 38% Strategy, transformation and growth
- 3 8% Governance (incl. board evaluation)
- 4 6% IR / brand / reputation
- 5 5% Full and half-year results

Board directors: length of tenure



- 1. Joined the Board on 16 November 2020
- 2. Joined the Board on 1 January 2021
- 3. Joined the Board on 1 March 2021

Remuneration

We consulted major shareholders to understand their views on a proposed new restricted share plan for executive directors. Having received shareholder feedback, a revised remuneration policy will be put to shareholders for approval at the 2021 AGM. Further details can be found in the directors' remuneration report on page 90.

Corporate governance and committee reports

The following pages in this section consist of our corporate governance and committee reports. I hope that you will find these and the entire Annual Report informative. The Board will be happy to receive any feedback you may have.

Sir Ian Powell
Chairman
16 March 2021

Chairman



Sir Ian Powell

Chairman

Appointed: September 2016

Independent at appointment: Yes

Key skills and experience: Sir Ian was appointed as Non-Executive Director on 1 September 2016 and as Chairman on 1 January 2017. He is a Chartered Accountant and, before his retirement in June 2016, was Chairman and Senior Partner of PwC UK between 2008 and 2016.

Other current appointments: Chairman, Police Now; trustee of The Old Vic, and of Wellbeing of Women; member of the Development Committee, The National Gallery; and board member of London First.



Executive Directors



Jon Lewis

Chief Executive Officer

Appointed: December 2017

Key skills and experience: before joining Capita, Jon was Chief Executive Officer of Amec Foster Wheeler. Prior to that, he had a 20-year career at Halliburton Company Inc, where he held a number of senior roles, including Senior Vice President and member of the Halliburton Executive Committee.

Board responsibilities: managing and developing Capita's business to achieve the Company's strategic objectives.

External appointments: board member of Equinor ASA.



Gordon Boyd

Chief Financial Officer (interim)

Appointed: November 2020

Key skills and experience: a graduate of Edinburgh University, Gordon holds accountancy and treasury qualifications and an MBA. He has completed the advanced management programme at Harvard Business School and has more than 30 years' experience at major businesses, including as CFO of several FTSE 250 companies. He has significant experience of leading transformations at businesses including SSE, Infinis EDF, Drax Group and British Energy.

Board responsibilities: overall control and responsibility for all financial aspects of the business's strategy.

External appointments: none.

Independent Non-Executive Directors



David Lowden

Senior Independent Director

Appointed: January 2021

Key skills and experience: David is a highly experienced non-executive director, senior independent director and chair of UK listed companies. He was formerly Chair of Huntsworth plc, Senior Independent Director at Berendsen, Chair of the Audit and Risk Committee at William Hill, Chair of the Audit Committee at Cable & Wireless Worldwide plc and Chief Executive of Taylor Nelson Sofres plc.

Other current appointments: Chair of PageGroup plc; Non-Executive Director and Senior Independent Director of Morgan Sindall Group plc.



Matthew Lester

Appointed: March 2017

Key skills and experience: Matthew is a Chartered Accountant with over 20 years' experience in senior finance roles. He was Group Chief Financial Officer of Royal Mail plc from November 2010 to July 2017. Matthew served as Group Chief Financial Officer for ICAP plc from May 2006 to November 2010. Matthew was formerly a Non-Executive Director at Barclays plc and he has also held the position of Non-Executive Director and Chair of the Audit and Risk Committee at Man Group plc.

Other current appointments: Chairman of Kier Group plc.



Georgina Harvey

Appointed: October 2019

Key skills and experience: Georgina has significant experience across highly competitive consumer-facing markets and of delivering successful transformational change. Prior to her current roles, Georgina was Managing Director of Regionals and a member of the Executive Committee of Trinity Mirror plc from 2005 to 2012.

Other current appointments: Non-Executive and Senior Independent Director of McColl's Retail Group plc; and Non-Executive Director of Superdry plc.



Key to committees

- A – Audit and Risk
- N – Nomination
- R – Remuneration
- O – Committee chair

Independent Non-Executive Directors



John Cresswell

ANR

Appointed: November 2015

Key skills and experience: John has substantial experience in leading and growing organisations as CEO and executive director. He qualified as a Chartered Accountant, has a BSc in Economics and Politics, and attended the advanced management programme at Harvard Business School. Previously, he was CEO of Bibby Line Group and Arqiva and held a number of executive director roles on the board of ITV plc.

Other current appointments: member of University of Liverpool Management School Advisory Board.



Neelam Dhawan

ANR

Appointed: March 2021

Key skills and experience: Neelam has 35 years' leadership experience in the IT industry, where she held senior positions in Hewlett-Packard, Microsoft, Compaq and IBM with responsibility for a wide range of areas including strategy, corporate development, software engineering and offshoring. She now advises multinationals on business and technology transformation and, until recently, was an advisor to IBM, helping them navigate through a business and talent transformation in India.

Other current appointments: Non-Executive Board Member of ICICI Bank Limited, Yatra Online Inc and Skylo Technologies Inc; member of Koninklijke Philips NV Supervisory Board.



Baroness Lucy Neville-Rolfe DBE CMG

ANR

Appointed: December 2017

Key skills and experience: Baroness Neville-Rolfe has been a member of the House of Lords since 2013, and served between 2014 and 2017 as a government minister in the business and culture departments, and as Commercial Secretary to the Treasury. She worked at Tesco plc from 1997 to 2013, serving on the board from 2006. She has a senior background in international retail, governance, legal and regulatory issues, and communications.

Other current appointments: Non-Executive Director of Secure Trust Bank plc, Thomson Reuters Founders Share Company, and Health Data Research UK; Chair of Crown Agents Limited and UK-ASEAN Business Council; and member of the House of Lords EU Select Committee.

Employee Non-Executive Directors



Andrew Williams

ANR

Appointed: January 2015

Key skills and experience: Andrew is Chief Executive of FTSE 100 company Halma plc, a leading specialist in safety, health and environmental technologies. He is also a Chartered Engineer and a production engineering graduate of Birmingham University. He attended the advanced management programme at Wharton Business School, University of Pennsylvania, in 2004.

Other current appointments: Chief Executive of Halma plc; and Non-Executive Director of Cardiff Blues Ltd.



Lyndsay Browne

R

Appointed: July 2019

Key skills and experience: Lyndsay is a member of the Institute of Chartered Accountants (Scotland) and has undertaken various finance roles in insurance and financial services since joining Capita in 2003. She currently works as a finance manager in the Specialist Services division and is involved in commercial contract management, the finance transformation programme and financial reporting. Before joining Capita, Lyndsay worked for KPMG Audit and Advisory in Glasgow and Bermuda.

Other current appointments: none.



Joseph Murphy

A

Appointed: July 2019

Key skills and experience: Joseph works in the technical advisory team in the Real Estate and Infrastructure business within Specialist Services. He joined Capita in 2015 and is a Chartered Civil Engineer with a masters degree in ground engineering. His role involves monitoring and advising on large infrastructure projects in the UK and Europe. His previous experience includes engineering design and construction management.

Other current appointments: none.

Further information can be found on:
capita.com/our-company/about-capita

Directors who served during the year 2020

Patrick Butcher stepped down from his position as CFO and Executive Director on 16 November 2020. Gillian Sheldon retired from the Board on 28 February 2021, after eight and a half years.

Capita's Executive Committee is chaired by Jon Lewis, CEO, and comprises 14 executive officers and functional heads, who are entirely accountable for their division or function.

The divisions are aligned around five key growth markets: Software, People Solutions, Customer Management, Government Services and Technology Solutions. Alongside them sits the sixth division, Specialist Services.



Jon Lewis
Chief Executive Officer

Jon is responsible for the overall management and development of Capita, to achieve its strategic objectives – and return the business to organic growth and sustainable free cash flow.



Gordon Boyd
Chief Financial Officer (interim)

Gordon is responsible for setting financial strategy and policy, and for implementing a framework of business controls to support Capita's transformation and sustainable growth. He is also responsible for the internal audit and commercial functions.



Ismail Amla
Chief Growth Officer

Ismail is responsible for supporting Capita's transformation and organic growth plans, and driving change in the sales model. He is also responsible for Capita's consulting business, the sales and marketing function and Capita's market strategy.



Chris Baker
Executive Officer, Software

Chris leads one of the UK's largest software companies with market-leading positions in sectors such as education, emergency services and local government. Its specialist enterprise products also serve cross-sector markets, in the UK and overseas.



Claire Chapman
Chief General Counsel

Claire provides expert and strategic legal advice, with a focus on legal and regulatory risk management, mergers and acquisitions, corporate projects, governance and contracts. She is also responsible for compliance, privacy, clinical governance and company secretarial functions.



Aimie Chapple
Executive Officer, Customer Management

Aimie leads the division which delivers multi-channel customer experience services across the UK and internationally, for many leading brands in sectors ranging from telecommunications and utilities, to financial services and technology innovation.



Mark Cook

Executive Officer, Technology Solutions

Mark leads the division which provides digital technology solutions for enterprise workspace and connectivity to external public and private sector clients. He is also responsible for Capita's central Group IT function.



Garry Dryburgh

Chief Transformation Officer

Garry is responsible for developing, orchestrating and communicating the company's multi-year transformation programme, aiming to achieve the right balance between short-term improvement and delivery of Capita's long-term vision.



Chantal Free

Executive Officer, People Solutions

Chantal leads the division which solves large public and private clients' most complex people issues across the entire employment lifecycle from resourcing, learning and employee experience, to pensions consulting and administration.



Rupert Green

Chief Corporate Development Officer

Rupert is responsible for Capita's corporate strategy development; investor relations; and for mergers, acquisitions and divestments.



Katja Hall

Director of Corporate Affairs

Katja is responsible for internal and external communications, including employee engagement, public affairs, media relations and responsible business, while providing strategic and reputational guidance to the leadership team.



Will Serle

Chief People Officer

Will is responsible for delivery of the company's HR and people strategy, supporting and advising the organisation to evolve Capita's culture and ways of working for all its employees.



Andy Start

Executive Officer, Government Services

Andy leads the division which is a strategic partner to government in the application of digital transformation to improve the productivity of operations and to help deliver essential services to millions of customers.



Jim Vincent

Executive Officer, Specialist Services

Jim leads the division which comprises a portfolio of standalone businesses and commercial ventures, providing a diverse range of services to private and public sector clients.

Committed to high standards of governance

Corporate Governance Code

Capita plc and its subsidiaries (the Group) are committed to maintaining high standards of corporate governance. The UK Corporate Governance Code 2018 (the Code) applies to accounting periods beginning on or after 1 January 2019 and is available from the Financial Reporting Council's website, www.frc.org.uk. Throughout the accounting period to which this report relates, the Company complied with all relevant provisions set out in sections 1 to 5 of the Code except for provisions 24 and 32 (audit and remuneration committees respectively to comprise independent non-executive directors) as Joseph Murphy (member of the Audit and Risk Committee) and Lyndsay Browne (member of the Remuneration Committee) are both non-executive employee directors and therefore not considered independent. However, the Board felt that the value of the employee perspective brought by Lyndsay and Joseph to Board meetings should be replicated on those two committees. The formal appointment of each of them to the respective committee demonstrates the Group's commitment to employee engagement and the value of diversity of perspective being more important than a purely compliance-driven approach to the Code.

Board changes during the year

On 16 November 2020, Gordon Boyd was appointed interim CFO in place of Patrick Butcher, who resigned with effect from the same date. Further information on Board changes is set out in the Nomination Committee report on page 78.

Board changes after year-end

On 1 January 2021, David Lowden was appointed a Non-Executive Director and Senior Independent Director (SID) designate. David succeeded Gillian Sheldon as SID on 1 March 2021 following Gillian's planned retirement from the Board on 28 February 2021 after eight and a half years. In addition, Neelam Dhawan was appointed an additional non-executive director with effect from 1 March 2021.

Board composition

At 31 December 2020, the Board comprised 11 directors, made up of the Chairman, CEO, CFO, six independent non-executive directors and two employee non-executive directors. Details of each director's experience are set out in the directors' biographies on pages 62 and 63.

Composition of the Board at 31 December 2020 and at the date of this report is shown in the tables opposite.

Board composition at 31 December 2020:

Executive directors	Independent non-executive directors	Non-executive employee directors
Jon Lewis	Sir Ian Powell ¹	Lyndsay Browne
Gordon Boyd	Gillian Sheldon	Joseph Murphy
	Matthew Lester	
	Georgina Harvey	
	John Cresswell	
	Andrew Williams	
	Baroness Lucy	
	Neville-Rolfe	

1. Independent on appointment in accordance with the Code.

Board composition at the date of this report:

Executive directors	Independent non-executive directors	Non-executive employee directors
Jon Lewis	Sir Ian Powell ¹	Lyndsay Browne
Gordon Boyd	David Lowden	Joseph Murphy
	Matthew Lester	
	Georgina Harvey	
	John Cresswell	
	Andrew Williams	
	Baroness Lucy	
	Neville-Rolfe	
	Neelam Dhawan	

1. Independent on appointment in accordance with the Code.

Board meetings and attendance

During 2020, the Board held six scheduled meetings. Additional ad hoc meetings are held as required. Attendance of the directors at Board and committee meetings is shown below; the maximum number of meetings a director could attend is in brackets.

	Board meetings	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Sir Ian Powell ¹	6(6)	n/a	n/a	3(3)
Jon Lewis	6(6)	n/a	n/a	n/a
Gordon Boyd ²	1(1)	n/a	n/a	n/a
Gillian Sheldon	6(6)	6(6)	5(5)	3(3)
Matthew Lester	6(6)	6(6)	5(5)	3(3)
John Cresswell	6(6)	6(6)	5(5)	3(3)
Georgina Harvey ³	6(6)	5(6)	5(5)	3(3)
Andrew Williams	6(6)	6(6)	5(5)	3(3)
Baroness Lucy				
Neville-Rolfe ⁴	5(6)	6(6)	4(5)	3(3)
Lyndsay Browne	6(6)	n/a	3(3)	n/a
Joseph Murphy	6(6)	5(5)	n/a	n/a
Patrick Butcher ²	5(5)	n/a	n/a	n/a

1. Sir Ian Powell is not a member of the Audit and Risk or Remuneration committees, but was invited to, and attended, all meetings.

2. Gordon Boyd was appointed to and Patrick Butcher resigned from the Board on 16 November 2020.

3. Georgina Harvey was unable to attend a meeting of the Audit and Risk Committee due to a pre-existing commitment to attend a meeting of another company.

4. Baroness Lucy Neville-Rolfe was unable to attend a meeting of the Board and a meeting of the Remuneration Committee due to pre-existing commitments with the House of Lords and another company of which she is a director.

Meetings held outside the normal schedule need to be flexible and are often held by telephone or video-conference.

Any director's absence from Board or committee meetings was previously agreed with the Chairman of the Board or relevant committee and the CEO.

During 2020, the following formal director meetings took place:

- The Chairman held one-to-one individual review sessions with each executive director and each non-executive director.
- The non-executive directors met without executive directors.
- The non-executive directors met with just the CEO.
- The non-executive directors met without the Chairman, led by the senior independent director.

Board leadership

There is a clear division of responsibility between the running of the Board by Sir Ian Powell as Chairman and responsibility for the running of the Group's business by Jon Lewis as CEO.

Sir Ian as Chairman and Gillian Sheldon as Senior Independent Director have held meetings comprising solely the non-executive directors. Gillian also met with the non-executive directors without Sir Ian. Both Sir Ian and David Lowden (SID with effect from 1 March 2021) are available to meet with significant shareholders when requested.

Governance and strategy

The Group recognises the contribution made by good governance to the Company's success and changes made at both Board and Executive Committee level demonstrate the importance of embedding the right structures with the right people to deliver the Group's strategy. The connection between governance and delivery of strategy is reflected throughout this Annual Report.

In addition to their statutory duties, the directors must ensure that the Board focuses effectively on all its accountabilities.

Section 172 of the Companies Act 2006 requires directors to act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of shareholders as a whole. In doing so, the directors must have regard (among other matters) to:

- the likely consequences of any decision in the long term
- the interests of the Company's employees
- the need to foster business relationships with suppliers, clients and others
- the impact of the Company's operations on the community and the environment
- the desirability of the Company maintaining a reputation for high standards of business conduct
- the need to act fairly towards all shareholders of the Company.

The Board determines the strategic objectives and policies of the Group to best support the delivery of long-term value, providing overall strategic direction within an appropriate framework of rewards, incentives and controls. The Board is collectively responsible for the success of the Company directors' roles are set out opposite. Following presentations by executive and divisional management, and a disciplined process of review and challenge by the Board, clear decisions on policy or strategy are adopted, and the executive management are fully empowered to implement those decisions.

Stakeholder interests and the matters listed above are factored into all Board discussions and decisions. For more information, please refer to the section 172 statement on page 38.

The Board

Role of the Board

To promote Capita's long-term sustainable success, generating value for shareholders and contributing to wider society.

Matters reserved for the Board

- Strategy and management
- Structure and capital
- Financial reporting
- Internal controls
- Major contracts
- Shareholder communication
- Board membership



Nomination Committee

- Board and committee composition
- Succession planning
- Diversity
- People strategy

Read more on page 78



Audit and Risk Committee

- External audit
- Financial reporting
- Risk management and internal controls
- Internal audit

Read more on page 80



Remuneration Committee

- Remuneration policy
- Remuneration principles
- Incentive design and setting of targets
- Executive and senior management remuneration

Read more on page 90

Role of the directors

Chairman

The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. This includes setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. The Chairman should also promote a culture of openness and debate, by facilitating the effective contribution of non-executive directors in particular and ensuring constructive relations between executive and non-executive directors. The Chairman is responsible for ensuring that the directors receive accurate, timely and clear information, and should ensure there is effective communication with shareholders.

Senior independent director

The senior independent director acts as a sounding board for the Chairman on Board-related matters, chairs meetings in the absence of the Chairman, acts as an intermediary for other directors when necessary, leads the evaluation of the Chair's performance, leads the search for a new Chair, when necessary, and is available to shareholders who wish to discuss matters which cannot be resolved otherwise.

Non-executive directors

The non-executive directors should constructively challenge and help develop proposals on strategy. They should scrutinise the performance of management in meeting agreed goals and objectives, and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning.

Executive directors

The executive directors are responsible for the day-to-day running of all aspects of the Group's business. This responsibility is different from the Chairman's role in running the Board. The role of CEO is separate from that of Chairman to ensure that no one individual has unfettered powers of decision making.

Non-executive employee directors

The non-executive employee directors are appointed from the workforce to contribute an employee perspective to Board discussions. This is a key element of the Board's approach to employee engagement.

Board independence

Non-executive directors are required to be independent in character and judgement. All relationships that may interfere materially with this judgement are disclosed as required under the conflicts of interest policy (see page 70). The Board has determined that, except for the employee non-executive directors, all the non-executive directors who served during the year were independent and that, before and upon appointment as Chairman, Sir Ian Powell met the criteria of independence as outlined in the Code.

Board composition is a deliberate balance of newer and longer standing members, and reflects the ongoing review and refreshment of Board membership to ensure a balance of skills and experience appropriate for the broad nature of Capita's businesses. The breadth of tenure and experience of the non-executive directors means the Board is well positioned to advise, challenge and support executive management during this period of transformation.

The Board believes that each of the non-executives has retained independence of character and judgement and has not formed associations with management or others that may compromise their ability to exercise independent judgement or act in the best interests of the Group. The Board is satisfied that no conflict of interest exists for any director. This matter is a standing agenda item at Board meetings (see page 70).

Matters reserved for the Board

A formal schedule of matters reserved for the Board has been adopted and these include, but are not limited to:

- **Strategy and management**, including responsibility for the overall leadership of the Group, setting the Group's purpose, values and strategy, and monitoring alignment with culture.
- **Structure and capital**, including changes relating to the Group's capital structure and major changes to the Group's corporate structure, including acquisitions and disposals, and changes to the Group's management and control structure.
- **Financial reporting**, including the approval of the Annual Report, half-yearly report, trading statements, preliminary announcement for the final results and dividend, treasury and accounting policies.
- **Internal controls**, ensuring that the Group manages risk effectively by approving its risk appetite and monitoring aggregate risk exposures.
- **Contracts**, including approval of all major capital projects and major investments, including the acquisition or disposal of interests of more than 3% in the voting shares of any company or the making of any takeover offer.
- **Ensuring satisfactory communication** with shareholders.
- **Board membership and other appointments**, including changes to the structure, size and composition of the Board, and succession planning for the Board and senior management.

Board of directors' induction and training

Following appointment to the Board, all new directors receive an induction tailored to their individual requirements. They are encouraged to meet and be briefed on the roles of key people across the Group and have open access to all business areas and employees to build up an appropriate level of knowledge of the business that extends beyond formal papers and presentations to the Board. All directors have received an appropriate induction for their roles within Capita, including some or all of the following:

- The nature of the Group, its business, markets and relationships.
- Meetings with the external auditor, lawyers, brokers and relevant operational and functional senior management.
- Board procedures, including meeting protocols, committee activities and terms of reference, and matters reserved for the Board.
- Overviews of the business via monthly performance review reports.
- The Group approach to risk management.

Ongoing training and briefings are also given to all directors, including external courses as required.

A tailored induction programme was prepared for the interim CFO to ensure he was properly equipped to fulfil his role.

Group Company Secretary

All Board members have access to independent advice on any matters relating to their responsibilities as directors and as members of the various committees of the Board at the Group's expense.

Francesca Todd, as Group Company Secretary, is available to all directors and is responsible for ensuring that all Board procedures are complied with.

The Group Company Secretary has direct access and responsibility to the chairs of the standing committees and open access to all the directors. The Group Company Secretary has been appointed as Secretary to the Audit and Risk, Remuneration, and Nomination committees to ensure that there are no conflicts of interest. The Group Company Secretary meets regularly with the Chairman of the Board, the Chairs of the Audit and Risk, and Remuneration committees, and briefs them on areas of governance and committee requirements.

The Chief General Counsel oversees the Group's legal and regulatory capability, as a separate function from the role of Group Company Secretary. The two roles collaborate closely but, in order to avoid a conflict of interest, the Group Company Secretary is solely responsible for Board and Group governance.

Shareholder engagement

There is an active engagement programme with the Company's investors. The executive directors meet regularly with institutional investors to discuss and obtain feedback on the business, performance, strategy and corporate governance, and address any issues of concern. This is undertaken through a combination of roadshows, group or one-to-one meetings and attendance at investor conferences. The Chairman also met regularly with existing institutional shareholders throughout the year.

The investor relations team has day-to-day responsibility for managing investor communications and always acts in close consultation with the Board. All members of the Board, including the non-executive directors, receive a report on any significant discussions with shareholders and anonymous feedback that follows the annual and half-yearly presentations to investment analysts and institutional investors. Analyst reports concerning Capita are circulated to the directors and the Board is kept informed of changes in the share register.

Principal decisions

Principal decision*	Impact on long-term sustainable success	Stakeholder considerations	Further details
<p>Staff furlough, voluntary pay reductions and flexible working: At the onset of Covid-19 and introduction of initial lockdown restrictions, 6% of staff were placed on furlough, higher paid staff, including the Board, took voluntary pay reductions for six months and c. 85% of the workforce moved rapidly into remote working.</p>	<p>Culture: Working culture has changed dramatically now that teams collaborate remotely using video-conferencing technology. The rapid move to remote working was welcomed by many staff but a challenge to others. Staff have reacted positively overall.</p> <p>Principal risks: Furlough and temporary voluntary pay reductions were necessary to support the short-term financial position. Additional guidance and support were needed to address the increased risk to data, information and IT systems from remote working and the impact on employee wellbeing.</p>	<p>Our people: Decision would have high impact on workforce – wellbeing and mental health would need supporting. A digital wellbeing hub was established and, as the pandemic continued, views from the workforce were obtained via a future ways of working survey.</p> <p>Clients and customers: Clients recognised the need for Capita staff delivering their services to move to remote working and they supported our business continuity actions. Additional measures to support remote working were required to assure service delivery.</p> <p>Society: Staff delivering certain essential public sector client services were classified as key workers – office arrangements were tailored accordingly to ensure their safety and to support continuity of service delivery.</p>	<p>People section on page 42.</p>
<p>Disposal of Education Software Solutions (ESS) business</p>	<p>Strategy: ESS is a standalone provider of management information system software and the disposal fitted strategically with the focus on a portfolio of software capabilities better aligned to Capita's core services and markets.</p> <p>Principal risks: The disposal addressed principal financial stability risk – sale proceeds will be used to strengthen the balance sheet by reducing net debt and pension liabilities.</p>	<p>Investors: Financial stability is a key shareholder concern and the disposal both strengthens Capita's financial position and forms part of the ongoing simplification of the Group.</p>	<p>CFO review on page 19</p>

* Principal decisions are those that are material to the Group and/or significant to any of our key stakeholder groups.

The investor relations team, Chairman and Chair of the Remuneration Committee engaged with shareholders ahead of the 2020 AGM to discuss governance and remuneration issues.

In December 2020, the Chair of the Remuneration Committee began a consultation with Capita's top investors on proposed changes to the remuneration policy, including a discussion on support to a move to Restricted Share Awards. Further details are set out in the directors' remuneration report.

Shareholder meetings

Shareholders are normally encouraged to attend the AGM but, due to Covid-19 restrictions, shareholder meetings in 2020 were held as closed meetings and a question and answer facility was made available to shareholders on the Company's website. Information for shareholders is available on the Company's website www.capita.com. The non-executive directors are normally available to meet with shareholders to understand their views more fully. The Chairman is normally available to meet with Capita's significant shareholders. Directors, including chairs of the various committees, are normally present at the AGM, subject to Covid-19 restrictions, to answer any questions.

Shareholder communications

In addition to the AGM, shareholders can access up-to-date information through the Group's website at www.capita.com. Shareholders can also view their holdings by using the Signal shares shareholder portal, a service offered by Link Asset Services, the Group's registrar, at www.capitashares.co.uk. The Signal shares portal is an online service enabling shareholders to quickly and easily access and maintain their shareholding online. Shareholders can also contact Link by email at enquiries@linkgroup.co.uk. Link also provides a telephone helpline,

0371 664 0300, calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 9.00am and 5.30pm, Monday to Friday, excluding public holidays in England and Wales.

Business relationships

Details regarding relationships with suppliers, clients and others, together with further cross-references, are provided in the section 172 statement on page 38.

Remuneration Committee

Details of the Remuneration Committee and its activities are given in the directors' remuneration report on pages 90.

Risk management and internal control

The Board monitors the Company's risk management and internal control systems and carries out an annual review of their effectiveness. The Audit and Risk Committee report contains further details. The monitoring and review includes all material controls, including financial, operational and compliance controls. This process is regularly reviewed by the Board. The Group's key internal control procedures are fully documented within the strategic report on pages 50 to 53.

Furthermore, through the operation of the risk governance process, the directors confirm, for the purposes of provision 28 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. A description of those risks, together with how they are being managed or mitigated, is set out on pages 54 to 57.

Other statutory and regulatory information

Strategic report

The Company is required to prepare a fair review of the business of the Group during the financial year ended 31 December 2020 and of the position of the Group at the end of the financial year, and a description of the principal risks and uncertainties facing the Group (known as a 'strategic report'). The purpose of the strategic report is to enable shareholders to assess how the directors have performed their duty under section 172 of the Companies Act 2006 (duty to promote the success of the Company). The information that fulfils the requirements of the strategic report can be found on pages 1–58. Details of the Group's business goals, strategy and model are on pages 2, 3, 6 and 7.

Corporate governance report

The corporate governance statement as required by Rule 7.2.1 of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTRs) is set out on pages 66 to 76.

Management report

For the purposes of Rule 4.1.5R(2) and Rule 4.1.8R of the DTRs, this directors' report and the strategic report on pages 1 to 58 comprise the management report.

Post-balance sheet events

The following events occurred after 31 December 2020 and before the approval of the consolidated financial statements but have not resulted in adjustments to the 2020 financial results:

Disposal of Education Software Solutions (ESS): the disposal of the ESS business to Tiger UK Bidco Limited, a newly formed company established by funds advised by Montagu Private Equity (Montagu) completed on 1 February 2021. Cash proceeds of £298.5m were received, with net assets disposed of £51.8m and estimated disposal costs of £28.9m (of which £20.6m were accrued for at 31 December 2020). As a result, we expect to record a total gain on disposal of approximately £217.8m. Montagu has also agreed to invest in ParentPay (Holdings) Limited (ParentPay), a provider of education technology. Following successful completion of both investments, ESS will become part of ParentPay Group. An additional sum of £45m will subsequently be payable to Capita once Montagu's agreed investment in ParentPay has achieved regulatory approval.

Royal Navy training contract: Capita signed a contract to provide training services to the Royal Navy and Royal Marines in January 2021. Capita will transform and modernise the Royal Navy's shore-based training across 16 sites in the UK as the lead partner in a consortium which includes Raytheon UK, Elbit Systems UK, Fujitsu and several smaller British suppliers. The contract will be worth an estimated £1.0bn for Capita over 12 years, with opportunities to deliver further training according to the Royal Navy's requirements. This is an addition of £0.9bn to the Group's order book in 2021.

Put option expiry: The Group has a 51% controlling interest in AXELOS Limited. There was a put option in place where by the Group could be required to acquire the non-controlling interest. This option expired without being exercised on 28 February 2021, and the relating liability derecognised.

Election to apply FRS 101 – reduced disclosure framework

The parent company continues to apply UK GAAP in the preparation of its individual financial statements in accordance with FRS 101 and these are contained in section 7 of the financial statements on pages 191 to 202. FRS 101 applies IFRS as adopted by the European Union with certain disclosure exemptions. No objections have been received from shareholders.

Appointment, reappointment and removal of directors

Directors are appointed and may be removed in accordance with the Articles of Association of the Company and the provisions of the Companies Act 2006. All directors are subject to election at the first AGM after their appointment and, in accordance with Provision 18 of the Code, to annual re-election thereafter. A resolution to re-elect each director will therefore be proposed at the AGM on 11 May 2021.

No person, other than a director retiring at the meeting, shall be appointed or reappointed a director of the Company at any general meeting unless they are recommended by the directors.

No person, other than a director retiring at a general meeting as set out above, shall be appointed or reappointed unless between seven and 35 days' notice, executed by a member qualified to vote on the appointment or reappointment, has been given to the Company of the intention to propose that person for appointment or reappointment, together with notice executed by that person of his/her willingness to be appointed or reappointed.

Group activities

Capita is a purpose-led and responsible business which exists to create better outcomes for all its stakeholders. Our strategy is to simplify and strengthen in order to succeed. Capita's business model is based upon being a consulting, transformation and digital services organisation. We deliver innovative solutions to simplify the connections between businesses and customers, and between government and citizens. We partner with clients to transform their businesses and services. A review of the development of the Group and its business activities during the year is contained in the strategic report on pages 1 to 58. The operational and financial performance of its divisions are detailed on pages 26 to 37.

Results and dividends

The Group's reported loss before tax amounted to £(49.4)m from continued operations (2019: £(62.6)m loss). As previously announced, the directors do not recommend the payment of a final dividend (2019: nil). The total dividend for the year was nil (2019: nil). The employee benefit trust, which holds shares for the purpose of satisfying employee share scheme awards, has waived its right to receive future dividends on shares held within the trust.

Conflicts of interest

Under the Companies Act 2006, directors are under an obligation to avoid situations in which their interests can or do conflict, or may possibly conflict, with those of the Company. A policy and procedures are in place for identifying, disclosing, evaluating and managing conflicts so that Board decisions are not compromised by a conflicted director. The Company's Articles of Association give the Board power to authorise matters that give rise to actual or potential conflicts. Procedures are reviewed annually to ensure they are operating effectively.

All conflicts of interest are reviewed annually by the Board and included in year-end attestations by the directors. None of the directors of the Company has a material interest in any contract with the Company or its subsidiary undertakings, other than their contracts of employment.

Major shareholders

At 31 December 2020, the Company had received notifications in accordance with the DTRs that the following were interested in the Company's shares:

Shareholder	Number of shares	% of voting rights at 31 December 2020	Number of shares direct	Number of shares indirect
RWC Asset Management LLP	300,200,371	17.99	–	300,200,371
Schroders plc	249,517,951	14.95	–	249,517,951
Marathon Asset Management LLP	86,576,890	5.19	–	86,576,890
River and Mercantile Asset Management LLP	85,996,707	5.15	85,996,707	–
Veritas Asset Management LLP ¹	83,131,892	4.98	–	83,131,892
Ninety One UK Limited	76,779,117	4.60	–	76,779,117
BlackRock Inc.	74,230,358	4.45	–	74,230,358
Invesco Ltd	70,883,236	4.24	–	70,883,236
Veritas Funds PLC	55,009,900	3.30	–	55,009,900
Vanguard Group Inc.	54,711,874	3.28	54,711,874	–
Jupiter Asset Management Limited	53,573,060	3.21	–	53,573,060

1. Includes the holding of Veritas Funds PLC.

On 11 March 2021, notification in accordance with the DTRs was received from Schroders plc that it held indirectly 252,790,465 shares, being 15.146% of voting rights. At 12 March 2021, no further notifications had been received under the DTRs in relation to interests in the Company's shares.

Directors' interests

Details of directors' interests in the share capital of the Company are listed on page 104.

Share capital

At 12 March 2021, the number of ordinary shares of 2 1/15p each in issue, fully paid up and quoted on the London Stock Exchange is detailed in the table below:

	Number of shares	% of issued share capital
Issued shares	1,671,273,523	
Treasury shares	2,299,955	0.14%
Total voting rights	1,668,973,568	
Employee Benefit Trust (EBT) shares ¹	12,630,742	0.76%

1. Shares held in the Employee Benefit Trust are used for satisfying employee share options.

During the year ended 31 December 2020, no new ordinary shares were issued and options exercised pursuant to the Company's share schemes were satisfied by the transfer of shares from treasury (276,614 shares). No shares were transferred out of the EBT during the year and no shares have been allotted under the Company's share option schemes since the end of the financial year to the date of this report.

The share price at 31 December 2020 was 39.21p. The highest share price in the year was 176.55p and the lowest was 19.84p.

The Company renewed its authority to repurchase up to 10% of its own issued share capital at the AGM in June 2020. During the year, the Company did not purchase any shares (2019: nil).

Viability statement

This statement is detailed in full on page 58. The directors have assessed the viability of the Group over the three-year period to 31 December 2023, taking into account the Group's current position and the potential impact of the principal risks set out in the strategic report.

Based on this assessment, the directors have a reasonable expectation that the Group is and will continue to be viable.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report on pages 1 to 58. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 125 to 128. In addition, section 4 in the financial statements on pages 166 to 179 includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

In determining the appropriate basis of preparation of the financial statements for the year ending 31 December 2020, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of approval of the financial statements.

The Board monitors closely the Group's funding position throughout the year, including monitoring compliance with covenants and available facilities to ensure it has sufficient headroom to fund operations. In addition, to support the going concern assumption and viability statement, the Board conducts a robust assessment of the projections, considering also the committed facilities available to the Group. The Board has considered risks to the projections under a severe but plausible downside. This includes adverse impacts arising from the execution risk associated with the transformation plan and the unprecedented economic uncertainties introduced by Covid-19.

To mitigate these the Board is focused on introducing significant new funds to the Group via a continuation of the approved disposal programme and refinancing of the debt maturities. The Group is already engaged in discussions with its RCF lenders regarding an extension to the existing facility which matures in August 2022, targeting completion of the refinancing agenda during 2021, which it expects will include an RCF with a maturity at least a year later. Any refinancing and future disposals will require third party agreements and approvals which represent events that are outside the direct control of the Company. Accordingly, at the time of signing these financial statements there remain material uncertainties, as defined in auditing and accounting standards, related to events or conditions that may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern.

The Group has a strong track record of executing major planned disposals and a successful history of securing effective refinancing. Therefore, after careful consideration and reflecting also the Board's confidence in the transformation plan, the Board has concluded that the Group and Parent Company will continue to have adequate financial resources to realise their assets and discharge their liabilities as they fall due over the going concern period to 31 August 2022.

Accordingly, the directors have formed the judgement that it is appropriate to prepare the consolidated financial statements on the going concern basis. The Board's assessment is set out in more detail in Section 1 of the consolidated financial statements.

Auditor review

The auditor has reviewed:

- the statements regarding going concern (see page 71)
- the longer-term viability statement (see page 58)
- those parts of the statement of compliance with the Code relating to:
 - directors' and auditor's responsibilities
 - the 'fair, balanced and understandable' statement
 - confirmation of robust risk assessment, and monitoring and review of effectiveness of risk management and internal control systems
 - Audit and Risk Committee composition, role and responsibilities.

Further details are in the auditor's report (on pages 110 to 123).

Disabled persons

As part of the Group's commitment to create a workplace that reflects the diversity of the communities we serve, and a working environment in which no one feels excluded, full consideration is given to all suitable applications for employment regardless of a candidate's disability, age, gender reassignment, religion or belief, sexual orientation or race. Colleagues who declare a disability are supported with reasonable adjustments made either to the workplace or job content so no opportunity, including career development, is inaccessible. Opportunities also exist for employees of the Group who become disabled to continue in their employment with any reasonable adjustments being made or to be retrained for other positions in the Group. Demonstrating our commitment to ensure that disabled people and those with long-term health conditions have the opportunity to fulfil their potential and realise their aspirations, the Group achieved Level 1 of the UK's Disability Confident Scheme in November 2020.

Employee development and engagement

Actions taken during the year regarding the consultation of and provision of information to UK employees are described in the people section on pages 40 to 43. Communication with employees in relation to Capita's financial performance is detailed in the remuneration report on page 93.

Capita has an established UK employee share purchase plan designed to promote employee share ownership and to give employees the opportunity to participate in the future success of the Company. An international share incentive plan is available to employees in Ireland and Poland.

Further information on employee development, consultation and engagement is included in the people and responsible business sections on pages 40 to 49 and the section 172 statement on page 38.

Political donations

The Group did not make any political donations or incur any political expenditure during the year (2020: £nil).

Greenhouse gas emissions

Details of the Group's greenhouse gas (GHG) emissions, including metrics and methodology, are set out in the table opposite and on page 48 of the strategic report.

GHG emissions (tCO₂e) and energy use (kWh) for period 1 January 2020 to 31 December 2020

Period	Current reporting year 2020			Comparison reporting year 2019		
	UK and offshore	Global (excluding UK and offshore)	Total	UK and offshore	Global (excluding UK and offshore)	Total
Energy used to calculate emissions (kWh)						
Gas and fuel	60,306,017	1,999,392	62,305,409	62,741,740	19,142,37	64,655,977
Electricity and district heat	80,612,848	14,583,265	95,196,112	99,486,487	22,475,597	121,962,084
Business travel, cars	23,507,913	3,351,543	26,859,456	51,485,275	11,622,565	63,107,840
Total energy used (kWh)	164,426,778	19,934,200	184,360,978	213,713,501	36,012,399	249,725,900
% of total energy used	89%	11%	100%	86%	14%	100%
Emissions from combustion of gas and fuel for heating tCO ₂ e (Scope 1)	15,475	592	16,067	15,718	364	16,082
Emissions from combustion of fuel in company vehicles tCO ₂ e (Scope 1)	1,814	86	1,900	2,306	116	2,422
Emissions from fugitive refrigerant gas tCO ₂ e (Scope 1)	1,011	0	1,011	456	0	456
Emissions from purchased district heat tCO ₂ e (Scope 2)	45	137	181	45	239	284
Emissions from purchased electricity (location-based) tCO ₂ e (Scope 2)	18,939	9,239	28,178	25,318	16,293	41,611
Emissions from purchased electricity (market-based) tCO ₂ e (Scope 2)	12,513	11,013	23,526	9,291	18,360	27,651
Emissions from travel; business mileage, air, rail, tube, tram and light rail, taxi, bus, coach, ferry tCO ₂ e (Scope 3)	6,771	1,052	7,823	26,513	4,230	30,743
Total gross tCO ₂ e Scope 1 & 2 (location-based)	37,283	10,055	47,338	43,843	17,012	60,855
Total gross tCO ₂ e emissions (location-based)	44,055	11,107	55,161	70,356	21,242	91,598
Total gross tCO ₂ e emissions (market-based)	37,584	12,744	50,328	9,291	18,360	27,651
Intensity ratio: gross scope 1 and 2 tCO ₂ e (location-based) per £1M turnover	12.4	32.0	14.2	13.1	53.1	16.5
Intensity ratio: tCO ₂ e gross scope 1 and 2 (location-based) per headcount	1.01	0.54	0.85	1.07	0.85	1.00
Methodology: Carbon emissions have been calculated following the GHG protocol using the operational control approach. Estimated energy figures have been used for buildings where direct meter data is not available, using Cibse guide F benchmarks (or previous years' consumption outside the UK if available). Any fuel figures provided in litres have been converted into kWh or tCO ₂ e using Gov.UK and Defra conversion tables. Mileage provided has been converted into tCO ₂ e using Defra conversions for the relevant engine size and fuel type. kWh figures for air, rail, taxi and other public transport have been omitted as not practical to convert from passenger km or passenger fares but CO ₂ e emissions have been calculated using Defra conversion factors.						
Scope 1, Scope 2 and Scope 3 business travel are verified to ISAE 3000 by Corporate Citizenship	ISAE 3000	ISAE 3000	ISAE 3000	ISAE 3000	ISAE 3000	ISAE 3000

Energy efficiency action

We invested in energy-efficiency measures across our estate and achieved significant emissions reductions in 2020.

Building plant upgrades and initiatives	TCO ₂ e reduction per annum
Replacement LED lighting saving	184
Replacement chillers and air conditioning units	481.6
Replacement of pumps, ventilation fans and controls with high efficiency units	195
Upgraded building management controls saving	19
Replacement heating plant	17
Sub metering of mechanical plant	853
Replacement Reverse Osmosis water treatment plant.	140
Total tCO ₂ e reduction	1890

Our virtual meetings initiative resulted in business travel CO₂ equivalent emissions reductions of 32% (2,460 TCO₂e) in Q1 2020 against Q1 2019, before the onset of Covid restrictions which largely contributed to a 77% drop in travel emissions for the full year against 2019. We have set science based targets for greenhouse gas reduction in line with 1.5C ambition with a target date of 2030, certified by Science Based Targets initiative and will continue to drive emissions reductions through to 2030 and beyond.

The Group monitors the risk of a liquidity shortage through its business plan and liquidity cycle forecasts and analysis

Financial instruments

The main financial risks the Group is exposed to are: insufficient liquidity; significant increases in interest rates; adverse movements in foreign exchange rates; and the insolvency of debtors (credit risk). The management of each, and the related financial instruments, are described below.

Liquidity remains a key area of focus. The Group's policy is to hold cash and undrawn committed facilities at a level sufficient to fund the Group's operations and its medium-term plans. The Group monitors the risk of a liquidity shortage through its business plan and liquidity cycle forecasts and analysis. The process considers the maturity of both the Group's financial instruments and the forecast cash flows from operations. The Group maintains a balance between continuity of funding and flexibility through the use or availability of multiple sources of funding. To mitigate the risk of needing to refinance in challenging conditions, these have been arranged with a spread of maturities to November 2027.

The financial instruments providing core funding include US private placement loan notes, euro fixed-rate bearer notes, and a euro Schuldschein loan (private placement loan notes).

The Group's committed bank facilities provide liquidity for the cash fluctuations of the business cycle and an allowance for contingencies. The RCF expires on 31 August 2022 and is extendable for a further year to 31 August 2023 with the consent of the lenders by 31 August 2021. The facility size was increased from £414m to £452m in February 2020 with the addition of a further bank to the facility.

Also, in February 2020, the Group executed a £150m committed bank backstop bridge facility. This reduced to £93.5m on 30 June 2020 with the disposal of the Eclipse business. It was then supplemented by a second committed bank backstop bridge facility, so that the total value returned to £150m. Both bridge facilities terminated on 1 February 2021 with the receipt of proceeds from the disposal of the ESS business.

All committed facilities were undrawn at 31 December 2020 (combined total £602m), and also at 31 December 2019 (£414m). No reliance is placed on sources of funding that are not contractually committed. The bank facilities and private placement loan notes all include provisions that would require repayment in the event of a change of control, which are typical of these arrangements.

Finally, certain property and assets used in the Group's operations are funded by lease arrangements. From time to time, the Group may act as lessor to third parties.

Various other financial instruments, such as trade debtors and trade creditors, arise directly from the Group's operations. In respect of trade creditors, the Group's standard supplier payment terms are to pay micro-businesses (less than 50 employees) within 14 days, SMEs (less than 250 employees) within 30 days, and larger organisations within 60 days. Suppliers are paid in line with agreed contractual terms.

The Group's customers are offered credit terms that are consistent with market practice. As part of the Group's mitigation of the impact of Covid-19, a non-recourse invoice discounting facility was put in place. The value of invoices sold under the arrangement at 31 December 2020 was £13.6m (2019: £nil). In addition, the Group's German business has established an invoice discounting arrangement relating to a customer contract, and the value of invoices sold under that arrangement at 31 December was £8.5m (2019: £nil). The Group aims to pay its suppliers on time in accordance with agreed terms and does not seek to accelerate payments from customers beyond terms previously agreed.

As set out in note 6.2 (contingent liabilities), the Group has provided, through the normal course of its business, £55.8m letters of credit, performance bonds and guarantees – £22.3m of these were issued by our banks and, within this group, some are subject to security terms where the bank can demand cash collateral in the event the guarantee facility is cancelled.

Exposure movements in interest rates and foreign exchange rates arise through the Group's operations and where financial instruments are transacted at floating rates of interest or in non-operational currencies. These exposures are managed through derivative transactions, primarily interest rate swaps, cross-currency interest rate swaps and forward foreign exchange contracts. A proportion of exposures to EUR is mitigated through borrowings in that currency.

The Group is not generally exposed to significant foreign currency transaction risk. The principal exceptions relate to service delivery based in India, and committed costs relating to the purchase of cloud software services in USD. These exposures are managed through forward foreign exchange contracts, including non-deliverable forward contracts, which fix the GBP cost of highly probable forecast transactions denominated in INR and USD. Further details of the Group's financial instruments can be found in note 4.2 to the consolidated financial statements on pages 168 to 170.

In respect of credit risk, the Group trades only with parties that are expected to be creditworthy. It is the Group's policy that all clients who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debt is not significant.

Credit risk also arises from financial assets such as cash, deposits, and the mark-to-market value of derivative instruments where positive. The risk of default is managed by avoiding any excessive exposure to any counterparty, and with reference to the public ratings of each.

Directors' indemnities

As permitted by its Articles of Association, the Company has indemnified each director in respect of certain liabilities and costs they might incur in the execution of their duties as a director. Qualifying third-party indemnity provisions (as defined in section 234 of the Companies Act 2006) were in force during the year and

continue to remain in force. The directors' indemnities will be available for inspection at the annual general meeting together with directors' service contracts.

Powers of directors

The business of the Company is managed by the directors who are subject to the provisions of the Companies Act 2006, the Articles of Association of the Company and any directions given by special resolution, including the Company's power to repurchase its own shares.

The Company's Articles of Association may only be amended by a special resolution of the Company's shareholders.

Change of control

All the Company's share schemes contain provisions in relation to a change of control. Outstanding options and awards would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

Capita has borrowing facilities provided by banks and has issued loan notes to financial investors. The borrowing facilities contain change of control provisions under which the banks may require immediate repayment in full on a change of control of Capita plc. The loan notes issued by Capita contain similar change of control provisions which are likely to require the Group to offer to prepay the notes in full if there is a change in control of Capita plc.

There are a number of significant client agreements which contain provisions relating to change of control, which in some cases could present a right of termination of the contract.

Rights and restrictions attaching to shares

Under the Company's Articles of Association (Articles), holders of ordinary shares are entitled to participate in the receipt of dividends pro rata to their holding. The Board may propose and pay an interim dividend and recommend a final dividend in respect of any accounting period out of the profits available for distribution under English law. A final dividend may be declared by the shareholders in general meeting by ordinary resolution, but no dividend may be declared in excess of the amount recommended by the Board.

At any general meeting, a resolution put to vote shall be decided on a poll, and every member who is present in person or by proxy shall have one vote for every share of which they are the holder.

No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

Restrictions on transfer of shares

The Company's Articles allow directors to, in their absolute discretion, refuse to register the transfer of a share in certificated form unless the instrument of transfer is lodged, duly stamped, at the registered office of the Company, or at such other place as the directors may appoint and (except in the case of a transfer by a recognised person where a certificate has not been issued in respect of the share) is accompanied by the certificate for the share to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer. They may also refuse to register any such transfer where it is in favour of more than four transferees or in respect of more than one class of shares.

The directors may refuse to register a transfer of a share in uncertificated form in any case where the Company is entitled to refuse (or is exempted from the requirement) under the Uncertificated Securities Regulations to register the transfer.

Annual general meeting

The 2021 AGM of the Company will be held at Linklaters LLP, One Silk Street, London EC2Y 8HQ on 11 May 2021. Details of the meeting format and the resolutions to be proposed are set out in the Notice of Meeting, which is sent to shareholders with the 2020 Annual Report and includes notes explaining the business to be transacted. The Notice of Meeting is also available on the Company's website at www.capita.com.

In June 2020, shareholders granted authority for the Company to purchase up to 166,888,334 ordinary shares. This authority will expire at the conclusion of the 2021 AGM. No shares were purchased during 2020. A resolution to renew this authority will be put to shareholders at the 2021 AGM.

The directors consider that each of the resolutions is in the best interests of the Company and the shareholders as a whole, and recommend that shareholders vote in favour of all of the resolutions.

For other general meetings the notice given would be 14 clear working days.

Cross-references

For the purposes of LR 9.8.4R, the following information is located as set out below:

Listing Rule	Subject	Page no.
9.8.4 (1)	Capitalisation of interest	174
9.8.4 (12–13)	Shareholder waiver of dividends	70

Directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union, and have elected to prepare the parent company 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 Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company 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, for the Group financial statements, whether they have been prepared in accordance with IFRSs as adopted by the EU.
- State, for the parent company financial statements, whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements.
- Assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.
- Use the going concern basis of accounting unless they intend either to liquidate the Group or the parent 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 parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

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.

Directors' responsibility statement

We, the directors of the Company, confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- The strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- The Annual Report and Accounts, taken as whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The directors' report (pages 1-108) has been approved by the Board.

On behalf of the Board.

Francesca Todd

Group Company Secretary

16 March 2021

Capita plc

Registered in England and Wales No. 2081330

Committees

Terms of reference

The terms of reference for the Nomination, Remuneration, Audit and Risk, and Disclosure committees were reviewed during the year and updated, where required, to reflect updates in good governance practices. They are summarised below and the Nomination, Remuneration and Audit and Risk committee terms of reference are displayed in full in the investor centre at www.capita.com/investors/corporate-governance, together with a summary of matters reserved for the Board.

Terms of reference	Brief description of responsibilities
Nomination Committee	<ul style="list-style-type: none"> Reviews composition of the Board. Recommends appointment of new directors. Considers succession plans for Board and senior management positions. Oversees development of diverse pipeline for succession.
Audit and Risk Committee	<ul style="list-style-type: none"> Reviews accounting policies and contents of financial reports. Monitors internal control environment. Considers adequacy, effectiveness and scope of external and internal audit programme. Oversees relationship with external auditor. Monitors risk profile and obtains assurance that principal risks have been properly identified and appropriately managed.
Remuneration Committee	<ul style="list-style-type: none"> Sets policy for Board and senior management remuneration. Approves individual remuneration awards. Agrees changes to senior executive incentive plans.
Disclosure Committee	<ul style="list-style-type: none"> Responsible for the appropriate identification and management of inside information, including any decision to delay public disclosure.

Membership

Membership of the Company's standing committees at the end of the year is shown below:

	Nomination	Audit and Risk	Remuneration
Sir Ian Powell	C		
Gillian Sheldon	X	X	X
Matthew Lester	X	C	X
Georgina Harvey	X	X	C
John Cresswell	X	X	X
Andrew Williams	X	X	X
Baroness Lucy Neville-Rolfe	X	X	X
Lyndsay Browne			X
Joseph Murphy		X	

(C) Chair

Frequency of meetings and attendance

During 2020, the Nomination Committee met three times, the Remuneration Committee met five times and the Audit and Risk Committee met six times. Some directors were unable to attend certain committee meetings due to prior commitments. Attendance of directors at committee meetings is shown in the table on page 66.

Balancing the composition of the Board



“The committee has focused on achieving an appropriate balance and continuity of skills on the Board.”

Sir Ian Powell
Chair
Nomination Committee

The committee met three times in 2020 and the members' attendance record is shown on page 66. The Group Company Secretary acts as Secretary to the committee and is available to assist committee members as required, also ensuring the distribution of timely and accurate information. The committee reports and makes recommendations to the Board in relation to its activities. It is authorised under its terms of reference to obtain the advice of independent search consultants. The committee's terms of reference were reviewed and updated during the year and can be found on Capita's website at www.capita.com/investors/corporate-governance.

Diversity and inclusion

Capita's diversity and inclusion policy, which includes the Board, is based on a commitment to creating an environment where diversity is valued and respected. We believe that business success is a direct result of the experience and quality of its people. Inherent within this approach is an acceptance and embracing of diversity in all its forms and an endorsement that the entire workforce, including the Board, be representative of the communities in which Capita operates. Key aims of the policy are to ensure equality, diversity and inclusion in the workplace and to promote a culture where everyone is treated with respect and dignity.

As with many organisations, the events surrounding the killing of George Floyd in the United States made a profound impact on Capita, and the Board will ensure that the momentum for change in this organisation is maintained. A programme of work relating to the issues raised by the Black Lives Matter movement was initiated during the year and is continuing. The following measures have been put in place: (i) training on inclusive hiring; (ii) zero tolerance for racist behaviour; and (iii) mentoring and reverse-mentoring schemes. The continued focus on the culture of the organisation and its promotion of diversity and inclusion will be a core element of Capita's ongoing transformation.

The coronavirus pandemic impacted both inclusion and wellbeing as the rapid move to remote working for most of Capita's workforce led to a step change in working culture and the need to be both resilient and flexible. Further information on actions taken to address diversity, inclusion and wellbeing across the workforce is on pages 40 to 49 of the strategic report.

Gender and ethnicity balance

Government-backed diversity reviews have recommended aspirational FTSE350 board diversity targets on gender (33% female representation by the end of 2020) and ethnicity (at least one director of colour by the end of 2024). We have made progress as regards the Board but there is still much to do at Board level and throughout the organisation. At 31 December 2020, female representation on the Board and Executive Committee was 36% and 29% respectively. At 31 December 2020, female representation among senior management¹ and direct reports was 33%.

Appointment process

Board appointments are made on merit, taking account of the specific skills, experience, knowledge and independence needed to ensure a rounded board, and the government-backed recommendation for 33% female representation on boards. We ensure 40% female representation on recruitment shortlists and, where appropriate, seek to include

Responsibilities and activities

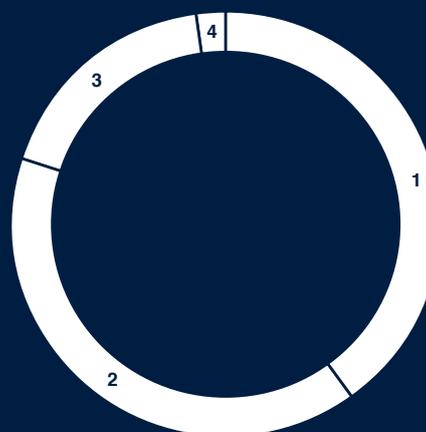
Key responsibilities

- Identify and nominate appropriate candidates for appointment to the Board, having due regard to the provisions of the 2018 Code and, in particular, the balance of skills, knowledge and experience on the Board and the diversity of its composition.
- Keep the structure and size of the Board and the leadership needs of the organisation under review and ensure that plans are in place for orderly succession and appointment to the Board.
- Review the time commitment required from non-executive directors, the performance of directors and all declarations of interest made by Board members.
- Consider, evaluate and drive Capita's diversity policies.

Activity in 2020

- Succession planning for the Board generally and for other senior positions below Board level.
- Recruitment and appointment of an interim CFO and a new non-executive director and SID designate.
- Consideration of directors' performance, length of service, interests and potential conflicts to ensure independence of non-executive directors and that all directors could stand for re-election or election at the AGM.
- Discussed and approved the renewal of Matthew Lester's appointment as Audit and Risk Committee chair for a further three years and the extension by 12 months of Joseph Murphy's two-year term as employee non-executive director.

Nomination Committee time allocation (%)



- 1 40% Board appointments
- 2 40% Succession planning
- 3 18% Performance, conflicts and diversity
- 4 2% Governance

candidates who may not have listed company experience but who possess suitable skills and qualities. We only engage executive search firms that have signed up to the voluntary code of conduct on gender diversity and best practice.

Skills and experience

The skills and experience represented across the Board (not including employee directors) are summarised below:

Finance	👤👤👤👤	Consumer	👤👤
Transformation	👤👤👤👤👤👤	Government	👤
Media	👤👤	Technology / IT	👤👤👤

Succession planning and Board composition

A formal succession framework is in place for the CEO, CFO, Executive Committee and the two management layers beneath. The purpose of the framework is to apply a fair, objective and consistent methodology to identify future potential career paths for individuals within the Group. Structured development plans are implemented to support individuals improve their skills and experience. The depth of the framework means talent can be identified and nurtured at an early stage and, combined with the approach to Board appointments, means the pool of possible future candidates for Board roles is sufficiently wide and diverse.

The committee has focused on achieving an appropriate balance and continuity of skills on the Board. Patrick Butcher's resignation on 16 November 2020 meant that a person with significant finance and transformation experience was needed to cover Patrick's role on an interim basis, while a permanent replacement is recruited. We considered the skillset required for the role and concluded there was no one internal with those skills at that level and, given the length of time needed to recruit a permanent replacement, we appointed Gordon Boyd as interim CFO

with effect from the date of Patrick Butcher's resignation so there would be a seamless transition. Patrick remains employed by Capita until the end of March 2021 to support Gordon and provide an orderly handover.

Gillian Sheldon had planned to retire from the Board at the end of February 2021 so, during 2020, the search for a new Senior Independent Director (SID) was undertaken, culminating in the appointment of David Lowden as Non-Executive Director on 1 January 2021 and SID on 1 March 2021.

Due to the significant time commitment required of him in his role as CEO of Halma plc, Andrew Williams has decided not to seek re-election at the AGM and, following six years of valuable insight and contribution, Andrew will step down from the Board on 11 May 2021.

The committee was keen to improve the Board's overall technology skills and wider experience of the IT industry, and the appointment of Neelam Dhawan, who has significant experience of business and technology transformation, will benefit Capita's ongoing transformation. Neelam's appointment is also reflective of our large community of Capita employees in the Indian global delivery centre.

The external search agencies, Odgers Berndtson, Lygon Group and Spencer Stuart were used respectively for the appointments of Gordon, David and Neelam, and those firms have no other connection with the Group or individual directors.

Board evaluation

Details of the annual board evaluation process are provided in my introduction to this corporate governance section of the Annual Report on page 61.

1. The 2018 Code defines senior management as the Executive Committee and the Group Company Secretary.

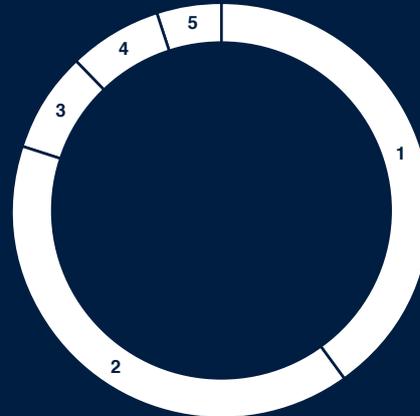
Managing the impact of Covid-19



“The primary focus of the committee during 2020 was on Covid-19 and, in particular, on management’s response to the pandemic and its impact on Capita’s principal risks.”

Matthew Lester
Chair
Audit and Risk Committee

Audit and Risk Committee time allocation (%)



- 1 40% Financial reporting (incl. external audit)
- 2 40% Risk management
- 3 8% Internal audit
- 4 7% Private meetings with auditors
- 5 5% Governance

The committee continues to fulfil its role of supporting the Board in its review of the integrity of the Group’s financial reporting, monitoring the effectiveness of the Group’s systems of risk management and internal controls, and overseeing the activities of the Group’s internal audit function and its external auditor.

Risk and control framework

The primary focus of the committee during 2020 was on Covid-19 and, in particular, on management’s response to the pandemic and its impact on Capita’s principal risks. This included overseeing the measures taken by management; changes to the control environment and risk profile; how the risks were managed in the changing environment; and the long-term potential impact on our principal risks. As the pandemic “stabilised”, management provided an assessment of the control environment and identified improvement opportunities in cyber and IT resilience. An assessment was also undertaken of the longer-term impact of the pandemic on Capita’s principal risks, as a result of which the ratings of three principal risks were changed as outlined in the internal control and risk management section on pages 50 to 53. Given the challenges arising from the pandemic, limited progress was made to enhance the Group’s risk management and internal control framework.

Progress was made on standardising some existing financial processes to drive efficiency and control improvements and further enhancements are planned for 2021. A key control questionnaire process was completed across the Group where every business leader attested to compliance with key controls. This will enable management to focus attention on control areas that need improvement. Work is ongoing to implement elements of the risk and control framework.

Further detail on the risk management and internal control environment is set out later in this report on page 87.

Role and responsibilities

The committee is responsible for carrying out the audit functions as required by DTR 7.1.3R and assists the Board in fulfilling its oversight responsibilities in respect of the Company and the Group. The committee's key responsibilities are:

Financial reporting

To review the reporting of financial and other information to the shareholders of the Company and monitor the integrity of the financial statements, including the application of key judgements in determining reported outcomes to ensure that they are fair, balanced and understandable.

Risk management, internal control and compliance

To review and assess the adequacy of the systems of internal control and risk management, and monitor the risk profile of the business.

Internal audit

To approve the annual internal audit plan, review the effectiveness of the internal audit function and review all significant recommendations, and ensure they are addressed in a timely manner.

External audit

To review the effectiveness and objectivity of the external audit process, assess the independence of the external auditor and ensure appropriate policies and procedures are in place to protect such independence.

Effectiveness

To report to the Board on how it has discharged its responsibilities.



The Audit and Risk Committee's terms of reference set out in full the role, responsibilities and authority of the committee and can be found on the Company's website at www.capita.com/investors/corporate-governance.

These were reviewed and updated during the year.

Transformation journey

As set out in Sir Ian's introduction to this Annual Report, certain elements of the multi-year transformation, which includes the finance transformation and development of the Group risk and control framework, were disrupted by the coronavirus pandemic. However, as set out above, and later in this report, the committee continued to assess the framework and its implementation regularly throughout 2020.

Committee membership and attendance

The committee comprises all the independent non-executive directors plus one of the employee non-executive directors, Joseph Murphy. Although not considered independent under the UK Corporate Governance Code 2018 (Code), Joseph brings valuable insights from the employee perspective into committee discussions and the Board felt that it was important from an employee engagement perspective for him formally to be a member of the committee despite his lack of independence. I am considered to have recent and relevant financial experience for the purposes of the Code.

To encourage effective communication, in addition to the above members, the Board Chairman, CEO, CFO, Chief General Counsel and Director of Group Finance are invited to attend committee meetings along with certain members of the senior management team, the Group Risk & Internal Audit Director and representatives from KPMG, the Group's external auditor. Opportunity exists at the end of each committee meeting for the representatives of the internal and external audit teams to meet with the committee in the absence of management and both have access to the committee should they wish to voice any concerns outside formal meetings.

Committee performance was assessed as part of the internally facilitated Board evaluation (see page 61 for more information). The Board is satisfied that the combined knowledge and experience of its members is such that the committee discharges its responsibilities in an effective, informed and challenging manner and that, as a whole, the committee has competence relevant to the sector in which the Company operates. The Group Company Secretary, or their nominee, acts as Secretary to the committee and is available to assist the members of the committee as required, ensuring that timely and accurate information is distributed accordingly.

How the committee operates

The committee has an annual forward agenda to cover the key events in the financial reporting cycle, specific risk matters identified by the committee and standing items that the committee is required to consider in accordance with its terms of reference. The annual agenda is supported by agenda setting meetings held in advance of each committee meeting, led by me and attended by the CFO, members of the Group Finance team, the Chief General Counsel and the Director of Risk and Group Internal Audit. Their purpose is to identify key issues impacting the business that may require consideration by the committee.

Reports are received from Group functions, including risk and internal audit, as appropriate. New sales wins and their contract terms are reviewed from a risk and accounting perspective as appropriate. Additional reports are provided as may be required. I report to the Board the key matters of discussion and make any significant recommendations as necessary.

How the committee discharged its roles and responsibilities in 2020

The committee held six scheduled meetings during the year and attendance at each meeting is shown on page 66. Meetings are planned around the Company's financial calendar.

Impact of Covid-19

During 2020 a specific Covid-19 agenda item was introduced to committee meeting agendas. This focused on how the pandemic was affecting the Group's business and its ability to manage risk across key areas such as health and safety, compliance and internal controls.

Financial reporting

Accounting judgements and significant accounting matters

As part of the process of monitoring the integrity of the financial information presented in the half-year results and the Annual Report and Accounts, the committee reviewed the key accounting policies and judgements adopted by management to ensure that they were appropriate. The significant areas of judgement identified by the committee, in conjunction with management and the external auditor, together with a number of areas that the committee deemed significant in the context of the financial statements, are set out in the tables on pages 83 to 85.

As disclosed in the strategic report, Covid-19 affected the planned refinancing of the Group's debt. The committee has paid particular attention to the going concern policies and disclosures.

Fair, balanced and understandable

At the Board's request, the committee considered whether the half-year results and the Annual Report and Accounts were fair, balanced and understandable and whether the information provided was sufficient for a reader of the statements to understand the Group's position and performance, business model and strategy. The committee reviewed both the narrative and financial sections of the reports to ensure they were consistent and gave a balanced view of the performance of the business in the year and that appropriate weight was given to both positive and negative aspects. The committee also considered whether full-year and half-year results announcements were presented clearly.

The committee considered whether the Annual Report and Accounts enables readers to understand the Company's financial position and prospects, as well as assess its going concern status and longer-term viability.

Communications with the Financial Reporting Council

In November 2020, the Company received a letter from the Financial Reporting Council (FRC) following its thematic review of companies' disclosures following the first full year of adoption of IFRS 16 Leases. The FRC requested further information in relation to a property lease liability that was extinguished in January 2020 and disclosed as a post-balance sheet event in the 2019 Annual Report and Accounts.

Following provision of the information requested, the FRC closed its enquiry in December 2020. Further disclosure observations made by the FRC were given full consideration and additional disclosures were included in the 2020 Annual Report and Accounts where material or relevant to do so.

The FRC's review was based on the Annual Report and Accounts and did not benefit from detailed knowledge of the business or an understanding of the underlying transactions entered into. It was, however, conducted by FRC staff with an understanding of the relevant legal and accounting framework. The review carried out by the FRC provides no assurance that the Annual Report and Accounts were correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements.

Significant issues in relation to the financial statements considered by the Audit and Risk Committee

Going concern and viability assessment

Matter considered

Consideration of the going concern assumption and viability of the Group and Parent Company is the responsibility of the Board. The committee conducted an assessment as part of its support role, given the inherent judgements required to assist the Board evaluate the resilience of the Group. This was a critical area of focus for the committee given the ongoing transformation plan and the unparalleled economic uncertainties introduced in 2020 by the global pandemic.

Action

The committee considered the projections within the business plan, agreed by the Board in February 2021, and the key assumptions underpinning the future cash flow and profit forecasts. The committee received reports from executive management and KPMG concerning the going concern and viability assessments, including the key risks identified. These included details on the key assumptions, the forecasting process including historical forecasting accuracy, the committed facilities available, and the mitigations within direct control of the Group. The committee also considered the risks identified and appraised the severity and plausibility of these in setting the downside scenario (see section 1 to the consolidated financial statements for details). The committee reflected on the mitigations available and under the Group's control, including reductions to variable pay and severely limiting discretionary spend. An important consideration for the committee was the impact these could have on the timely completion of the transformation plan.

As alternatives to these operational mitigations, and to support the medium-term resilience of the Group, the Board had assessed the disposal programme and refinancing agenda. The committee concurred with the Board that the refinancing and disposal mitigations were preferable to the operational mitigations. The committee judged the likelihood of these mitigation actions succeeding by considering the Group's successful track record of executing disposals in recent years and the Group's history of securing effective refinancing. The committee concurred with the Board's assessment and confidence of the Group's ability to complete the planned disposals and refinancing agenda. The committee considered these mitigations as applicable both for the going concern period to 31 August 2022 and the viability period to 31 December 2023.

The committee recognised that any refinancing and future disposals would require third party agreements and approvals. As these events are outside the direct control of the Company, they may give rise to material uncertainties as defined in auditing and accounting standards. The committee reviewed the disclosures presented in section 1 of the consolidated financial statements together with the viability statement on page 58 to ensure there was sufficient detail provided to explain the basis of preparation and the Board's conclusion.

Outcome

The committee is satisfied that the analysis presented by executive management and KPMG provides enough detail to allow a robust assessment of relevant risks and mitigations to be undertaken. This supported full discussion of the severe but plausible downsides and allowed the committee to recommend to the Board that the going concern assumption be applied and the viability statement be approved.

The committee is satisfied that section 1 to the consolidated financial statements and the viability statement on page 58 include proportionate disclosures to inform users of the assessments undertaken by the Board.

Revenue and profit recognition

Matter considered

There is significant risk on long-term contracts related to revenue recognised from variations or scope changes, where significant judgement is required to be exercised by management. There is a risk that revenue may be recognised even though it is not probable that consideration will be collected, which could be due to uncertainties over contractual terms and ongoing negotiations with clients.

Judgement is also required when customers request scope changes to determine if there is a contract modification or a contract termination followed by a new contract. Contract terminations can lead to the immediate recognition of any deferred income being held for recognition in future periods.

Action

The committee received regular updates on all major contracts during the year and specifically reviewed the material judgements as part of the half-year and year-end close process. The committee has also considered the recognition of onerous provisions, where appropriate, and the lifetime profitability of contracts.

To aid the reader, the company has included a detailed explanation of the Group's accounting for long-term contracts (see note 2.1 to the consolidated financial statements).

Outcome

The revenue recognition policy includes disclosure of the significant judgements and estimates in relation to its application and the committee is satisfied that these have been properly disclosed. The committee is satisfied that the disclosures given within the accounts are sufficient to gain a proper understanding of the methodology of accounting for revenue across the Group, including the recognition of deferred income at the balance sheet date. The committee reviewed the disclosure and concluded that these provide information that is helpful to allow a fuller understanding of the application of IFRS 15 to the Group's contracts.

Contract fulfilment assets

Matter considered

The adoption of IFRS 15 led to the recognition of contract fulfilment assets (CFAs). Judgements are involved in assessing whether the costs incurred on a contract, or an anticipated contract meet the capitalisation criteria as set out under the standard.

In addition, the amortisation of these assets involves estimation of the expected life of the contract, and when a contract is in the early years post-inception and undergoing major transformation activities, the CFAs are at heightened risk of impairment.

Action

The committee has considered and challenged the significant judgements and estimates involved in determining the carrying value of CFAs.

As part of the review of all major contracts, the committee has also considered the recoverability of CFAs. During the year, the committee discussed certain CFAs where their recoverability was in doubt.

Outcome

The committee is satisfied that appropriate judgements and estimates have been made in determining the carrying value of CFAs and the extent of impairment of CFAs recognised in these statements is appropriate. The committee is satisfied that the accounting policy note provides sufficient clarity as to the policy adopted and that the disclosures provide information to allow a reader to understand the risks associated with different stages of a typical long-term Capita contract.

Impairment of intangible assets, goodwill and parent company's investment in subsidiaries

Matter considered

The Group carries significant asset balances in respect of goodwill and intangible assets related to its acquisition activity. In addition, the parent company carries a material balance of investment in subsidiaries on its financial statements. The impairment assessment requires the application of judgement concerning future prospects and forecasts.

Action

The committee has reviewed the robustness of the impairment model and challenged the appropriateness of assumptions used to calculate and determine the existence of impairment.

Outcome

The committee is satisfied that no impairment of goodwill and intangibles was recognised in these statements which is in line with expectations given the assessment was based on board-approved future projections.

The committee is also satisfied that the assumptions, methodology and disclosure in notes 3.3 and 3.4 to the consolidated financial statements are sufficient to give the reader an understanding of the action taken and the sensitivities within the goodwill and intangible assets balance to any further impairment risk.

The committee also considered the level of detail included in the sensitivity analysis to ensure that this reflected the current stage of the transformation and associated execution risks.

The committee also considered that any impairment of investment in subsidiaries at the parent company level were appropriate and properly accounted for.

Items excluded from adjusted results

Matter considered

As stated in its accounting policies, Capita separates its results between adjusted and reported to provide useful disclosure to aid the understanding of the performance of the Group. The committee needs to ensure a fair and balanced treatment of what is and is not included as an adjusting item.

Action

The committee reviewed the individual items excluded from adjusted results. The committee has requested further information concerning the origination of the items where it felt it was necessary to enable a conclusion to be drawn as to whether the chosen presentation achieved the stated principle.

The committee considered the accounting policy by reference to guidance issued by the FRC and the need to ensure any alternative performance measures are presented with equal prominence to reported figures and on a consistent basis year-on-year.

The committee considered the appropriate presentation to apply for costs associated with the transformation plan which are presented as an 'adjustment' to the reported results. The plan is extensive and covers several Capita-wide initiatives to address the cost competitiveness of the businesses and to simplify and strengthen the Group.

Categories of expenditure include costs typically associated with major restructuring such as severance payments, but also include costs related to the offshoring of activities and the introduction of automation and digital solutions, a Group-wide property rationalisation and functional transformation projects. To support these activities, external professional fees are being incurred in addition to dedicated internal costs. Where such costs are incremental and directly related to the transformation plan, the committee has concluded that such costs should be included in the overall transformation costs that are separately presented.

In agreeing this presentation, the committee was mindful of the guidance issued by the FRC in November 2017 in terms of multi-year major 'restructuring' programmes. This directs boards to define the costs to be presented separately, set borders to capture only relevant costs, and emphasises that disclosures to explain the costs must be transparent and of high quality.

The committee considers that this guidance has been applied and note 2.4 to the consolidated financial statements provides details of the costs incurred in 2020. The committee will continue to review this policy in 2021 and beyond, as the transformation programme continues.

Outcome

The committee concurs with management's view that the presentation of items excluded from adjusted results provides useful disclosure to aid the understanding of the performance of the Group and agrees that the items excluded meet with the stated policy for recognition.

Note 2.4 to the consolidated financial statements sets out the items that are separately presented, and the committee is satisfied that this provides sufficient information to inform a reader on each category presented. The committee also notes that the approach is consistent with that used for the rights issue in 2018.

The committee continues to encourage management to provide transparency over items that impact the results, both reported and adjusted. The CFO's review within the strategic report provides details of each significant item and those that are considered one-off in nature. The committee is satisfied that this provides useful information to allow a reader to assess the performance for the year.

Provisions and contingent liabilities

Matter considered

There is judgement applied in the level of provisioning across the Group. This involves assessing the size, timing and probability of economic outflows due to the occurrence of a past event. It is therefore important to understand the judgement being made as well as the estimate of any accompanying outflow of funds.

Action

The committee has reviewed the disclosure in the financial statements and, in particular, has challenged management to justify provisioning levels where a range of outcomes has been identified.

The committee received regular updates from the Chief General Counsel on open claims and ongoing litigation. This was used to inform the committee on any provisions required for possible future outflows.

The committee reviewed the final outcome of matters and compared this to the provision recognised by management.

Outcome

The committee is satisfied with the fact patterns underlying the provisions, with both the treatment and levels of provision being properly justified.

The committee is satisfied that the historical level of accuracy in management's provisioning supports the current level of provisions.

The committee reviewed the disclosures associated with the provisions recorded and also the contingent liability note. It was satisfied that the disclosures provided proportionate details to inform a reader.

Pensions

Matter considered

The measurement of the defined benefit liability in respect of defined benefit pension schemes operated within the Group is a complex area, relying on assumptions on inflation, mortality, corporate bond yields, expectations of returns on assets and several other key inputs. There is a risk that any one of these could lead to misstatement of the Group's liability in respect of pension obligations and the pension charge or movement recognised in the income statement or statement of comprehensive income.

Action

The committee reviewed the disclosure as presented in the accounts. The committee also challenged the key assumptions and reviewed the sensitivity to changes in some of the key assumptions on a standalone basis as well as in the context of defined benefit schemes across other external benchmarks.

Outcome

The committee is satisfied that the estimation of the Group's pension liabilities and the narrative that accompanies them gives the required level of information for a reader of the accounts to determine the impact on the Group of its pension obligations.

Other issues considered in relation to the financial statements

Materiality

Materiality is important in determining the risk attached to any judgement. The committee considers the audit materiality set by the external auditor to ensure that the committee is informed of individual items above a certain threshold that are most likely to have an impact on the financial statements. The committee reviews the external auditor's report and the individual items that breach the materiality thresholds and assesses their relative impact on the reported statements. These are: statement of comprehensive income; balance sheet; statement of changes in equity and cash flow; as well as the notes to the accounts.

The committee requests further clarification from the external auditor, the CFO and Director of Group Finance as to the nature of these items and also their relative importance in the financial statements.

After having made such enquiries, the committee is satisfied that materiality has been applied correctly in the accounts and that material items brought to its attention remain unadjusted where its inclusion would not cause detriment to the overall reading of the financial statements.

Disclosure of information to the auditor

The directors who held office at the date of the approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information required for the audit and to establish that the Company's auditor is aware of that information.

Statutory auditor

The committee provides a forum for reporting by the Group's auditor (KPMG) and it advises the Board on the appointment, independence and objectivity of the auditor and on fees earned for both statutory audit and audit-related work. The committee discusses the nature, scope and timing of the statutory audit with the auditor and, in making a recommendation to the Board on auditor reappointment, performs an annual, independent assessment of the auditor's suitability and performance.

The external auditor attends meetings of the committee and provides updates on statutory reporting, audit-related services and fees, and ongoing audit items.

The auditor has the opportunity to raise concerns in private session with the committee and separately with the chair. Specifically, the committee asks the auditor if discussion of business performance in the strategic report is consistent with the auditor's overall impression of Capita. Any material discrepancies are discussed (refer to the independent auditor's report).

Auditor independence

The committee has a responsibility to put in place safeguards to auditor objectivity and independence and the key measures are:

- The CFO monitors the independence of the auditor as part of the Group's assessment of auditor effectiveness and reports to the committee accordingly.
- The CFO must approve all audit-related engagements – further details are set out in the section below on audit-related services. The committee reviews audit-related fees twice a year and considers the implications for auditor objectivity and independence.
- The auditor must confirm its independence to the committee every six months.

Ensuring conflicts of interest are avoided is a fundamental criterion in the selection of any third-party auditor. Such conflicts may arise across public and private sector clients, and in key supplier relationships. They are a key factor in the award process for an external audit assignment.

Audit-related services and fees

The company's policy on auditor independence describes the services that may be procured from the auditor, namely audit and audit-related services only. To avoid the perception of a conflict of interest, the provision of non-audit services is not permitted. Audit-related services include those required by laws and regulations, or where it is more practical for the external auditor to perform the service (eg reporting accountant role related to certain public company transactions). KPMG continues to perform the review of interim results which, although technically classified as a non-audit service, relates closely to the audit.

Under the policy, which is reviewed annually, executive management has discretion to engage the auditor for audit-related services but the nature of such assignments and associated fees must be reported regularly to the committee. All assignments require approval from the CFO. Where executive management has any concern that a proposed assignment might threaten the auditor's independence, this is discussed with the committee chair.

Total non-audit fees during the year were £1.4m, and related to the review of interim results, services as reporting accountant for the disposal of the Education Software Solutions business, and a refinancing which did not complete due to market appetite. Further details are provided in note 2.3.2 to the consolidated financial statements.

External auditor performance

The committee discussed regularly the performance of KPMG during the year and was satisfied that the level of communication and reporting was appropriate. These discussions included a review of the effectiveness and quality of the audit process, audit planning and a formal post-audit evaluation.

The formal evaluation comprises separate assessments by both management and the committee of the auditor's role, activity and performance including:

- calibre and risk profile of the audit firm
- audit governance, independence and objectivity
- audit scope and strategy
- audit team and relations with management and business
- audit communications and resolution of audit issues.

Financial Reporting Council: audit quality inspections

Each year, the Audit Quality Review team (AQR) of the FRC issues a report that sets out the principal findings arising from the audit quality inspections conducted in the previous calendar year across a sample of audits for all major audit firms. The AQR's objective is to monitor and promote improvements in the quality of auditing. The reports highlight improvements required to promote audit quality, and areas of good practice. The FRC publishes separate reports on the individual firms, including KPMG.

The committee received a presentation from the KPMG lead audit partner on the findings from the FRC Audit Quality Inspection Report for KPMG and the proposed improvement plans put forward by KPMG in response, including details of the Audit Quality Transformation Programme initiated by KPMG. The committee will closely monitor progress against these plans.

FRC's AQR of the Capita 2019 audit by KPMG

During the year, the 2019 audit of Capita plc by KPMG was reviewed by the AQR team. The FRC routinely monitors the quality of the audit work of certain UK audit firms through inspections of sample audits and related procedures at individual audit firms. Certain matters for limited improvement were identified relating to how KPMG evidenced its conclusions over the work performed in one specific area of the audit. The AQR also highlighted good practice observations in relation to KPMG's challenge over going concern and the approach adopted to auditing Capita's forecasts.

The committee and KPMG have discussed the review findings and the agreed actions and are satisfied with responses to be implemented by KPMG in the 2020 audit. Overall, the results of the review raised no issues which cast doubt on the fundamental quality of Capita's external audit and the committee remains satisfied with the efficiency and effectiveness of the external audit.

External auditor reappointment

Following a robust and rigorous audit tender process in 2018, the committee and Board recommended the reappointment of KPMG LLP as the Group's auditor and this was approved by shareholders at the 2019 AGM. KPMG was first appointed in 2010, initially as KPMG Audit plc.

The lead audit partner is rotated on a five-yearly basis. The current lead audit partner rotated onto the audit at the conclusion of the 2016 audit. There are no contractual obligations which restrict the committee's choice of auditor.

Under the requirements of the Statutory Audit Services Order and the EU Audit Directive and Audit Regulation, the provision of audit services should be retendered every 10 years. The complex nature of the Group requires that a knowledge base is built up year on year by the incumbent to ensure that the external audit is conducted with a proper understanding of the Group's operations and the nature of the risks that it faces. This is an important factor in ensuring audit quality. The Group has complied with the provisions of the Statutory Audit Services Order.

A resolution to reappoint KPMG as the external auditor of the Company will be put forward at the forthcoming annual general meeting. If approved, KPMG will hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company, and its remuneration will be fixed by the committee.

Review of risk management and internal control

Responsibility for reviewing the effectiveness of the Group's risk management and internal control systems is delegated to the committee by the Board. The principal risks and risk management processes are set out on pages 50 to 57.

Effectiveness and efficiency of risk management

During the year, the committee completed a robust assessment of the principal risks, including those that would threaten its business model, future performance, solvency or liquidity. The assessment included the impact of Covid-19 on the principal risks and identified emerging risks such as the impact of Brexit and the potential long-term impact of Covid-19 on our business and people. In Q4 the committee recognised that the health, safety and wellbeing of our people should be recognised as a principal risk. Work is ongoing to understand this risk in greater detail, including the mitigation strategies proposed by management.

The committee received reports on the following themes during the year:

- cyber and information security
- IT resilience
- attracting, developing and retaining our people
- anti-bribery and corruption
- financial services regulated businesses.

The enterprise risk management framework and the control environment is currently being enhanced but implementation of more advanced processes has yet to be embedded. Nevertheless, the committee concluded that risk management processes were materially adequate and there were no material weaknesses requiring specific disclosure. The committee reported the conclusions to the Board to support the annual confirmation that a robust assessment of the principal risks had been carried out.

Effectiveness and efficiency of financial controls

Detail on the status of internal financial controls is in the internal control and risk management section of this report and can be found on page 52. The committee concluded that, whilst these were not appropriately efficient for a Group of the scale and complexity of Capita, overall they could be relied upon to be materially effective.

Internal audit

The Group internal audit function has an administrative reporting line to the CFO and an independent reporting line to me as Chair of the committee. The function has in place a co-sourcing arrangement which adds expertise and breadth to the work of the in-house audit team. The function is led by the Director of Group Internal Audit who also took responsibility for the Group's unregulated risk function in March 2020. Regulated business risk remains the responsibility of the Chief General Counsel.

During 2020, due to the Covid-19 pandemic, the internal audit programme was revised to focus on key risk areas and part of the audit programme was deferred. The Group internal audit function also worked with the business on several control and assurance activities to support the response to Covid-19. The scope of audit work generally focuses on assessing the adequacy and effectiveness of controls, including management oversight and the degree of management risk awareness within the businesses that are subject to audit.

Throughout the year, the Group internal audit function provides written reports to the Group Audit and Risk Committee on the work carried out to date and the in-flight work to be completed. A verbal update accompanies each report submitted to the committee. An annual report is provided each year summarising the key matters arising. Representations set out strengths and weaknesses identified during the work, together with any recommendations for remedial action or further review.

The Group Internal Audit team reports themes aligned to the committee of Sponsoring Organisations of the Treadway Commission (COSO) internal control framework including: lack of defined policy and procedures over key processes; risks being managed through the experience of our people and existing knowledge; roles, responsibilities and accountabilities not always clear; and lack of evidence to demonstrate monitoring and reporting of control activity. In all cases management has responded with appropriate action to mitigate the associated risks, and divisional executive management has increased its visibility of significant issues. In addition, there has been focus by senior management to improve the control environment through the closure of previously overdue audit actions.

The committee reviews management's response to the matters raised and ensures that any action is commensurate with the level of risk identified, whether real or perceived.

Through regular interaction between the committee and the Director of Group Internal Audit, as well as reports received from the function, the committee can assess and satisfy itself that the Group's provision of internal audit is effective.

Anti-bribery and corruption

Capita has a Group-wide anti-bribery and corruption policy, which complies with the Bribery Act 2010. Procedures are reviewed periodically to ensure continued effective compliance in Group businesses around the world.

Speak Up

Capita's Speak Up policy provides a framework for any worker to raise serious concerns at work in a responsible and effective manner. To ensure that concerns are addressed in a manner independent of a worker's business area, concerns can be raised through a facility provided by an independent third-party provider. Where concerns are raised, they are escalated, following a triage process performed by that provider, to named contact points within Capita for further assessment and investigation. Oversight of these arrangements is a matter reserved to the Board and it receives updates on the operation of the policy.

Privacy

Privacy, which includes compliance with the Data Protection Act 2018 and General Data Protection Regulation, continues to be a focus area for the Group. While there can be an overlap with information security, we maintain separate information security and privacy teams to ensure that there is appropriate focus on each area.

We continued to embed a first-line and second-line approach to privacy compliance, with the business units remaining primarily responsible for day-to-day privacy-related activities and, led by a Data Protection Officer, a central privacy team providing appropriate support and challenge. These assurance activities included automating a privacy checklist as part of the contract review committee's processes to ensure that all relevant steps have been implemented at contract win or renewal stage and streamlining our approach to Data Protection Impact Assessments and Privacy by Design and Default to ensure privacy is considered at every stage of the solutions process. We have continued the communication of privacy policies, monitoring all data incidents to identify trends and to provide remediating actions, and provided appropriate privacy training and support to the data protection leads and other key colleagues embedded within the business units. The results and outputs of the privacy self-assessment questionnaire in 2019 were used to ensure that there is continuous improvement across the business. Responding to the challenges of the pandemic, emphasis has been placed on the privacy challenges of a new way of working from remote locations. Appropriate guidance and governance structures have been implemented to facilitate this.

Matthew Lester

Chair

Audit and Risk Committee
16 March 2021

Group executive risk committee

The Group executive risk committee (ERC) assesses risk across all Capita's unregulated businesses and reports to the Audit and Risk Committee. It normally holds scheduled meetings on a quarterly basis but, as a result of the developing Covid-19 situation, the scheduled March 2020 meeting was cancelled. However, meeting papers were circulated and matters requiring approval were approved by email and subsequently ratified at the following scheduled meeting. Membership comprises the CEO, CFO, Chief General Counsel, Group Commercial Director, Chief Growth Officer and the divisional executive officers. The Group Risk & Internal Audit Director has a standing invitation, and the non-executive directors have an open invitation, to attend all meetings. Meetings are chaired by either the CEO or CFO. The ERC's role is to oversee and challenge the key unregulated business risk and compliance activities and issues in Capita's unregulated businesses by:

- Reviewing the risk profile of the Group's entities, along with ensuring appropriate remedial actions are taken in line with Group objectives and risk appetites.
- Advising the Group Audit and Risk Committee on the management of risks.
- Reviewing and commenting on Group control function activity and oversight plans.
- Overseeing the effective operation of internal control systems.
- Tracking key regulatory changes impacting the Group's regulated businesses.
- Considering matters escalated to it by any divisional risk and assurance committee.
- Identifying items for the attention of the Board, Group Audit and Risk Committee or Group financial services risk committee (FSRC).

The scope of the committee covers all unregulated businesses in all jurisdictions in which the Group operates.

Group financial services risk committee

The FSRC complements the ERC by assessing risk across Capita's regulated businesses and also reports to the Audit and Risk Committee. The FSRC holds scheduled meetings on a quarterly basis. Membership comprises a new independent chair, appointed on 1 October 2020, an independent non-executive (who is also independent chair of the board of Capita Employee Benefits Limited), the CFO and the Chief General Counsel. Relevant senior management function post-holders, together with functional heads and other appropriate representatives from Group Internal Audit and Group Risk & Compliance, have a standing invitation to attend all meetings.

The FSRC's role is similar to that of the ERC but with a specific focus on regulated business risk and compliance activities and issues, particularly:

- Reviewing the risk profile of Capita's financial services and regulated businesses, along with ensuring appropriate remedial actions are taken in line with Group objectives and risk appetites.
- Advising the Audit and Risk Committee on the management of risks.
- Receiving reports on significant issues arising from regulatory monitoring and internal audit activity, and reporting on key communications with the FCA and developments in the relationship.
- Receiving updates on conduct issues and regulatory capital issues – eg internal capital adequacy assessment process (ICAAP).
- Overseeing the effective operation of internal control systems.
- Identifying items for the attention of the Board, Group Audit and Risk Committee or ERC.

During 2020, the ERC met three times and the FSRC met four times. Membership and meeting attendance are set out in the tables below. The maximum number of meetings that could be attended is shown in brackets. Further details on how risk was managed during 2020 are set out in the internal control and risk management section on pages 50 to 53.

Group executive risk committee:

Name of member	Title	Number of meetings attended
Gordon Boyd (Chair)	Chief Financial Officer (interim)	1 (1)
Jon Lewis	Chief Executive Officer	1 (3)
Aimie Chapple	Executive Officer, Customer Management	3 (3)
Mark Cook	Executive Officer, Technology Solutions	1 (3)
Andy Start	Executive Officer, Government Services	1 (3)
Chantal Free	Executive Officer, People Solutions	3 (3)
Jim Vincent	Executive Officer, Specialist Services	2 (3)
Chris Baker	Executive Officer, Software	3 (3)
Claire Chapman	Chief General Counsel	3 (3)
Rob Tolfts	Group Commercial Director	3 (3)
Ismail Amla	Chief Growth Officer	0 (3)
Patrick Butcher ¹	Former Chief Financial Officer	2 (2)

1. Patrick Butcher chaired two ERC meetings prior to his resignation as Chief Financial Officer on 16 November 2020.

Group financial services risk committee:

Name of member	Title	Number of meetings attended
Simon Burke (Chair) ¹	Independent Non-Executive	1 (1)
Babloo Ramamurthy ²	Independent Non-Executive	4 (4)
Gordon Boyd	Chief Financial Officer (interim)	1 (1)
Claire Chapman	Chief General Counsel	4 (4)
Patrick Butcher ³	Former Chief Financial Officer	3 (3)

1. Simon Burke was appointed Chair with effect from 1 October 2020.

2. Babloo Ramamurthy chaired three FSRC meetings prior to 1 October 2020.

3. Patrick Butcher resigned as Chief Financial Officer on 16 November 2020.

Directors' remuneration report



“Our new remuneration policy is better aligned to the delivery of our transformation plan and Capita’s responsible business strategy.”

Georgina Harvey
Chair
Remuneration Committee

This report is split into three sections:

- The **annual statement** details how the committee discharged its roles and responsibilities including: a review of the current remuneration policy; the operation of the current policy in 2020 (including the committee’s response to Covid-19); and pay decisions for 2021.
- The **directors’ remuneration policy** presents a proposed new policy (the policy) which will be subject to a binding shareholder vote at the 2021 annual general meeting (AGM).
- The **annual report on remuneration** sets out the remuneration arrangements and incentive outcomes for the year under review. The directors’ remuneration report will be subject to an advisory shareholder vote at the 2021 AGM.

In addition to seeking shareholder approval for the new remuneration policy and the directors’ remuneration report, excluding the policy, approval will also be sought for a new share plan (the 2021 Capita Executive Plan) to enable executive directors to receive restricted share awards (RSAs) on the terms permitted within the proposed new policy.

Annual statement

Dear shareholder,

I am pleased to present the directors’ remuneration report for the year ended 31 December 2020, my second as Chair of the committee and my first at the end of a full financial year.

The committee has been focused on taking a fair and balanced approach to remuneration across Capita, in light of the challenges that our employees and our clients have faced as a result of the Covid-19 crisis, and against the backdrop of Capita’s responsible business strategy.

Temporary salary reductions were applied in 2020 to the directors, executive committee members and higher earning colleagues across the Group and we decided early in the year not to operate the annual bonus plan for 2020. However, reflecting our focus on colleague wellbeing, we have continued with our commitment to pay the real living wage as a minimum to all those directly employed by Capita in the UK.

Details of the committee’s approach to remuneration in 2020, the proposed new policy (including a detailed rationale) and its proposed implementation for 2021 are set out below.

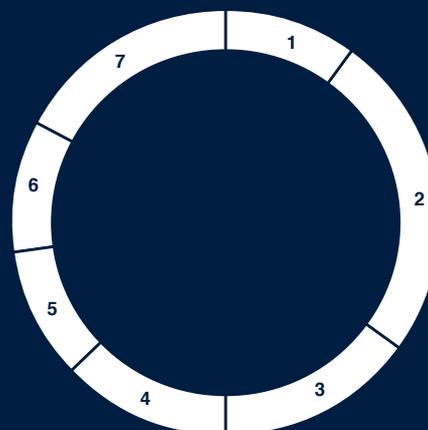
How the committee operates

The committee has an annual agenda to cover the key planning and decision events in the annual remuneration cycle. Each meeting is supported by an agenda-setting discussion held in advance with the committee Chair, Chief People Officer and Group Reward Director to identify issues impacting remuneration which may require consideration by the committee. Regular reports, including updates on corporate governance and regulatory developments, are received from the committee’s adviser. At each committee meeting the members may receive other reports and presentations covering wider workforce arrangements which include the annual pay review, incentive scheme arrangements, gender pay reporting, salary proposals for members of the senior team and approval of remuneration packages for new members of the executive committee.

Remuneration Committee membership and attendance

All members of the committee are independent non-executive directors, with the exception of the non-executive employee director. The number of formal meetings held and the attendance by each member is shown in the table on page 66. The committee also held informal discussions as required. The Group Company Secretary acts as secretary to the committee and is available to assist the members of the committee as required, ensuring that timely and accurate information is distributed accordingly.

Remuneration Committee time allocation (%)



- 1 10% Governance
- 2 25% Executive Directors' and Executive Committee members' remuneration
- 3 15% STIP
- 4 13% LTIP
- 5 10% Wider workforce
- 6 10% Shareholder consultation/feedback
- 7 17% Remuneration policy review

The committee's terms of reference set out the role, responsibilities and authority of the committee and can be found on the Company website at www.capita.com/investors. These were reviewed and updated during the year.

Committee activities

The key workstreams of the committee during the year included:

- Assessing the impact of Covid-19 on executive director and executive committee remuneration.
- Agreeing the directors' remuneration policy taken to the 2020 AGM.
- A review of the directors' remuneration policy for 2021, which included extensive shareholder consultation.
- Remuneration arrangements for leavers/joiners.
- Consideration of executive pay arrangements and alignment with those for the wider workforce.

In addition, the committee has ensured that the remuneration policy and practices are consistent with the six factors set out in Provision 40 of the 2018 UK Corporate Governance Code (the Code):

Clarity – Our policy and the proposed changes are well understood by our senior management team and have been clearly articulated to our major shareholders and representative bodies (both on an ongoing basis and during the recent consultation exercise).

Simplicity – The committee is mindful of the need to avoid overly complex remuneration structures, which can be misunderstood and deliver unintended outcomes. A key objective of the committee is to ensure our executive remuneration policies and practices are straightforward to communicate and operate. The 2021 policy and its implementation has been simplified significantly in respect of long-term incentive pay.

Risk – Our policy has been designed to ensure that inappropriate risk-taking is discouraged and will not be rewarded via: (i) the balanced use of both short-term incentives and long-term share awards; (ii) the significant role played by equity in our incentive plans (together with in-employment and post-cessation shareholding guidelines); and (iii) malus/clawback provisions and the committee's ability to use discretion to adjust vesting downwards.

Predictability – Our incentive plans are subject to annual individual limits, with our share plans also subject to a share dilution limit.

Proportionality – There is a clear link between individual awards, delivery of strategy and our long-term performance through performance conditions or underpins applied to short- and long-term variable pay. In addition, the significant role played by incentive/at-risk pay, together with the structure of the executive directors' service contracts, ensures that poor performance is not rewarded.

Alignment to culture – Our executive pay policies are fully aligned to Capita's culture, including elements of fixed pay (executive director pension provision is aligned with the workforce) and through the use of performance metrics that measure how we perform against our financial and non-financial KPIs. RSAs further increase alignment to Capita's responsible business strategy by offering a narrower range of value outcomes.

Remuneration for 2020 and the committee's response to Covid-19

Following an investor consultation exercise carried out by the committee at the end of 2019, the intended approach to 2020 remuneration was as follows:

- Salary levels would be maintained at 2019 levels.
- Annual bonus potential would be set at 200% of salary for the Chief Executive Officer (CEO) and 175% of salary for the Chief Financial Officer (CFO) with the bonus based on adjusted profit before tax, adjusted free cash flow, organic revenue growth and strategic KPIs (with each metric weighted equally), and subject to a free cash flow underpin.
- Long-term incentive plan (LTIP) award levels would be set at 300% of salary for the CEO and 200% of salary for the CFO and performance metrics and targets were to be simplified with 50% of awards based on relative total shareholder return (TSR), 25% based on earnings per share (EPS) and 25% based on responsible business scorecard measures. Awards would be subject to a performance underpin (based on an assessment of the underlying financial and operational performance of Capita).

However, in response to the challenges presented by the Covid-19 pandemic:

- Executive director salaries were voluntarily reduced by 25% for six months from 1 April 2020. Temporary reductions also applied to non-executive director fee levels, and executive committee and other higher earning colleagues' salaries across the Group.
- The annual bonus plan was withdrawn for 2020 for the executive directors (and for the executive committee and selected senior managers) before the targets were agreed.
- 2020 LTIP awards were significantly reduced from normal levels. Rather than awards of 300% of salary for the CEO and 200% for the CFO, the awards were reduced by c.70%. While the committee had intended to set adjusted EPS growth targets for 25% of the 2020 LTIP award, it concluded that, given the continued uncertainty surrounding the full impact of Covid-19, the EPS performance metric should be removed from the 2020 LTIP award and TSR should be upweighted to 75% of the award and measured over the three years from the date of grant. The remaining 25% of the 2020 LTIP award is based on responsible business scorecard measures as planned. The awards are also subject to a performance underpin as planned.

The 2018 LTIP awards held by Jon Lewis which are due to vest in 2021 (Patrick Butcher did not hold 2018 LTIP awards, given that he joined Capita after the grant date) will vest at 60% of the maximum opportunity as a result of the annualised cost savings, customer satisfaction and employee satisfaction targets being met in full. The EBIT margin target was not met and the committee exercised its discretion and decided the adjusted free cash flow element should not vest. The committee considers that this vesting level reflects Capita's progress to date in delivering the transformation plan. Further details in respect of this performance assessment and the value of the awards (which are materially reduced from the value as at the original grant date following the fall in share price) are set out on page 103.

The committee is satisfied that total remuneration paid to each of the executive directors in respect of 2020 was appropriate when the progress against the transformation plan, the approach to mitigating the impact of Covid-19, and the stakeholder experience more generally, are considered.

Use of discretion

The committee retains the right to exercise discretion to override formulaic outcomes and ensure that the level of bonus or share award payable is appropriate. It may use its judgement to adjust outcomes downwards to ensure that any payments made reflect overall Company performance and stakeholder experiences more generally. Where exercised, the rationale for this discretion will be fully disclosed to

shareholders in the annual report. A summary of the discretion exercised by the committee in 2020 (and in respect of the prior year) is set out below:

	2019	2020
Annual bonus	Following an assessment of the performance against the adjusted PBT, adjusted free cash flow, organic revenue growth and strategic/ personal annual bonus targets, the formulaic outturn produced an annual bonus award of 37.1% of the maximum for the CEO and 32% of the maximum for the CFO. However, following a quality of earnings review and consideration of the shareholder experience during 2019, the committee exercised its discretion and determined that no bonus would be paid to the executive directors in respect of 2019.	In light of the impact of Covid-19, the annual bonus plan was withdrawn for 2020 for the executive directors (plus the executive committee and selected senior managers) before the targets were agreed.
LTIPs	No discretion applied.	2020 LTIP award levels were reduced by c.70% compared with normal grant levels. In addition, and to reflect underlying financial and operational performance, the committee applied downward discretion when assessing the vesting of the 2018 LTIP.

Board changes in 2020

On 16 November 2020, Patrick Butcher resigned from his position as CFO and Executive Director, and Gordon Boyd was appointed as interim CFO and Executive Director on the same date. Patrick has assisted Gordon in an orderly handover and will remain employed to support Gordon and the Company until the end of March 2021. Details of the remuneration arrangements in respect of Patrick's resignation and Gordon's appointment are set out in the annual report on remuneration on page 106.

Reviewing the policy for 2021

Capita rolled forward its remuneration policy (the policy) at the 2020 AGM, with the focus on reflecting developments in corporate governance. However, since then it has become clear that the existing policy, based on the annual grant of LTIPs, is no longer working effectively and a new policy is required. While the committee is aware that seeking shareholder approval for a new remuneration policy a year after the last policy was approved is not common, these are clearly exceptional times for Capita, our stakeholders and society more generally.

As such, the committee decided that, subject to shareholder approval, a switch from LTIPs to restricted share awards (RSAs) should be made from the 2021 AGM, because RSAs will:

- Better reflect the challenges of our corporate transformation plan of delivering improving returns to shareholders. While we continue to make progress with the transformation, it is taking longer and proving more complex than originally envisaged. As such, divestments and restructuring continue to form a major part of the strategy, and this has highlighted the challenges and issues in respect of setting rolling three-year targets; this has been exacerbated by Covid-19.
- Increase alignment with Capita's responsible business strategy which is integral to our Company purpose, operating model and strategy, demonstrating how we should act as a force for good to create better outcomes for all our stakeholders. While this was intended to be addressed, at least in part, by the introduction of responsible business scorecard targets in the 2020 LTIP awards, shareholder feedback in respect of the 2020 AGM suggested that views were mixed on whether suitable performance metrics and targets could be identified to reflect Capita's strategic and broader societal aims. RSAs will remove the issue of identifying appropriate performance metrics and offer a narrower and more predictable range of value outcomes, which

is considered to be more appropriate than the current, highly geared, LTIP structure, particularly considering Capita's 'critical service' government contracts and that the portfolio includes a number of lower-margin businesses. In addition to the above, the committee is conscious of political and societal pressures to reduce executive pay levels (as demonstrated by the committee's response to Covid-19, which is outlined above).

- Aid retention of senior management, given the challenges set out above, and noting that there was no annual bonus for 2020 (the second year in a row with no bonus awards) and previous LTIP awards are unlikely to vest to a material value.
- Increase internal alignment within Capita given that RSAs are awarded below Board level.
- Simplify remuneration arrangements significantly, which will in turn increase transparency.

The ability to grant LTIP awards, up to 300% of salary, will therefore be removed from the policy. Following the 2021 AGM, and then annually thereafter, executive directors may receive RSAs:

- Of up to 150% of salary for the CEO and up to 100% of salary for the CFO (when appointed); this represents a 50% reduction to the normal LTIP award levels.
- Which will normally vest after three years from grant subject to: (i) continued employment; (ii) satisfactory personal performance during the relevant vesting periods; and (iii) a positive assessment of performance against one or more underpins. Details of the underpins which will apply to the proposed 2021 RSAs are set out below and in the annual report on remuneration on page 101.
- Which, once vested, may not normally be sold until at least six years from the grant date (other than to pay relevant taxes).

In addition to the switch to RSAs, the post-cessation shareholding guidelines will be enhanced. Rather than 100% of the shareholding guideline applying up to the first anniversary of the date of cessation and then reducing to 50% of the guideline between the first and second anniversary of cessation, 100% of the shareholding guideline (300% of salary for Jon Lewis and 200% for other executive directors) or the actual shareholding if lower will need to be held for two years, post cessation.

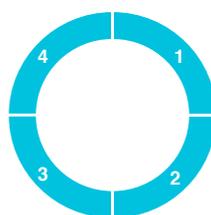
In addition to seeking shareholder approval for the new remuneration policy, approval will also be sought for a new share plan, the 2021 Capita Executive Plan, to enable executive directors to receive RSAs on the terms permitted within the proposed remuneration policy. Full details of the proposed new share plan are set out in the Notice of AGM.

Implementing the policy for 2021

A summary of the proposed approach to the implementation of the proposed remuneration policy for 2021 (assuming it is approved by shareholders) is as follows:

- No base salary increases were awarded to the executive directors at the normal 1 January 2021 review date.
- Executive directors (excluding the interim CFO) will continue to receive a workforce-aligned pension allowance (5% of salary, in line with other employees).
- The annual bonus plan will be reintroduced for 2021 with the policy-aligned maximum opportunities of 200% (CEO) and 175% (CFO role, when a permanent replacement for Patrick Butcher has been appointed) of salary. However, rather than the four performance metrics being equally weighted, as per the intended 2020 annual bonus plan, the committee will give free cash flow more prominence for 2021 as follows:

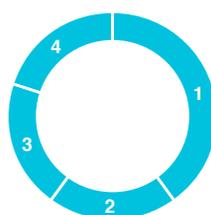
2020 Bonus*



- 1 25% Free cash flow
- 2 25% Adjusted PBT
- 3 25% Organic revenue
- 4 25% Strategic objectives

* withdrawn in light of Covid-19

2021 Bonus



- 1 40% Free cash flow
- 2 20% Adjusted PBT
- 3 20% Organic revenue
- 4 20% Strategic objectives

- RSAs to be granted post the AGM in 2021 will, subject to shareholder approval:

- be set at a maximum grant value of 150% of salary for the CEO and 100% of salary for the CFO (when appointed) albeit the committee will consider the prevailing share price at the time of grant, which is expected to be immediately after the 2021 AGM, which may cause the committee to set the level of grant for 2021 at a reduced level.
- normally vest after three years from grant subject to: (i) continued employment; (ii) satisfactory personal performance during the relevant vesting periods; and (iii) a positive assessment of performance against two underpins (see below).
- once vested, shares received may not normally be sold until at least six years from the grant date (other than to pay relevant taxes).

In respect of the underpins for the 2021 awards:

- underpin 1: Capita's TSR over the three years ending 31 December 2023 must be positive for any RSAs granted to executive directors to vest.
- underpin 2: The committee must be satisfied with the underlying performance of Capita and that there have been no environmental, social or governance issues resulting in material reputational damage over the vesting period. If this underpin is not deemed to be met, the committee will consider a reduction to the final vesting level of the RSAs (including to nil).

- No changes will be made to the outstanding LTIP awards.

Shareholder views

In finalising the proposed changes to the remuneration policy, the committee considered the feedback it received in respect of: (i) the new policy introduced at the 2020 AGM (noting the resolution received 97% votes for); and (ii) a shareholder consultation exercise carried out at the end of 2020 and start of 2021. Consistent with good practice, the consultation exercise was concluded with a wrap-up letter that set out the committee's final proposals, which included extending the post-vesting holding period from two years to three years (a change from our original proposals) and summarised the main areas of feedback Capita received. The committee is grateful for the contribution and level of support received from shareholders.

Employee engagement

In 2020, Jon Lewis regularly communicated with all employees, including on our 2019 financial results. Employees are able to submit any questions on the Company – including in relation to the directors' remuneration policy and report, pay and benefits – both online and during live employee briefings. Lyndsay Browne, one of the employee non-executive directors, was appointed to the Remuneration Committee in 2020 with the intention of ensuring a workforce perspective on remuneration at the very top of the organisation.

Concluding thoughts

As Capita continues to deliver its transformation the committee is satisfied that the proposed changes to the remuneration policy will help to ensure that the senior management team is appropriately retained and incentivised. The committee will continue to consult widely with shareholders to respond to their expectations of remuneration policy and reporting and welcomes all input.

I hope you find this report to be clear and helpful in understanding our remuneration practices and that you will be supportive of this year's remuneration-related resolutions.

Finally, I would like to thank our shareholders for their ongoing support.

Georgina Harvey

Chair
Remuneration Committee
16 March 2021

Directors' remuneration policy

This part of the remuneration report sets out our revised remuneration policy and has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). The policy has been developed taking into account the principles of the Code and the views of our major shareholders. The policy will be put to a binding shareholder vote at the 2021 AGM and, subject to shareholder approval, will take formal effect from the conclusion of the AGM. The information provided in this section of the remuneration report is not subject to audit.

Changes to the current policy

This revised policy is broadly consistent with the existing policy that was approved by shareholders at the 2020 AGM albeit, as detailed in the annual statement, it has been amended for the following changes:

- LTIP awards will (subject to approval by shareholders of the 2021 Capita Executive Plan) be replaced by RSAs. The ability to grant LTIP awards, up to 300% of salary, has therefore been removed from the policy. Subject to shareholder approval, following the 2021 AGM and then annually thereafter, executive directors may be granted RSAs:
 - of up to 150% of salary for the CEO and up to 100% of salary for the CFO role. This represents a 50% reduction to the normal LTIP award levels.
 - which will normally vest after three years from grant subject to: (i) continued employment; (ii) satisfactory personal performance during the relevant vesting periods; and (iii) a positive assessment of performance against one or more underpins.
 - which, once vested, shares received may not normally be sold until at least six years from the grant date (other than to pay relevant taxes).
- The policy in respect of non-executive director fees has been updated to permit the payment of an allowance for intercontinental travel for business purposes where an individual is required to travel overseas.
- The policy in respect of leavers has been amended slightly to make it clear that only good leavers will be entitled to receive an annual bonus award, payable at the normal payment date and pro-rated as appropriate.
- The post-cessation shareholding guidelines have been enhanced. 100% of the shareholding guideline (currently 300% of salary for Jon Lewis and 200% of salary for other executive directors) or the actual shareholding if lower will need to be held for two years post cessation.

Responsibilities and activities of the Remuneration Committee

The committee is responsible for determining and agreeing with the Board the remuneration policy for the executive directors, executive committee members and the Group Company Secretary, including setting the overarching principles, parameters and governance framework and determining each remuneration package. In addition, the committee reviews remuneration for the wide workforce and related policies and the alignment of incentives and rewards with culture. The committee also sets the Chairman's fee.

As part of the policy review process, the committee sought the views of the executive directors on changes to the existing policy. However, the executive directors participated in an advisory role and were not involved in the decision-making process.

In setting the remuneration policy for the executive directors, executive committee members and the Group Company Secretary, the committee ensures that the arrangements are in the best interest of both the Group and its shareholders, by taking into account the following general principles:

- To ensure total remuneration packages are simple and fair in design so that they are valued by participants.
- To ensure that total remuneration strongly reflects performance.
- To balance performance-related pay between the achievement of financial performance objectives and delivering sustainable performance; creating a clear connection between performance and reward; and providing a focus on sustained improvements in profitability and returns.
- To provide a significant proportion of remuneration in shares, allowing senior management to build a significant shareholding in the business and, therefore, aligning management with shareholders' interests and the Group's performance, without encouraging excessive risk taking.

Consideration of shareholder views

The Company is committed to maintaining good communications with shareholders. It considers the AGM to be an opportunity to communicate with investors, giving shareholders the opportunity to raise any issues or concerns they may have. In addition, the committee seeks to engage directly with major shareholders and the main representative bodies, should any material changes be proposed to the policy.

As detailed in the annual statement, the committee consulted with major shareholders and shareholder representatives on the proposed changes to the remuneration policy. Feedback received from this was considered when drafting the new policy and is also reflected in the implementation of the policy for 2021.

Consideration of our people

When determining executive director remuneration policy and practices, the committee reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture to ensure that workforce pay and conditions are taken into account when setting the pay of executive directors and senior management.

Share awards are granted to senior management in order to encourage a high level of employee share ownership, albeit remuneration is more heavily weighted towards long-term variable pay for executive directors than other employees. This ensures that there is a clear link between the value created for shareholders and the remuneration received by the executive directors. Two employee non-executive directors attend committee meetings (one as a committee member, one by invitation) to ensure that a workforce perspective is heard at the very top of the organisation with respect to remuneration.

Remuneration policy table

The following table sets out the key aspects of the policy.

Base salary

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
To attract and retain talent by ensuring base salaries are sufficiently competitive.	<p>Normally reviewed annually in December, with any changes usually effective in January. The committee may award salary increases at other times of the year if it considers it to be appropriate. The review takes into account:</p> <ul style="list-style-type: none"> Salaries in similar companies and comparably-sized companies Remuneration policy Economic climate Market conditions Group performance The role and responsibility of the individual director Employee remuneration across the broader workforce. 	<p>There is no prescribed maximum monetary annual increase to base salaries. Any annual increase in salaries is at the discretion of the committee, taking into account the factors stated in this table and the following principles:</p> <ul style="list-style-type: none"> Salaries would typically be increased at a rate consistent with the average salary increase (in percentage of salary terms) for the broader workforce. Larger increases may be considered appropriate in certain circumstances (including, but not limited to, a change in an individual's responsibilities or in the scale of their role or in the size and complexity of the Group). Larger increases may also be considered appropriate if a director has been initially appointed to the Board at a lower than typical salary. 	Individual and business performance are considerations in setting base salaries.

Benefits

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Designed to be consistent with benefits available to employees in the Group.	<p>Benefits include car allowance, private medical insurance, travel and property hire. Executive directors can also participate in all-employee share plans. The committee has discretion to add additional benefits which are not currently provided, such as relocation expenses.</p>	<p>Benefit provision varies between different executive directors. While there is no maximum level set by the committee, benefits provision will be set at a level the committee considers appropriate and be based on individual circumstances. Participation in the Company's HMRC-approved all-employee share plan will be limited by the maximum level prescribed by HMRC.</p>	Not performance-related.

Pension

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Consistent with benefits available to employees in the Group.	Pension contributions are paid into the Group's defined contribution scheme and/or as a cash allowance.	5% of salary.	Not performance-related.

Annual bonus

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Performance measures are selected to focus executives on delivery of the Group business plan for the financial year.	<p>The bonus measures and targets are reviewed annually to ensure that bonus opportunity and performance measures continue to support the business plan. Stretching targets are set at the start of each financial year.</p> <p>Performance against targets is reviewed following completion of the final accounts for the period under review.</p> <p>50% of any bonus earned (net of tax) is normally delivered in shares deferred for three years, with the remainder delivered in cash or deferred shares at the executive director's discretion.</p> <p>An additional payment may be made at the time of vesting in respect of dividends that would have accrued on deferred shares during the deferral period.</p> <p>Malus and clawback provisions apply to all annual bonus and deferred bonus share awards for a period of up to three years after the determination of the annual bonus.</p>	200% of salary.	<p>Performance is normally measured over a one-year period relative to challenging targets for selected measures of Group financial, strategic and/or individual performance.</p> <p>The majority of the bonus will be determined by measure(s) of Group financial performance.</p> <p>A sliding scale is set for each Group financial measure: 50% of the bonus will be paid at target performance, increasing to 100% for maximum performance.</p> <p>Any bonus payout is ultimately at the discretion of the committee, and the amount of any bonus that would be determined based on performance may be reduced if the committee believes this better reflects the underlying performance of Capita over the relevant period.</p>

Restricted share awards

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
<p>Designed to reward and retain executives over the longer term while aligning their interests with those of shareholders.</p> <p>To link reward to longer-term performance.</p> <p>To encourage share ownership.</p>	<p>Awards will normally vest after three years from grant and, once vested, shares may not normally be sold until at least six years from the grant date (other than to pay relevant taxes).</p> <p>Dividends or dividend equivalents may accrue over the vesting period and any holding period but only to the extent awards vest.</p> <p>Malus and clawback provisions apply to awards for a period up to the fifth anniversary of grant.</p>	150% of salary.	<p>Vesting will be subject to: (i) continued employment; (ii) satisfactory personal performance during the relevant vesting periods; and (iii) a positive assessment of performance against one or more underpins.</p> <p>In addition, the committee may reduce the extent to which an award vests if it believes this better reflects the underlying performance of Capita over the relevant period.</p>

Shareholding guidelines

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
To align interests of management and shareholders and promote a long-term approach to performance and risk management.	<p>Shareholding guidelines require executive directors to reach a specified shareholding.</p> <p>Executive directors are required to retain 100% of any shares from deferred bonus awards, RSAs (or LTIPs as granted under the previous policy) on vesting (net of tax) until the guideline level is achieved.</p> <p>Post-cessation guidelines apply to share awards granted following the 2020 AGM. In determining the relevant number of shares to be retained post cessation, shares acquired from own purchases, any buyout awards and share awards granted prior to the 2020 AGM will not be counted.</p>	<p>In employment: 300% of salary (CEO) 200% of salary (CFO role).</p> <p>Post cessation: 100% of the relevant guideline between cessation and the second anniversary of cessation (or the actual shareholding if the guideline has not been met at cessation).</p>	Not performance-related.

Non-executive director (NED) fees

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Market competitive fees are set so as to attract and retain non-executive directors with required skills, experience and knowledge so that the Board can effectively carry out its responsibilities.	<p>Reviewed periodically by the Board. Fee levels set by reference to market rates, taking into account the individual's experience, responsibilities, time commitment and pay decisions for the broader workforce.</p> <p>NED fees comprise payment of an annual basic fee and additional fees for further Board responsibilities such as:</p> <ul style="list-style-type: none"> • Senior independent director • Audit and Risk Committee chair • Remuneration Committee Chair • The Chairman of the Board receives an all-inclusive fee. <p>Additional fees/allowances may also be paid for intercontinental travel for business purposes where appropriate.</p> <p>No NED participates in the Group's incentive arrangements or pension plan or receives any other benefits other than where travel to the Company's registered office is recognised as a taxable benefit in which case a NED may receive grossed-up costs of travel as a benefit.</p>	<p>As per the executive directors, there is no prescribed maximum monetary annual increase.</p> <p>Fees are limited to an aggregate annual sum of £1m increased only to take account of the effect of inflation as measured by the retail price index or such index as the directors consider appropriate or such other amount as the Company may by ordinary resolution decide.</p>	Not performance-related.

The annual bonus performance measures are Group financial, strategic or individual measures which are selected annually to be consistent with key priorities for the Group.

Targets are normally set on sliding scales that take account of internal strategic planning and external market expectations for the Company.

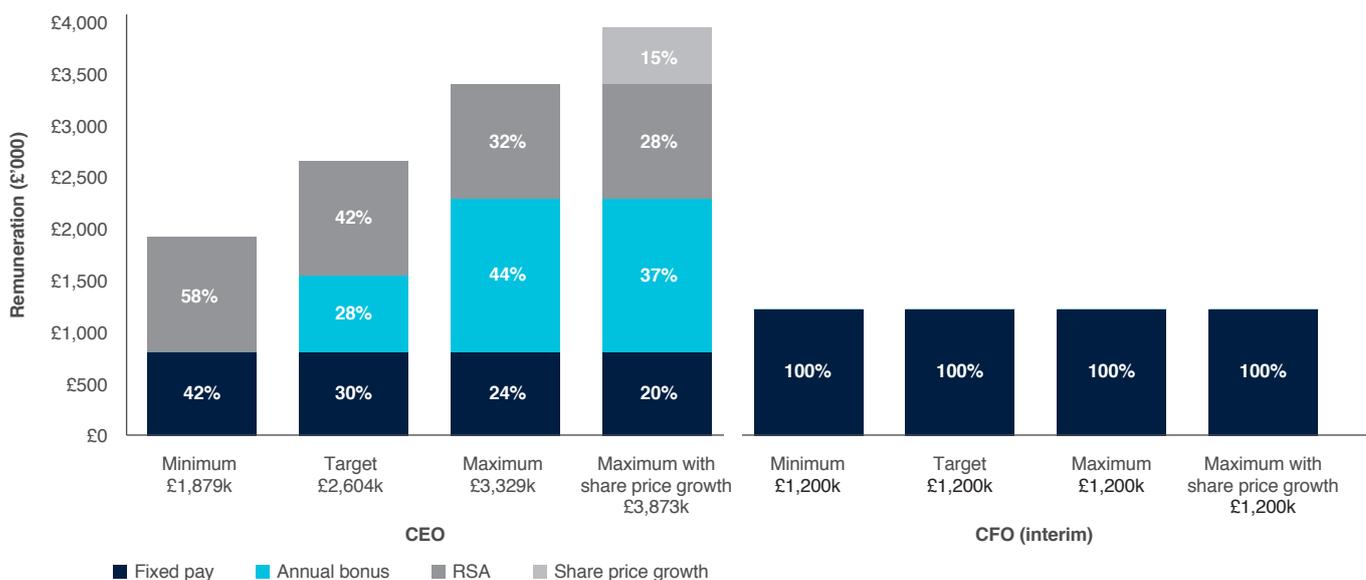
Only modest rewards are available for achieving threshold performance with maximum rewards requiring substantial outperformance of challenging strategic plans approved at the start of each year.

The committee operates share-based arrangements for the executive directors in accordance with their respective scheme rules, the Listing Rules and the HMRC rules where relevant. The committee, consistent with market practice and the scheme rules, retains discretion over a number of areas relating to the operation and administration of the plans. These include (but are not limited to) the following:

- Who participates
- The form in which the award is granted and settled (eg shares, nil cost options, cash)
- The timing of the grant of award and/or payment
- The size of an award (up to individual and plan limits) and/or a payment
- Discretion relating to the measurement of any performance target/underpin and pro-rating of awards in the event of a 'good leaver' scenario or a change of control or reconstruction of the Company
- Determination of whether or not a person is characterised as a good leaver (in addition to any specified categories) for incentive plan purposes
- Adjustments required in certain circumstances (eg share capital variation, rights issues, demerger, corporate restructuring, special dividends)
- The ability to vary or substitute any performance condition(s)/underpins if circumstances occur which cause it to determine that the original condition(s) have ceased to be appropriate, provided that any such variation or waiver is fair, reasonable and not materially less difficult to satisfy than the original condition (in its opinion). In the event that the committee were to make an adjustment of this sort, a full explanation would be provided in the next remuneration report
- The ability to reduce the vesting level of awards (including to nil) where the Committee determines it is appropriate to do so.

The committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed: (i) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved directors' remuneration policy in force at the time they were agreed; or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes payments includes the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted. The committee retains discretion to make minor amendments to the policy set out in this policy report (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Illustrations of the application of our remuneration policy



The scenarios in the above graphs for the CEO are based on the following:

	Minimum	On-target	Maximum	Maximum with share price
Fixed pay	<ul style="list-style-type: none"> • Base salary as at 1 January 2021 (unchanged from 2020) • Estimated value of benefits • 5% of salary pension 			
Annual bonus				
CEO max: 200% of salary	0%	50% of max	100% of max	100% of max
RSA				
CEO max: 150% of salary*	100% of max	100% of max	100% of max	100% of max with a 50% share price growth assumption on RSAs

* This is the maximum award level permitted. The Committee will consider the prevailing share price in setting the grant level of the 2021 RSA awards. Except as stated above in relation to RSA, figures for share based awards do not include any share price movements or any dividends or dividend equivalents.

In his capacity as interim CFO, Gordon Boyd is on a short-term contract and receives a fixed monthly payment of £100,000 (which is broadly equivalent to Patrick Butcher's on-target total remuneration). He is not entitled to any further remuneration in respect of pension, bonus or share awards.

Malus and clawback

Malus and clawback provisions apply to all incentive awards granted to executive directors. These provisions permit the committee to reduce or recover bonus awards (including deferred shares) for up to three years after the determination of the annual bonus and to reduce or recover RSA awards (and LTIP awards granted under the previous policy) up to the fifth anniversary of grant. The potential circumstances in which malus or clawback provisions can be applied include:

- material misstatement of a Group company's financial results
- a participant deliberately misleads relevant parties regarding financial performance
- serious misconduct or conduct which causes significant financial loss
- overpayments due to material abnormal write-offs of an exceptional basis
- an error was made, or inaccurate or misleading information was used to determine the value of an award
- reputational damage
- material failure of risk management
- corporate failure or the occurrence of an insolvency event.

Application of our remuneration policy

When determining executive director remuneration policy and practices, the committee reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture.

Share awards are granted to senior management in order to encourage a high level of employee share ownership albeit remuneration is more heavily weighted towards long-term variable pay for executive directors than other employees to ensure that there is a clear link between the value created for shareholders and the remuneration received by the executive directors. The committee did not consult with employees formally in respect of the design of the new policy, although the two employee directors (one as a committee member and one by invitation to the committee) were involved in the committee's discussions.

Directors' recruitment and promotions

The committee takes into account the need to attract, retain and motivate the best person for each position, while at the same time ensuring a close alignment between the interests of shareholders and management.

If a new executive director were to be appointed on a permanent basis, the committee would seek to align their remuneration package with other executive directors in line with the policy table. However, flexibility would be retained to make 'buyout' awards or payments in respect of remuneration arrangements and contractual terms forfeited on leaving a previous employer. In such circumstances, the committee would look to replicate the arrangements being forfeited as closely as possible and, in doing so, would take account of relevant factors including the nature of the remuneration and contractual terms, performance conditions and the time over which they would have vested or been paid.

If appropriate, a new appointee's incentives in their year of joining may be subject to different targets than for other executive directors. The committee may also agree that the Company will meet certain relocation and incidental expenses, as it considers appropriate.

The maximum level of variable remuneration which may be granted (excluding awards to compensate for remuneration arrangements and contractual terms forfeited on leaving the previous employer) to new executive directors in the year of recruitment shall be limited to 350% of salary (the maximum limit permitted within the policy table).

The initial notice period for a service contract may be up to 24 months, which is longer than that stated in the policy of a 12-month notice period, provided it reduces to 12 months within a short space of time.

For an internal appointment or an appointment following the Company's acquisition of or merger with another company, any incentive amount awarded in respect of a prior role may be allowed to vest on its original terms, or adjusted as relevant to take into account the appointment. Any other ongoing remuneration obligations or terms and conditions existing prior to appointment may continue.

The committee retains discretion to make appropriate remuneration decisions outside the standard policy to meet the individual circumstances of recruitment when:

- An interim appointment is made to fill an executive director role on a short-term basis.
- Exceptional circumstances require that the Chairman or a non-executive director takes on an executive function on a short-term basis.

In the event of the appointment of a new non-executive director, remuneration arrangements will normally be in line with the structure set out in the policy table for non-executive directors. However, the committee (or the Board as appropriate) may include any element listed in the policy table or any other element which the committee considers is appropriate given the particular circumstances excluding any variable elements, with due regard to the best interests of shareholders.

Directors' service agreements and payments for loss of office

The committee regularly reviews the contractual terms of the service agreement to ensure these reflect best practice.

The service contracts for executive directors are for an indefinite period and provide for a 12-month notice period. They do not include provisions for predetermined compensation on termination that exceed 12-months' salary, pension and benefits. There are no arrangements in place between the Company and its directors that provide for compensation for loss of office following a takeover bid. All directors are appointed for an indefinite period but are subject to annual re-election at the annual general meeting.

In circumstances of termination on notice, the committee will determine an equitable compensation package, having regard to the particular circumstances of the case. The committee reserves the right to make payments in connection with a director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a director's office or employment. Any such payments may include, but are not limited to, paying any fees for outplacement assistance and/or the director's legal and/or professional advice fees in connection with his cessation of office or employment. The committee has discretion to require notice to be worked or to make payment in lieu of notice or to place the director on garden leave for some or all of the notice period. Any payment in lieu of notice will be reduced for any period of time worked post notice being given or received.

The annual bonus may be payable for a good leaver (as defined in the plan rules) in respect of the period of the bonus plan year worked by the director; there is no provision for an amount in lieu of bonus to be payable for any part of the notice period not worked. Bonus payments would normally be paid at the normal payment date.

On cessation, an executive director's share plan entitlements will be determined in accordance with the rules of the relevant plan.

Unvested deferred share awards will normally lapse on the earlier of notice being given/received and cessation. However, the committee has discretion to allow awards to instead continue to vest in full on the normal vesting date (or earlier at the discretion of the committee) for a good leaver (as defined in the relevant plan rules).

In respect of RSAs/LTIPs, unvested awards will normally lapse on the earlier of notice being given/received and cessation. However, the committee has discretion to allow awards to instead continue to vest on the normal vesting date (or earlier at the discretion of the committee) to the extent any performance conditions/underpins attached to the relevant award are satisfied at vesting. In such cases awards will, other than in exceptional circumstances, be scaled back on a time pro-rated basis and post-vesting holding periods would normally apply.

In the event of a change of control, all unvested LTIP awards/RSAs would (unless rolled over) vest, to the extent that any performance conditions/underpins attached to the relevant awards have been achieved. Awards would normally be subject to time pro-rating (unless the committee determines otherwise).

Unvested deferred share awards would vest in the event of a change of control (unless rolled over). Shares held within the share ownership plan will be removed from the plan or exchanged for replacement shares in accordance with the scheme rules and HMRC guidelines.

Non-executive directors' terms of engagement

Non-executive directors are appointed by letter of appointment for an initial period of three years. Each appointment is terminable by three months' notice on either side. At the end of the initial period, the appointment may be renewed by mutual consent, subject to annual re-election at the AGM.

Non-executive employee directors' terms of engagement

Non-executive employee directors are appointed by letter of appointment for an initial period of two to three years. Each appointment is terminable by one month's written notice on either side. At the end of the initial period, the appointment may be renewed by mutual consent, subject to annual re-election at the AGM.

Inspection of service agreements/letters of appointment

The service agreements and non-executive directors' letters of appointment are available for inspection during normal business hours at the Company's registered office, and available for inspection at the AGM.

Annual report on remuneration

This part of the remuneration report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and paragraphs 9.8.6R and 9.8.8 of the Listing Rules. The annual report on remuneration will be put to an advisory shareholder vote at the 2021 AGM. The information on pages 102 to 105 has been audited as indicated.

FIT Remuneration LLP was appointed by the committee during 2020 (replacing Deloitte LLP) to provide independent advice on executive remuneration matters. During the year, the committee received independent and objective advice from FIT primarily on market practice, the operation of and redesign of the remuneration policy, disclosure within the accounts and stakeholder liaison. FIT was paid £77,463 (excluding VAT) in fees during 2020 for these services (charged on a time plus expenses basis). No other services were provided to the Group by FIT.

Deloitte was paid £4,450 (excluding VAT) in fees during 2020 for advice services, charged on a time plus expenses basis, provided in respect of the 2019 directors' remuneration report.

Both FIT and Deloitte are founding members of the Remuneration Consultants Group and, as such, both operate voluntarily under the code of conduct in relation to executive remuneration consulting in the UK. The fees were considered appropriate for the work undertaken. The committee considers FIT's and Deloitte's advice on remuneration to be independent and objective, and neither have any connection with the Company or individual directors.

The committee also consulted with the CEO, CFO, the Chief People Officer and the Group Reward Director to provide further information to the committee on the performance and proposed remuneration for the executive directors and other senior management, but not in relation to their own remuneration.

The work of the Remuneration Committee is detailed in the annual statement.

Shareholder voting at the AGM

The 2020 directors' remuneration report will be presented to shareholders at the 2021 AGM. At the 2020 AGM, the actual voting in respect of the ordinary resolution to approve the remuneration report for the year ended 31 December 2019 and the vote on the 2020 policy is set out below.

	Votes cast for	Votes cast against	Abstentions ¹
Directors' remuneration report, other than the part containing the Directors' remuneration policy, for the year ended 31 December 2019	1,339,467,637	10,983,340	2,228,742
	99.2%	0.8%	–
Directors' remuneration policy (2020 AGM)	1,315,406,714	35,036,898	2,236,107
	97.4%	2.6%	–

1. A vote abstained is not a vote in law and is not counted in the calculation of the proportion of votes 'for' and 'against' a resolution.

Policy implementation for 2021

A summary of how the committee intends to operate the remuneration policy for 2021 is detailed below. The operation of the policy will be dependent on shareholder approval of the proposed remuneration policy and associated new share plan at the 2021 AGM in respect of the proposed RSAs.

- Fixed pay will remain unchanged.
- The annual bonus plan will be reintroduced for 2021 in line with the normal policy limits (200% of salary for the CEO and 175% of salary for the CFO role, when a permanent replacement for Patrick Butcher has been appointed). However, rather than the four performance metrics being equally weighted, as per the intended operation of the annual bonus plan for 2020 (prior to the decision not to operate it due to Covid-19), free cash flow will be given greater prominence for 2021. As such, 40% of the 2021 annual bonus will be based on free cash flow targets while adjusted PBT, organic revenue and strategic objectives will each have a 20% weighting.
- RSAs to be granted to executive directors post the AGM in 2021 will:
 - be set at a maximum of 150% of salary for the CEO and 100% of salary for the CFO (when appointed) although the committee will consider the prevailing share price at the time of grant (which is expected to be immediately after the 2021 AGM), and may set the level of grant for 2021 at a reduced level.
 - normally vest after three years from grant subject to: (i) continued employment; (ii) satisfactory personal performance during the relevant vesting periods; and (iii) a positive assessment of performance against two underpins (see below).
 - once vested, shares received may not normally be sold until at least six years from the grant date (other than to pay relevant taxes).

In respect of the underpins for the 2021 awards:

- underpin 1: Capita's TSR over the three years ending 31 December 2023 must be positive for any RSAs granted to executive directors to vest; and
- underpin 2: the committee must be satisfied with the underlying performance of Capita and that there have been no environmental, social or governance issues resulting in material reputational damage. If this is not deemed to be met, the committee will consider a reduction to the final vesting level of the RSAs (including to nil).

Fees for the Chairman, senior independent director, non-executive directors and employee non-executive directors

A summary of the fees for 2021, which are unchanged from 2020 levels, are as follows:

	Annual fee from 1 January 2021 ¹
Sir Ian Powell, Chairman	£325,000
David Lowden, Senior Independent Director	£75,000
Matthew Lester, Audit and Risk Committee Chair	£75,000
Georgina Harvey, Remuneration Committee Chair	£75,000
John Cresswell	£64,500
Andrew Williams	£64,500
Baroness Lucy Neville-Rolfe	£64,500
Neelam Dhawan	£64,500
Lyndsay Browne	£64,500
Joseph Murphy	£64,500

1. Or upon joining if after 1 January 2021.

Directors' remuneration earned in 2020 – single-figure table (audited)

The table below summarises directors' remuneration received in 2020 (with prior year comparators).

		Base salary and fees ¹ £	Benefits ² £	Pension £	Annual bonus £	LTIP £	Total remuneration £	Total fixed remuneration £	Total variable remuneration £
Sir Ian Powell	2020	284,375	–	–	–	–	284,375	284,375	0
	2019	325,000	28	–	–	–	325,028	325,028	0
Jon Lewis ⁴	2020	634,375	17,928	36,250	–	423,772	1,112,325	688,553	423,772
	2019	725,000	28,428	36,250	–	–	789,678	789,678	0
Patrick Butcher ^{3, 4}	2020	322,058	15,252	18,790	–	–	356,101	362,875	0
	2019	430,000	19,556	21,500	–	305,363	776,419	471,056	305,363
Gordon Boyd ⁵	2020	152,381	–	–	–	–	152,381	152,381	0
	2019	–	–	–	–	–	–	–	–
Gillian Sheldon	2020	65,625	–	–	–	–	65,625	65,625	0
	2019	75,000	–	–	–	–	75,000	75,000	0
Matthew Lester	2020	65,829	–	–	–	–	65,829	65,829	0
	2019	75,000	–	–	–	–	75,000	75,000	0
Georgina Harvey ⁶	2020	65,625	–	–	–	–	65,625	65,625	0
	2019	18,750	–	–	–	–	18,750	18,750	0
John Cresswell ⁷	2020	56,438	–	–	–	–	56,438	56,438	0
	2019	72,375	–	–	–	–	72,375	72,375	0
Andrew Williams	2020	56,438	–	–	–	–	56,438	56,438	0
	2019	64,500	–	–	–	–	64,500	64,500	0
Baroness Lucy Neville-Rolfe	2020	56,438	–	–	–	–	56,438	56,438	0
	2019	64,500	251	–	–	–	64,751	64,751	0
Lyndsay Browne ⁸	2020	56,438	–	–	–	–	56,438	56,438	0
	2019	32,250	–	–	–	–	32,250	32,250	0
Joseph Murphy ⁸	2020	56,438	–	–	–	–	56,438	56,438	0
	2019	32,250	–	–	–	–	32,250	32,250	0

1. As part of Capita's response to Covid-19, the executive and non-executive directors agreed to take a 25% reduction in salary/fees for six months, effective from 1 April 2020. The salary/fees shown above reflect this voluntary reduction.

2. Benefits include all taxable benefits as defined by paragraph 11(1) of the regulations. This includes private medical insurance, company car allowance, work travel and the value of matching share awards under the UK all-employee share scheme.

3. Patrick Butcher's base salary, benefits and pension are shown for the period 1 January 2020 to the date he stepped down from the Board on 16 November 2020.

4. The LTIP value for Patrick Butcher for 2019 relates to a buyout award. Further details can be found in the 2019 Annual Report. Details of the performance assessment and vesting of the 2018 LTIP award held by Jon Lewis are set out on page 103. The impact of share price movements on his awards, based on the average three-month share price to 31 December 2020 (35.8p), is as follows:

Face value of awards expected to vest, based on the share price at grant (1,972,776 shares x 60% x 122p)	£1,444,072
Expected value of awards at vesting (1,972,776 shares x 60% vesting x 35.8p)	£423,772
Impact of share price movements on vesting values	–£1,020,300

5. Gordon Boyd was appointed interim CFO on 16 November 2020 following Patrick Butcher's resignation on the same date. Reflecting the interim nature of Gordon's role, he receives a base salary (£100,000 per month). He is not eligible for any variable remuneration, and does not receive benefits or pension contributions.

6. Georgina Harvey was appointed Remuneration Committee Chair on 1 October 2019.

7. John Cresswell stepped down as Remuneration Committee Chair on 30 September 2019 but remained a non-executive director of the Board.

8. Lyndsay Browne and Joseph Murphy were appointed to the Board as employee directors on 1 July 2019. In addition to their fee as a non-executive employee director, both received earnings from the Group as an employee amounting to £100,309 for Lyndsay Browne (including a prior period adjustment for pension) and £69,200 for Joseph Murphy for the period 1 January 2020 – 31 December 2020. As part of their participation in the Capita Share Ownership Scheme Lyndsay Browne received 648 matching shares (£270) and Joseph Murphy received 564 matching shares (£223). The value of the matching shares is the sum of the cost of purchase over the period 1 January 2020 – 31 December 2020.

Annual bonus for 2020 (audited)

As disclosed in last year's directors' remuneration report, the committee had intended to operate the annual bonus for 2020 at normal levels (200% maximum for the CEO and 175% of salary for the CFO) based on adjusted PBT, free cash flow, organic revenue and strategic targets. However, in response to the Covid-19 pandemic, the committee made the decision not to operate an annual bonus for 2020 for the executive directors. This decision also extended to the executive committee members and a significant number of senior managers. As such, no financial or strategic targets were set or are therefore disclosable.

Long-term incentive awards due to vest in 2021 based on performance to 31 December 2020 (audited)

The performance assessment in respect of the 2018 LTIP awards held by Jon Lewis is as follows:

Performance metric	Weighting	Threshold (25% vests)	Target (50% vests)	Stretch (100% vests)	Result	Vesting – % of max
Annualised cost savings	20%	£160m	£175m	£205m	£389m	100%
Adjusted free cash flow ¹	20%	£180m	£200m	£240m	–	0%
Adjusted EBIT margin	20%	9%	10%	12%	4.7%	0%
Customer satisfaction	20%	6 point positive swing in NPS	8 point positive swing in NPS	12 point positive swing in NPS	16 point positive swing in NPS	100%
Employee engagement	20%	6 point positive swing in NPS	8 point positive swing in NPS	12 point positive swing in NPS	21 point positive swing in NPS	100%
Total vesting						60%

1. The committee exercised downward discretion and decided the adjusted free cash flow element should not vest.

For the year to 31 December 2020, the adjusted free cash flow result for 2020 (after applying conditions in existence at the time of the 2018 award) was £217.3m. This meant that 72% of this element (14% of the total award for Jon Lewis) would vest, bringing the total vesting for Jon Lewis to 74% of maximum. In consideration of the Company's underlying financial and operational performance over the three years to 31 December 2020, the committee exercised its discretion and decided that the adjusted free cash flow element should not vest. The committee thereby determined that 60% vesting was appropriate due to:

- The progress made to date in respect of Capita's transformation plan.
- The very strong performance in respect of annualised cost savings against what were considered to be a challenging target range.
- The very strong performance in respect of customer satisfaction and employee engagement, both of which are key parts of Capita's transformation plan.

However, this performance was not reflected in the share price at 31 December 2020. In addition to the use of downward discretion, share price performance is also clearly reflected in the expected value of the award levels at vesting.

In addition to the use of downward discretion, share price performance is also reflected in the expected value of the award levels at vesting.

Based on the above outcomes, the estimated vesting of the long-term incentive for Jon Lewis in 2021 is:

	Awards granted	Shares vesting based on performance (60% of maximum)	Dividend equivalent shares ¹	Total shares expected to vest	Estimated value at vesting ²
Jon Lewis	1,972,776	1,183,666	–	1,183,666	£423,772

1. No dividend equivalent shares are payable on the 2018 LTIP award.

2. Based on the average three-month share price to 31 December 2020 of 35.8p.

Long-term incentive awards granted in 2020 (audited)

The 2020 LTIP award levels granted to Jon Lewis and Patrick Butcher on 16 April 2020 were reduced significantly compared with normal grant levels. Based on the share price on the date of grant (32.72 pence), the awards to Jon Lewis and Patrick Butcher (made as nil-cost options) represented a reduction of 70% in the number of shares that would otherwise be awarded as part of their normal annual grant. LTIP awards for senior management were also reduced significantly.

Name of director	Number of shares awarded	Face value of LTIP awards	Percentage of salary (prior award level)
Jon Lewis	1,770,000	£579,144	80% (300%)
Patrick Butcher ¹	700,000 ¹	£229,040 ¹	53% ¹ (200%)

1. Awards lapsed upon resignation

2020 LTIP awards will normally vest three years from grant, subject to the performance conditions set out below and a performance underpin. Any shares that vest are subject to both a post-vest holding period of two further years and a shareholding guideline which prevents any net-of-tax shares from being sold until the guideline is reached. The performance targets attached to the awards are as follows:

- 75% relative TSR – 25% of this part of an award will vest for median TSR increasing pro-rata to 100% of this part of an award vesting for upper quartile performance as measured against the constituents of the FTSE 250 (excluding investment trusts) over the three years from grant. In addition to the median to upper quartile target range, no part of this award may vest unless the Remuneration Committee is satisfied that the level of vesting is consistent with the Company's underlying financial performance.
- 25% responsible business scorecard measures centred around delivering a better-quality business, based on client (10%), employee engagement (10%) and supplier (5%) targets and measured over the three financial years ending 31 December 2022.

No part of the award of the award may vest unless the committee is satisfied that the level of vesting is consistent with the Company's underlying financial and operational performance. Additionally, if warranted by the circumstances at the time, the committee may consider exercising its discretion to override formulaic outcomes in relation to the vesting of the award.

As disclosed in last year's directors' remuneration report and as explained in the annual statement (see page 92), the committee intended to set EPS growth targets for 25% of the 2020 LTIP awards but concluded that, given the continued uncertainty surrounding the full impact of Covid-19, the EPS performance metric should be removed from the 2020 LTIP awards and TSR should be upweighted].

Directors' interests and shareholding guidelines (audited)

In line with the remuneration policy approved, executive directors (excluding interim roles) are expected to hold 200% (300% for the CEO) of salary in shares in the Company. The guidelines include shares held beneficially and also shares within the deferred annual bonus (DAB) plan that have been deferred over the three-year period. Any shares in the DAB used for this are calculated net of tax. Share awards that are subject to performance conditions are not included.

Post cessation shareholding guidelines proposed in the new remuneration policy for 2021 will require executive directors to retain 100% of the relevant guideline (or the actual shareholding if lower at cessation) until the second anniversary of the date of cessation.

	Beneficially held interests at 31 December 2020	Beneficially held interests at 31 December 2019	Interests in share incentive schemes, awarded without performance conditions at 31 December 2020	Interests in share incentive schemes, awarded without performance conditions at 31 December 2019	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2020	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2019	Interests in share option schemes where performance/ vesting conditions have been met but not exercised at 31 December 2020	Interests in share option schemes where performance/ vesting conditions have been met but not exercised at 31 December 2019	Percentage of shareholding target requirement at 31 December 2020
Sir Ian Powell	30,000	30,000	–	–	–	–	–	–	–
Jonathan Lewis	458,624	403,655	516,029	516,029	5,525,562	3,755,562	1,183,666	–	12%
Patrick Butcher ¹	121,243	121,243	–	187,167	–	704,918	–	100,911	–
Gordon Boyd	–	–	–	–	–	–	–	–	–
Gillian Sheldon	12,500	12,500	–	–	–	–	–	–	–
Matthew Lester	49,168	21,745	–	–	–	–	–	–	–
Georgina Harvey	6,000	–	–	–	–	–	–	–	–
John Cresswell	20,500	20,500	–	–	–	–	–	–	–
Andrew Williams	100,000	100,000	–	–	–	–	–	–	–
Baroness Lucy Neville-Rolfe	13,842	13,842	–	–	–	–	–	–	–
Lyndsay Browne	6,416	1,447	–	–	–	–	–	–	–
Joseph Murphy	6,555	2,218	–	–	–	–	–	–	–

1. Patrick Butcher's beneficially held interests are shown at the date of his resignation on 16 November 2020. All unvested share awards lapsed upon resignation.

Between the end of the 2020 financial year and end of March 2021, Jon Lewis, Lyndsay Browne and Joseph Murphy acquired 1,178 shares under the Capita share ownership plan, increasing their beneficial interest in ordinary shares of the Company to 459,802, 7,594 and 7,733 respectively. Although Capita does not have a formal policy on hedging shares, executive and non-executive directors attest annually they have not pledged any shares held in the Company.

Share plans (audited)

DAB plan

A deferred award is the deferred element of an individual's annual bonus. Any deferral is made on a gross basis into deferred shares or as a (net of tax) restricted share award. The deferred shares are held for a period of three years from the date of award. This part is not subject to performance conditions.

Unvested DAB deferred/restricted awards at 31 December 2020

Name of director	2019 award ²	Total
Jon Lewis ¹	516,029	516,029
Patrick Butcher ¹	n/a	n/a

1. Jon Lewis and Patrick Butcher joined Capita on 1 December 2017 and 10 December 2018 respectively, therefore, were not eligible for bonuses in 2017 and 2018 (in respect of 2016 and 2017 performance). Patrick Butcher also was not eligible for a bonus in 2019 (in respect of 2018 performance).
2. The value of the 2019 deferred award awarded on 21 March 2019 was included in the annual bonus value in the 2018 single-figure table. As a result of no bonus award for 2019 and no bonus operated for 2020, there have been no further deferred bonus awards.

Unvested LTIP awards

Name of director	2018 award	2019 award	2020 award
Jon Lewis	1,972,776	1,782,786	1,770,000
Patrick Butcher ¹	n/a	704,918 ¹	700,000 ¹

1. Awards lapsed upon resignation

Details of the performance targets and expected vesting in respect of the 2018 awards are set out on page 103.

The performance targets and underpin for the 2019 and 2020 LTIP awards are as follows:

2019 awards:

Performance underpin	Performance metric	Weighting	Threshold (25% vests)	Target (50% vests)	Stretch (100% vests)
Assessment of the underlying financial and operational performance of Capita over the performance period	Free cash flow	25%	£190m	£210m	£250m
	EBIT margin	25%	9%	10%	12%
	Organic revenue growth	25%	£3,900m	£3,950m	£4,050m
	Customer satisfaction	12.5%	6 point positive swing in NPS	8 point positive swing in NPS	12 point positive swing in NPS
	Employee engagement	12.5%	6 point positive swing in NPS	8 point positive swing in NPS	12 point positive swing in NPS

2020 awards:

Performance underpin	Performance measure	Weighting	Threshold (25% vests)	Target (50% vests)	Stretch (100% vests)	
Assessment of the underlying financial and operational performance of Capita over the performance period	Relative TSR	75%	Median TSR performance vs the constituents of the FTSE 250 (excluding investment trusts)	Pro-rating vesting between median and upper quartile performance on a straight line basis between 25% and 100%	Upper quartile TSR performance vs the constituents of the FTSE 250 (excluding investment trusts)	
	Responsible business scorecard:					
	Client	10%	3 point positive swing in NPS	6 point positive swing in NPS	9 point positive swing in NPS	
	Employee	10%	3 point positive swing in NPS	6 point positive swing in NPS	9 point positive swing in NPS	
	Suppliers adherence to prompt payment code	5%	–	Maintain current	Exceed current	

Satisfaction of options

When satisfying awards made under its share plans, the Company uses newly issued, treasury or purchased shares as appropriate.

Dilution

All awards are made under plans that incorporate the overall dilution limit of 10% in 10 years. The estimated dilution from existing awards, including executive and all-employee share awards, was approximately 2.71% of the Company's share capital at 31 December 2020.

Executive directors' service agreements

Executive directors	Date of joining the Company	Notice period
Jon Lewis	1 December 2017	12 months
Gordon Boyd ¹	16 November 2020	n/a

- 1 Gordon Boyd was appointed to the Board on an interim basis and does not have a notice period.

Non-executive directors' terms of engagement

Non-executive directors	Date of joining the Board	Expiry date of current appointment
Sir Ian Powell	1 September 2016	31 December 2022
David Lowden	1 January 2021	31 December 2023
Matthew Lester	1 March 2017	28 February 2023
Georgina Harvey	1 October 2019	30 September 2022
John Cresswell	17 November 2015	16 November 2021
Andrew Williams	1 January 2015	11 May 2021
Baroness Lucy Neville-Rolfe	6 December 2017	5 December 2023
Neelam Dhawan	1 March 2021	29 February 2024

Board changes

As per the announcement on 16 November 2020:

- Patrick Butcher stepped down from his position as CFO and Executive Director with immediate effect. Details of his exit arrangement are as follows:
 - Patrick will receive base salary, cash in lieu of pension contribution and benefits up to the date he leaves (31 March 2021). No further payments in lieu of his remaining 12-month notice period will be made
 - there will be no payment under any variable pay arrangement – the annual bonus was withdrawn for 2020 and he is not eligible to participate in the 2021 annual bonus plan. All unvested long-term incentive/buyout awards have lapsed. There will be no further payments in respect of his exit and no payment for loss of office.
- Gordon Boyd was appointed to the Board on a short-term contract of £100,000 per month and is not entitled to any further remuneration in respect of pension, bonus or share awards. While the committee notes that the fee payable is significant, when compared to Patrick Butcher's fixed package:
 - given the Company was partway through a Class 1 transaction under the Listing Rules (ie the sale of ESS) and furthermore the very sensitive nature of many of Capita's contracts (including a number with the UK Government), the Board considered it essential to identify and appoint a very senior interim CFO to the Board, and one who would be known to/recognised by our major shareholders to bridge the gap until a permanent appointment can be made
 - the arrangement was benchmarked against a number of external interim candidates and found to be in line with the market rate for senior interim chief financial officer roles (albeit clearly very few of these are Board level appointments meaning that published data is limited)
 - the annualised fee broadly equates to Patrick Butcher's on-target total remuneration of £1.28m.

Payments to former directors (audited)

No payments were made to former directors.

External appointments for executive directors

During the year Jon Lewis served as a non-executive director for Equinor ASA. He received and retained fees of NOK 592,080 for the period 1 December 2019 – 30 November 2020. The committee acknowledges this role can benefit Capita through broadening Jon's knowledge and experience.

Percentage change in remuneration levels

The table below shows change in base compensation, benefits and annual bonus for the Board directors in the 2020 financial year, compared with the average for all employees of the Company (Capita plc):

	Base salary/fees	Taxable benefits	Annual bonus
Executive directors¹			
Jon Lewis	-12.5%	-36.9%	–
Patrick Butcher ²	-12.5%	-10.8%	–
Gordon Boyd	–	–	–
Non-executive directors¹			
Sir Ian Powell	-12.5%	-100.0%	–
Gillian Sheldon	-12.5%	–	–
Matthew Lester	-12.5%	–	–
Georgina Harvey ³	-12.5%	–	–
John Cresswell ⁴	-12.5%	–	–
Andrew Williams	-12.5%	–	–
Baroness Lucy Neville-Rolfe	-12.5%	–	–
Lyndsay Browne ^{3, 5}	-12.5%	–	–
Joseph Murphy ^{3, 5}	-12.5%	–	–
Employee population⁶	5.5%	20.6%	-35.2%

1. The percentage change shown for the directors is based on the single figure information disclosed on page 102.
2. Patrick Butcher stepped down from the Board on 16 November 2020. For comparative purposes, his 2020 salary and benefits have been annualised to show the percentage change since 2019.
3. Georgina Harvey, Lyndsay Browne and Joseph Murphy were appointed to the Board during 2019. The percentage change numbers shown are based on annualised fees for 2019.
4. John Cresswell stepped down as Remuneration Committee Chair on 30 September 2019. The percentage change numbers are reflective of his role as a non-executive director of the Board and not his prior role as Remuneration Committee Chair.
5. Percentage change numbers shown relate to fees as a non-executive employee director.
6. The employee population information shown is for UK employees employed in the Capita plc entity.

CEO pay ratio

The table below compares the 2020 single total figure of remuneration for the CEO with the Group's employees paid at the 25th percentile (lower quartile), 50th percentile (median) and 75th percentile (upper quartile) of its UK employee population. The equivalent 2019 numbers are also presented.

Year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2020	Option B	56: 1	41: 1	27: 1
2019	Option B	41:1	25:1	14:1

The remuneration figures for the employee at each quartile were determined with reference to the financial year ending 31 December 2020. Due to the complexity of Capita's corporate and workforce structure, Option B was used to calculate these figures. The committee believes that this approach provides a fair representation of the CEO to employee pay ratios and is appropriate in comparison to alternative methods, balancing the need for statistical accuracy with internal operational constraints.

Each employee's total pay and benefits were calculated on a full-time and full-year equivalent basis using the single figure methodology. No adjustments were made to the total pay and benefits figures (other than the approximate up-rating of pay elements where appropriate to achieve full-time and full-year equivalent values) and no components of pay have been omitted.

Year		25th percentile	50th percentile	75th percentile
2020	Salary (total pay and benefits)	£19,310 (£19,753)	£26,800 (£27,431)	£40,371 (£41,039)
2019	Salary (total pay and benefits)	£18,887 (£19,147)	£29,493 (£31,708)	£53,846 (£57,049)

The committee recognises that the 2020 ratios are higher than last year. This is driven by two key factors:

- The primary driver of the change is the increase in the CEO's single figure of remuneration for 2020. The 2019 single figure included no bonus or LTIP vesting (as the CEO's first LTIP award was granted in 2018). In contrast, the 2020 single figure includes 60% vesting under the 2018 LTIP award. Despite the 25% reduction in fees for six months, the 2020 single figure therefore represents a 41% increase on last year's single figure, leading to an increase in the pay ratios.
- A reduction in the calculated total pay and benefits of the median and upper quartile employees. This is driven by a change in the employee population used for the calculation (as agency workers are now excluded from our gender pay gap calculations), and does not represent a real reduction in pay for employees. Furthermore, consistent with the CEO, no annual bonuses were payable to employees in respect of 2020.

The committee considers that the median CEO pay ratio is representative of the UK employee base. Capita is committed to offering its employees a competitive remuneration package. Base salaries for employees, including our executive directors, are determined with reference to a range of factors including market practice, experience and performance in role. Due to the nature of his role, the CEO's remuneration package has higher weighting on performance-related pay (including the annual bonus and historic LTIP) compared to the majority of the workforce. This means the pay ratios are likely to fluctuate depending on the outcomes of incentive plans in each year. The committee also recognises that, due to the nature of the Company's business and the flexibility permitted within the regulations for identifying and calculating the total pay and benefits for employees, the ratios reported above may not be comparable to those reported by other companies.

Gender pay gap reporting

Information on the Company's gender pay gap reporting is detailed on page 46 of the strategic report.

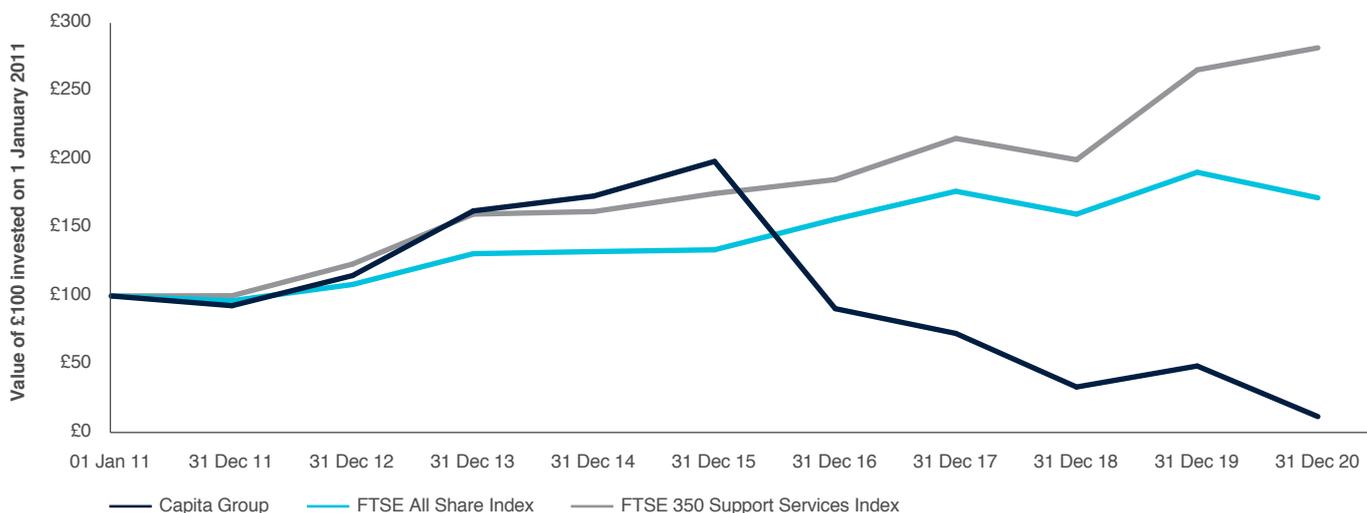
Relative importance of the spend on pay

The table below shows the spend on employee costs in the 2020 and 2019 financial years, compared with dividends:

	2020 £m	2019 £m	% change
Employee costs	1,795.6	1,919.9	-6.5
Dividends	–	–	–

Performance graph and CEO pay

The following chart compares the value of an investment of £100 in the Company's shares with an investment of the same amount in the FTSE All-Share Index and the FTSE 350 Support Services Index over the last 10 years, assuming that all dividend income is reinvested. The FTSE 350 Support Services has been chosen as the appropriate comparator as Capita is a constituent of this index.



The total remuneration figures for the CEO during the 2020 financial year are shown in the table below. Consistent with the calculation methodology for the single figure for total remuneration, the total remuneration figure includes the total annual bonus award based on that year's performance and the LTIP award based on the three-year performance period ending in the relevant year. The annual bonus payout and LTIP award vesting level as a percentage of the maximum opportunity are also shown for this year.

Year	CEO – single figure of total remuneration	Annual bonus (vs max opportunity)	Long-term incentive (vs max opportunity)
2020	£1,112,325	0%	60%
2019	£789,678	0%	0%
2018	£2,014,209	85%	0%
2017	£741,376	0%	0%
2016	£682,958	0%	0%
2015	£2,520,428	50%	71.4%
2014	£2,558,998	100%	67.2%
2013	£2,326,250	75%	54.5%
2012	£2,038,233	100%	47.8%
2011	£1,833,308	0%	56.0%

Note: the vesting rates for the long-term incentives are averaged between the LTIP and the DAB vesting rates for 2010–2013 and 2015. For 2014, this is the actual vesting for the LTIP as there is no DAB maturity in 2014. Note: figures for 2010–2013 are based on remuneration for Paul Pindar. Figures for 2014–2016 are based on remuneration for Andy Parker. Figures for 2017 are based on remuneration paid to Andy Parker as CEO until 15 September 2017, to Nick Greatorex as interim CEO from 16 September 2017 to 30 November 2017, and to Jon Lewis as CEO from 1 December 2017.

Approval of the directors' remuneration report

The directors' remuneration report was approved by the Board on 16 March 2021.

Georgina Harvey

Chair

Remuneration Committee

16 March 2021

Financial statements

Our overall strategy

Simplify

Strengthen

Succeed

We present our financial statements in line with our overall strategy and commitment to provide clarity and transparency of our financial performance. The presentation is geared towards making our financial statements: clear; understandable; and integrated.

Clear

We recognise that our stakeholders have different needs. We have therefore grouped the notes to the consolidated accounts into the following six sections designed to meet these different objectives: Basis of preparation, Results for the year, Operating assets and liabilities, Capital structure and financing costs, Employee benefits and Other supporting notes. We believe that this presentation style allows for greater clarity of our financial performance.

Understandable

We supply analysis at the start of each section in the consolidated accounts. This provides a commentary on key changes in our financial performance compared with key metrics and/or prior-year results. We believe that this analysis will make it easier for users to understand the key drivers of the financial performance of the Group, and should be read in conjunction with the Chief Financial Officer's review in the strategic report.

Integrated

Each note to the accounts commences with a summary of the accounting policies and key judgements related to that note. These policies and judgements are clearly identified using appropriate signage allowing readers to refer to them with ease. We believe that this integration will help readers understand the financial performance in the context of the accounting policies and judgements made.



Independent auditor's report

to the members of Capita plc

1 Our opinion is unmodified

We have audited the financial statements of Capita plc (the Company") for the year ended 31 December 2020 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, company balance sheet, company statement of changes in equity, and the related notes, including the accounting policies in sections 1 to 6 to the Group financial statements and section 7 to the Parent Company Financial statements.

In our opinion

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- The Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- The Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and

The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation to the extent applicable

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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit and Risk Committee.

We were first appointed as auditor by the Directors on 18 August 2010. The period of total uninterrupted engagement is for the 11 financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	£7m (2019: £8m) 4.4% (2019: 3.8%) of normalised Group profit before tax
Coverage	86% (2019: 84%) of total Group revenue 74% (2019: 83%) of total profits and losses before tax 88% (2019: 86%) of total Group assets

Risks of material misstatement vs 2019		
Recurring risks for the Group	Going concern	▲
	Revenue and profit recognition	◄►
	Impairment of goodwill	▲
	Items excluded from adjusted profit	◄►
	Capitalisation and recoverability of contract fulfilment assets	◄►
	Provisions and contingent liabilities	◄►
	Pensions obligations	◄►
Recurring risks for the Parent Company	Recoverability of the Parent Company's investment in, and amounts due from, its subsidiaries	▲

In the prior year we reported a material risk in respect of the capitalisation and recoverability of intangible assets. This was primarily in relation to the intangible asset that was developed to support the finance transformation programme, and the associated estimates regarding the costs to be capitalised which were subjective in nature. As reported in 2019, the go-live programme for the new finance system was paused. The level of our audit focus has reduced and accordingly the risk has been removed from our audit report for 2020.

2 Material uncertainty related to going concern

The risk	
<p>Going concern</p> <p>Refer to section 1 and the viability statement on page 58 and the Audit and Risk Committee report (pages 80-88).</p> <p>We draw attention to note 1 to the financial statements which indicates that the Board requires the completion of a planned refinancing programme or planned business disposals to support the going concern assumption.</p> <p>Both require agreements and consents from third parties which are not within the direct control of the Company and accordingly these events and conditions constitute material uncertainties that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern and, therefore, that the Group and parent Company may be unable to realise their assets and discharge their liabilities in the normal course of business.</p> <p>We draw attention to the viability statement on page 58, which highlights the Board's plans to refinance and complete the business disposals programme, to support the medium-term resilience. As noted above these transactions are outside the direct control of the Company and represent material uncertainties that may cast significant doubt over the future viability of the Group and Parent Company should these events not complete as planned.</p> <p>Our opinion is not modified in this respect of these matters.</p>	<p>Disclosure quality</p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Group's and Parent Company's business model and how those risks might affect the Group's and Parent Company's financial resources or ability to continue operations over a period to 31 August 2022 from the date of approval of these financial statements (the 'going concern period').</p> <p>There is little judgement involved in the Directors' conclusion that the mitigations required to address the risks and circumstances, described in note 1 to the financial statements, represent material uncertainties over the ability of the Group and Parent Company to continue as a going concern. This is because the mitigations are not within the direct control of the Group.</p> <p>Clear and full disclosure of the facts and the Directors' rationale for the use of the going concern basis of preparation, including that there are related material uncertainties, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that to be reported as a key audit matter.</p>

Our response

Assessing transparency: We assessed the completeness and accuracy of the matters covered in the going concern disclosure, to confirm whether they sufficiently explain the judgements made by the Directors in assessing whether the basis of preparation is appropriate. In addition, we assessed the overall balance presented in the basis of preparation and viability statements, and the clarity provided by the Board in relation to the mitigations required to support the going concern assumption and viability of the Group and Parent Company.

We responded to the going concern and viability risks by critically evaluating the Board's assessment of both the base case and severe but plausible downside scenario. The focus of our audit covered the following key areas:

Our sector experience: We assessed the projections and assumptions by reference to our knowledge of the business and general market conditions including the potential risk of management bias. In addition to execution risk associated with the transformation plan, we critically assessed the potential impact of COVID-19 including the most recent lockdown measures in 2021, along with the risks and uncertainties associated with the Group's customers, suppliers and workforce. We formed our views based on our understanding of the business and the end markets the Group serves and how these have been impacted by the global pandemic.

We considered the risk factors as set out by the Board in the Principal Risks section of the annual report and accounts, and where relevant ensured that these featured in the projections prepared to support the base case and the risks applied.

Test of detail: We used our modelling specialists to test the integrity of the financial model used by the Board to assess the base case projections and the various scenarios, including the severe but plausible downside forecasts.

We critically assessed the cash flow forecasts by considering the appropriateness of key assumptions used in preparing those projections, with a specific focus on the revenue growth assumptions and cost reduction plans. We evaluated these via enquiries with each of the divisional Executive Officers and Finance Directors, the Chief Executive Officer and interim Chief Financial Officer, and inspected the Board plans and associated papers.

Historical forecasting: We assessed the ability of the Group to accurately forecast by comparing historical results to forecasts for key metrics. We assessed the most recent years' performance against budget, including sales growth and cost reductions, recognising the impacts the COVID-19 introduced, and challenged the assumptions over the going concern period based on historical performances.

Funding assessment: We reviewed the lender agreements, including the Revolving Credit facility (RCF), to understand the terms including covenant requirements and any restrictions in the use of funds. We re-performed calculations, for 30 June 2021 and 2022 and 31 December 2021, prepared to assess compliance with the key financial covenant and tested for mathematical accuracy.

We considered the adjustments made in the adjusted EBITDA for the covenant calculations, considering the appropriateness compared to the loan agreements and historical accepted practice with the current lenders. In addition, we inspected the correspondence between the Company and the private placement lenders that set out the proposed items to be excluded in the adjusted EBITDA definition and compared these against the items included in the covenant calculations.

Sensitivity analysis: We assessed the downside sensitivities to ensure that these represented severe but plausible scenarios based on our knowledge of the business, the associated risk exposure and we considered the most recent trading results to form a holistic view of the Group. We assessed those risks and challenged whether the risks applied reflected progress to date in delivering the transformation programme and the ongoing effects from COVID-19 based on the impacts experienced by the Group during 2020. We assessed all risk assumptions to ensure that they reflected a more likely than not chance of occurring under the downside scenarios. We also assessed the mitigating actions, to identify whether these were reasonable and within the direct control of the Group.

We considered management's assessment of the potential impacts of COVID-19 and Brexit and UK Government policy more generally on the Group, and the Government Services division, along with plans to mitigate those risks.

Our findings: We found the going concern disclosure including the related material uncertainties to be proportionate (2019: disclosure finding with no material uncertainty: proportionate).

3 Other key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. Going concern is a significant key audit matter and is described in section 2 of our report. We summarise below the other key audit matters (unchanged from 2019 with the exception of the risk associated with the capitalisation and recoverability of intangible assets which has been removed from our audit report as described in section 1), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and our findings from those procedures in order that the Company's members as a body, may better understand the process by which we arrived at our audit opinion. These matters were addressed, and our findings are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The risk	
<p>Revenue and profit recognition</p> <p>The Group has reported revenues from continued operations of £3,324.8 million (2019: £3,678.6 million) and a loss before tax of £49.4 million (2019: loss £62.6 million)</p> <p>Refer to sections 2.1 and 2.2 and to the Audit and Risk Committee report (pages 80 - 88).</p>	<p>Accounting treatment</p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk associated with revenue recognition is a significant risk.</p> <p>The incentive/pressures on management to achieve bonus targets and/or market consensus increase the risk of fraudulent revenue and profit recognition.</p> <p>Subjective estimate</p> <p>There is a risk that revenue may be recognised even though it is not probable (i.e., not more likely than not) that consideration will be collected, which could be due to uncertainties over contractual terms and ongoing negotiations with customers.</p> <p>For long-term contracts, the contractual arrangements can be complex regarding variable consideration and service performance measures. This can involve significant judgments that may impact the recognition of revenue and contract profits including, among others, those over:</p> <ul style="list-style-type: none"> — The interpretation of contract terms concerning future obligations; — The allocation of revenue to performance obligations; — The assessment of whether the contract performance obligations satisfy the requirements to apply the series guidance; — The consideration of onerous contract conditions and associated loss provisions; and — Where changes in the scope of work are agreed, the assessment of whether the new services are distinct or not. <p>The execution risk associated with the successful transformation on an outsourcing contract requires judgment to be applied concerning costs to complete and the overall estimation of profit over the lifetime of the contract. There is a risk that potential difficulties are not identified fully resulting in excessive profits being recognised or the lack of consideration of contract loss provisions. This risk has been heightened due to the impact of COVID-19 on the delivery of performance obligations, and the economic uncertainties the pandemic has introduced that may impact assumptions concerning future performance metrics.</p> <p>In situations where customers terminate, or partially terminate a contract, the cessation may trigger the recognition of deferred income associated with outstanding performance obligations which will no longer be recognised in future periods. Judgment is required to determine the effective date of the termination, and particularly where services are being handed back or across to another provider.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that revenue and profit recognised from long-term contracts has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p> <p>Disclosure quality</p> <p>There is a risk that the disclosures presented are not sufficient to explain the revenue and profit recognition accounting policies and the key judgments applied.</p>

Our response

Tests of detail: We obtained and inspected a sample of the contractual agreements to understand the contract terms and conditions that underpin the revenue and the profit recognition assumptions and to identify conditions under which variable revenue can arise. For the major contracts within our scope, where relevant, we also assessed the accounting papers prepared by the Company that set out the key judgments to apply.

Where contract negotiations are ongoing in relation to variable consideration, we made enquiries on the current status with those involved in the discussions and by reference to the associated signed contract or any variation amendments. Where significant variable consideration had been recognised, we obtained and inspected the contractual agreements to understand the contract terms and conditions that underpin the revenue recognition assumptions. Where relevant we inspected correspondence with customers or other supporting documentation in relation to the variations or scope change.

We considered the assumptions within the business plans and lifetime assessments, checking that onerous conditions had been recognised appropriately, particularly on contracts that have had a poor performance in the current year and those contracts that are in a pre-inflection phase of transformation. We assessed the impact of COVID-19 on the key assumptions, together with any contract modifications agreed with the customer in response to the pandemic.

In determining whether onerous contract provisions should be recorded, we assessed contract profitability forecasts by analysing historic performance relative to contractual commitments over its full term. This included assessing critically the assumptions over future costs including projected savings and the actions required to achieve these by comparison to historical cost savings achieved on similar projects. Our assessment considered the levels of uncertainty contained in the forecasts, the extent to which Company actions alone could mitigate risks and any dependencies on the customer or other third parties. This assessment covered a sample of contracts including those identified by the Board as being high risk and comprising the major contracts in a pre-inflection phase.

In situations where there has been a termination or partial termination, we assessed the contract terms including any correspondence from the customer, to challenge the effective date of the termination. We also challenged the judgments applied as to whether, in the case of a partial termination, any deferred income should be recognised immediately or spread forward by assessing the inter dependencies of the performance obligations, and the initial contractual terms.

We challenged whether the key contract judgments made by the Board are appropriate based on the underlying contractual terms an evidence obtained.

Assessing transparency: We considered the disclosures in the financial statements to check that these were comprehensive and provided proportionate detail of the revenue and profit recognition policies and of the key judgments applied. This included an assessment of whether sections 2.1 and 2.2 clearly set out the impacts arising from the accounting policies applied in relation to the long-term contracts provided by the Group.

Our findings: In determining the treatment of revenue and profit recognition, the Group has applied accounting policies based on the requirements of IFRS15. In applying these policies there is room for judgement and we found that within that the Group's judgement was balanced (2019 finding: balanced).

We found the disclosures associated with the IFRS15 policies to be ample (2019 finding: ample).

The risk	
<p>Impairment of Goodwill and acquired intangibles</p> <p>The Group records goodwill of £1,120.5 million as at 31 December 2020 (2019: £1,177.8 million) and intangible assets acquired in business combination of £38.9 million as at 31 December 2020 (2019: £74.1 million) – see sections 3.4 and 3.3.</p> <p>Refer to the Audit and Risk Committee report on pages 80 - 88</p>	<p>Forecast based valuation</p> <p>As part of our risk assessment we considered the carrying value of goodwill and intangibles assets acquired in business combination and the risk over potential impairment to be a significant audit risk because of the inherent uncertainty involved in forecasting and discounting future cash flows.</p> <p>We determined that the recoverable amount of goodwill and intangibles assets acquired in business combination has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (section 3.4) disclose the sensitivity estimated by the Board.</p> <p>COVID-19 has introduced unprecedented economic uncertainties and this has led to increased judgement in forecasting future financial performance. The high level of uncertainty as to how the pandemic might evolve over the remainder of 2021 and potentially into 2022 (including whether or not there will be future waves of infection and future lockdowns) and the impact this may have on the Group's activities and performance, renders 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 Group's financial forecasts.</p> <p>There is a risk that the Board have not adequately assessed the factors that could impact the future forecasts and performance of the business, including the execution risk associated with the transformation plan and the economic uncertainties presented by COVID-19. This could impact the assessment over the carrying value of goodwill, and the quantum of any impairment charges that may need to be recorded.</p> <p>Disclosure quality</p> <p>There is a risk that the disclosures presented are not sufficient to explain the key assumptions that drive the valuations, and the key sensitivities that the Board has considered. This is particularly important given the ongoing transformation programme, the impacts that COVID-19 has introduced, and the relevance of the assumed growth assumptions to the sensitivities that are relevant when considering the carrying value of goodwill.</p>

Our response

Comparing valuations: We compared the total amount of discounted cash flows to support the fair value less cost to sell (FVLCS) to the Group's market capitalisation and assessed the rationale for the differences. We also compared the implied share price derived from the FVLCS valuation at the year end to the Company's share price throughout 2020 and assessed the reasonableness of the factors identified by the Board to explain the differences. Our assessment considered the impact of COVID-19 on the share prices of many listed entities during 2020, and the sectors and end markets that the Group is involved with.

Control operation: We tested the principles and integrity of the Group's discounted cash flow model.

Tests of detail: We compared the cash flows used in the impairment model to the output of the Group's budgeting process and against the understanding we obtained about the business areas through our audit and assessed if these cash flows were reasonable.

We assessed the assumptions applied to determine the FVLCS by comparison with external market data regarding multiples and selling costs.

Historical comparison: We assessed the historical accuracy of the forecasts used in the Group's impairment model by considering actual performance against prior year budgets, recognising the impacts that the COVID-19 introduced. We also assessed the forecast revenue growth with reference to the most recent results for 2019 and 2020.

Benchmarking assumptions: We used external data and our own internal valuation specialists to evaluate the key inputs and assumptions for growth and discount rates.

Sensitivity analysis: We performed sensitivity and break-even analyses for the key inputs and assumptions and identified those cash-generating units we considered most sensitive to impairment.

Assessing transparency: We evaluated the adequacy of the disclosures related to the estimation uncertainty, judgments made and assumptions over the recoverability of goodwill, checking that the sensitivity disclosures provided enough detail and proportionate information to inform a reader of the accounts.

Our findings: We found that the Group's cash flow forecasts and discount rates, when considered together, were mildly optimistic (2019 finding: mildly optimistic), reflecting the dependency on the success of the transformation program.

We found the Group's disclosures to be proportionate (2019 finding: proportionate) in their description of the assumptions and estimates made by the Group and the sensitivity of the valuation of goodwill to changes in those assumptions and estimates.

The risk

Items excluded from adjusted profit

The Group has reported a loss before tax of £49.4 million for the year ended 31 December 2020 (2019: loss £62.6 million) and corresponding adjusted profit before tax of £65.2 million (2019: £197.7 million)

Section 2.4 details items excluded from adjusted profit. Refer to the Audit and Risk Committee report on pages 80 - 88.

Presentation appropriateness

The Group presents separately adjusted measures including operating profit and profit before tax as a note to the consolidated income statement and in section 2.4. In addition, adjusted free cash flow measures are presented in section 2.10. The Company's financial highlights and commentary refers to 'adjusted' measures as well as those derived on an adopted IFRS basis. The reasoning behind this presentation is set out in notes to the financial statements.

Items excluded from adjusted profit are not defined by IFRSs and therefore a policy decision is required by the Directors to identify such items and to maintain the comparability of results with previous years in accordance with the Group's accounting policy, and there is a risk of management bias. Failure to disclose clearly the nature and impact of items excluded from adjusted profit may distort the reader's view of the financial result in the year.

COVID-19 has introduced unparalleled economic uncertainties with corresponding impacts on the Group's performance in 2020. The Board has identified the key effects from COVID-19, and in response has accelerated certain aspects of the planned restructuring activities including the costs associated with the rationalisation of the Group's property portfolio, including lease exit costs.

There is a risk that items excluded from the reported GAAP measures are inappropriate and not in accordance with the accounting policy approved by the Board, including items that have arisen as a result of the pandemic.

The key covenants that are relevant for the Company's compliance with the terms of the debt and loans are based on EBITDA that is adjusted for items excluded from reported profits. This introduces a risk of management override and bias to ensure compliance is achieved.

Disclosure quality

The disclosures need to include relevant and appropriate explanation of the items adjusted to ensure these are transparent and understandable and can be reconciled easily back to equivalent reported GAAP measures. There is a risk that the information provided is unclear and does not provide enough detail on the accounting policy approved by the Board, and in the case of restructuring does not set out the boundaries applied to determine which costs should be excluded from the reported measures.

Our response

Assessing principles: We communicated our consideration on the classification of items excluded from adjusted profit to the Audit and Risk Committee to inform the debate on the Board's assessment of the policy decision to present adjusted measures in addition to the reported metrics.

We examined the presentation of adjusted measures in the front half of the Annual Report and Accounts ('ARA') and considered this against applicable guidelines including the FRC publications on the presentation of alternative performance measures. This included the publications issued by the FRC during 2020 in response to COVID-19 with guidance provided on how listed entities should use the narrative to explain the effects of the pandemic on the Group's activities and performance in 2020.

Assessing balance: We considered whether there are any items included in the adjusted measures that it would be more appropriate to exclude from these measures and vice versa.

We tested on a sample basis items recorded as adjustments to source documentation to assess the appropriateness of classification.

As part of this consideration, we assessed the consistency of application of the Group's accounting policy for the classification of items excluded from adjusted profit year-on-year.

We reviewed the terms of the debt and loan agreements to understand the items that can be adjusted for the purpose of preparing the covenant calculations.

We evaluated the items adjusted with a consideration to the factors above to assess management override and bias.

Assessing transparency: We assessed whether the basis of the adjusted financial information is clearly and accurately described and consistently applied and that all alternative performance measures, together with reconciliations to the adopted IFRS position, are shown with sufficient prominence in the ARA. We assessed the narrative and commentary within the ARA with reference to the FRC guidance on how entities should explain the effects of COVID-19, and the entity's response to this guidance.

Our findings: The Board identified several items that individually had affected profit for the year (or prior year) and that required appropriate disclosure in the ARA to enable stakeholders to assess the Group's performance. This included items presented within the reported measures, and those excluded to arrive at the adjusted measures.

We found that proportionate disclosure of these items had been provided in the ARA taken as a whole (2019 finding: proportionate).

The risk	
<p>Capitalisation and recoverability of contract fulfilment assets ('CFA')</p> <p>The group reported CFAs that as at 31 December 2020 totalled £294.8 million (2019: £275.8 million)</p> <p>Refer to sections 2.1, 2.3 and 3.1.3, and to the Audit and Risk Committee report on pages 80 - 88.</p>	<p>Accounting application</p> <p>IFRS15 requires that certain costs incurred on a contract, or an anticipated contract, that generate or enhance the resources of an entity to deliver the performance obligations, and meet the relevant criteria set out in the standard, should be capitalised and amortised over the expected contract life.</p> <p>Subjective estimate</p> <p>Section 2.1 sets out the outsourcing model operated by the Group and explains how typically the early stages of a contract ('pre-inflection') will reflect a period when the contract fulfilment assets are created as the contract delivery is established. Judgment is required in applying the Group's accounting policy to assess whether the costs incurred will enhance the future economic benefits from the contract. Where contracts are at the pre-inflection stage, there is greater risk of recoverability as during this phase the CFA is being developed. This compares to contracts post inflection and in a 'business as usual' stage where the risk is reduced as the CFA has been proven and is being used to deliver the performance obligations, with amortisation over the expected contract life.</p> <p>Where a contract is not performing as expected, the costs capitalised may not be recoverable and an impairment of the CFA may need to be recorded.</p> <p>CFAs are required to be amortised over the expected life of the contract and this requires an estimate of any likely contract extensions.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of contract assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.</p> <p>Disclosure quality</p> <p>There is a risk that the disclosures presented are not adequate to explain the capitalisation criteria that are used to assess whether items of expense should be recorded as a contract asset.</p>

Our response

Tests of detail: We tested on a sample basis the costs capitalised as CFAs by reference to the criteria set out in the Group's accounting policy. For the costs sampled we obtained third party support, or for internally generated time we obtained the relevant costing rates and records, to support the basis of capitalisation.

We assessed on a sample basis the useful economic lives applied to the CFAs and evaluated the expected contract life by reference to the contract terms or where appropriate any agreed extensions to the original contract.

Sensitivity analysis: Where a contract has performed below budget and expectations, we assessed whether there was uncertainty regarding the recoverability of the CFA through future contract profitability.

Assessing transparency: We considered the disclosures in the financial statements to assess whether these provided sufficient detail of the criteria used to evaluate whether expense items should be recorded as a CFA.

Our findings: We found the assumptions and estimates used to assess the CFAs to be recognised, and to determine the estimated useful lives, to be balanced (2019 finding: balanced).

We found that the Group's disclosures in section 3.1.3 to be proportionate (2019 finding: proportionate). Section 2.1 highlights the CFAs that are at higher risk due to the pre-inflection stage of the contract.

The risk	
<p>Provisions and Contingent Liabilities</p> <p>See section 3.6 for details of the provisions totalling £41.7 million as at 31 December 2020 (2019: £41.2 million) and section 6.2 for a discussion on the contingent liabilities identified.</p> <p>Also refer to the Audit and Risk Committee report on pages 80 - 88.</p>	<p>Subjective estimates</p> <p>Significant judgment is required to assess whether actual or potential claims, litigation or fines arising from regulatory oversight, or from ongoing disputes, should be recognised as provisions within the financial statements or warrant disclosing as contingent liabilities.</p> <p>In the normal course of business, potential exposures may arise from the group's activities in prior years, for example in relation to design authority roles related to property constructions and acting as administrator for pension schemes and arrangements.</p> <p>Dispute outcome</p> <p>The amounts involved are potentially significant, and the application of accounting standards to determine the amount, if any, to be provided as a liability, is inherently subjective due to the nature of the claims, litigation, fines and disputes. There is a risk that the estimate is incorrect, and any provision is materially misstated.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the litigation liability has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 6.2) disclose the contingent liabilities that the Board has assessed.</p> <p>Disclosure quality</p> <p>Where the impact of any present obligations is not probable or not reliably measurable, and thus no provision is recorded, failure to adequately disclose the nature of these circumstances within the financial statements may distort the reader's view as to the potential risks faced by the Group.</p>

Our response

Personnel interviews: We enquired of the Executives and the Chief General Counsel and inspected Board minutes for actual and potential claims arising in the year based on any external communications with the Group and assessed whether provisions are required for these claims. Our enquiries were included as standard questions in all our meetings with those responsible for preparing the financial statements including the divisional Finance Directors, heads of functions at Group and corporate level, the Executive Directors and the Audit and Risk Committee.

Tests of detail: We obtained an understanding and status of existing claims and litigations via enquiries, examining any relevant correspondence and assessing the matters reported to the ARC for discussion and consideration. This included assessing critically managements' assessment regarding the likelihood of the existence of obligations, and the basis used to measure any provisions.

We compared the estimate of the risk and impact of these claims and litigations to third party evidence, where available.

We reviewed the legal expenses incurred in the year to identify any material spend with external legal advisors that may indicate an ongoing claim and made enquiries to ensure the completeness of all claims and litigation assessed by the Board.

Enquiry of lawyers: On the significant legal cases, we requested and obtained formal confirmations from external counsel and inspected any relevant correspondence with external counsel and the claimant to assess the reasonableness of the estimated liability.

Assessing transparency: We evaluated the adequacy of the Group's provisions and contingent liability disclosures in the financial statements in accordance with accounting standards, and the disclosure of the estimation uncertainty and quantification of that uncertainty where appropriate.

Our findings: We found that the assumptions and estimates were mildly cautious (2019 finding: mildly cautious) given the historic nature of many of the open claims.

We found that section 6.2 provides proportionate (2019 finding: proportionate) disclosure of the contingent liabilities in respect of potential litigation or claims.

The risk	
<p>Pensions obligations</p> <p>The Group reported a net pension deficit liability of £252.1 million as at 31 December 2020 (2019: £252.5 million)</p> <p>See section 5.2 for details of the Group pension schemes and their obligations as at 31 December 2020.</p> <p>Also refer to the Audit and Risk Committee report on pages 80 - 88.</p>	<p>Significant estimates are made in estimating the Group's defined benefit pension obligations and small changes in assumptions and estimates used may have a significant effect on the amounts recorded. There is a risk that the assumptions applied are not appropriate in the context of the pension scheme arrangements.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of pension obligations has a high degree of estimation uncertainty, as a small change in key assumptions can lead to material changes in the obligations. This can result with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 5.2) disclose the sensitivity estimated by the Group.</p> <p>Disclosure quality</p> <p>There is a risk that the disclosures presented are not sufficient to explain the key assumptions that the Board has adopted for the purpose of valuing the pension obligations.</p>

Our response

Methodology choice: We used our internal actuarial specialists to consider and assess critically the methodologies applied.

Assessing the valuer's credentials: We evaluated the competence and independence of the external actuaries who are engaged by the Company to estimate the pension scheme obligations for the purpose of the financial statements.

Comparing valuations: We benchmarked the key assumptions applied in determining the Group's defined benefit obligations, being the discount rate, inflation rate and mortality/life expectancy. This included a comparison of these key assumptions against externally derived data.

Assessing transparency: We evaluated the adequacy of the disclosures in respect of the sensitivity of the obligations to these assumptions.

Our findings: We found that the assumptions and estimates were balanced (2019 finding: balanced) and the Group's disclosures in section 5.2 to be proportionate (2019 finding: proportionate) in their description of the assumptions and estimates made and the sensitivities of the valuation of the pension obligations to changes in those assumptions and estimates.

The risk	
<p>Recoverability of the Parent Company's investment in, and amounts due from, its subsidiaries</p> <p>Investment carrying value £683.3 million (2019: £568.9 million) and amounts due from subsidiaries £2,946.9 million (2019: £2,598.8 million). Refer to section 7.3.1 (accounting policies) and section 7.3.4 (Investments) and Parent Company Balance Sheet</p>	<p>Low risk, high value</p> <p>The carrying amount of the Parent Company's investment in, and amounts due from, its subsidiaries represents 17.6% and 75.9% (2019: 16.3% and 74.7%) of its total assets respectively. The Group is undergoing a major transformation, and one that the Board expect will deliver significant revenue growth. The ability of the Group to deliver successfully against the transformation objectives set is a key factor in determining the recoverability and risk of significant misstatement. Due to its materiality in the context of the Parent Company financial statements, the recoverability of the Parent Company's investments in, and amounts due from, its subsidiaries is considered to be the area that had the greatest effect overall on our Parent Company audit.</p>

Our response

Tests of detail: We compared the carrying amount of the investment, and the amounts due from subsidiaries, with the relevant subsidiary's draft statutory balance sheet to identify whether its net assets, being an approximation of its minimum recoverable amount, was in excess of its carrying amount and assessed whether the subsidiary has historically been profit-making.

Our findings: We found the Parent Company's assessment of the recoverability of the investment in, and amounts due from, subsidiaries to be balanced (2019 finding: balanced). We found the Company's disclosures of the recoverability of investment held by the Parent Company in, and amounts due from, subsidiaries to be proportionate (2019 finding: proportionate).

4 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £7.0 million (2019: £8.0 million), determined with reference to a benchmark of normalised Group profit before tax from continuing operations (PBTCO) of £157.4 million (2019: £211.1 million), of which it represents 4.4% (2019: 3.8%).

We normalised PBTCO by adding back adjustments that do not represent the normal, continuing operations of the Group and additionally in 2020 by averaging over 3 years. The items we adjusted for were impairment charges against goodwill and acquired intangibles of £1.6 million (2019: £41.4 million) (sections 3.3 and 3.4); impairment charges against loans and investment of £0.4 million (2019: nil) (section 2.4); claims and litigation provisions net movements of £0.7 million (2019: £0.8 million) (section 2.4); finance costs of £1.1 million (2019: £6.3 million) (section 4.3); contingent consideration movements of £nil million (2019: £1.4 million) (section 4.5); business exit disposal gain of £33.8 million (2019: nil) (section 2.8); trading business exit expense of £0.3 million (2019: £16.7 million) (section 2.8); non-trading business exit disposal expense of £23.7 million (2019: £52.1 million) (section 2.8); business exit on-hold disposal costs of £7.5 million (2019: nil); and significant restructuring expense of £109.6 million (2019: £159.4 million) (section 2.4). We have not adjusted for the trading profit of the Education Software Solutions (“ESS”) business, which is included with business exits and was disposed of in February 2021, as this business was part of the Group for the entirety of the year ended 31 December 2020.

Materiality for the Parent Company financial statements as a whole was set at £6.5 million (2019: £5.2 million), by reference to component materiality. This is lower than the materiality we would otherwise have determined by reference to total Company assets and represents 0.4% of the Company's total assets (2019: 0.15%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements taken as a whole.

Performance materiality for the Group and the Parent Company was set at 65% (2019: 65%) of materiality for the financial statements as a whole, which equates to £4.2 million (2019: £5.2 million) for the Group and £4.5 million (2019: £3.4 million) for the Parent Company. We applied this percentage in our determination of performance materiality based on the number and level of identified misstatements and control deficiencies during the prior period.

We reported to the Audit and Risk Committee any corrected or uncorrected identified misstatements over £0.35 million (2019: £0.4 million) with the exception of reclassification misstatements greater than £1.0 million (2019: £1.0 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed by component auditors at 23 key reporting components in the United Kingdom, Switzerland, Germany, and by the Group audit team over 2 key components in the United Kingdom, including the Parent Company (2019: 27 in the United Kingdom, Switzerland, Germany, and by the Group audit team over 2 key components in the United Kingdom, including the Parent Company). For the remaining components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these. These procedures covered approximately 86% of total Group revenue (2019: 84%); 74% of the total profits and losses that made up Group profit before tax (2019: 83%); and 88% of total Group assets (2019: 84.0%).

The Group audit team, with the assistance of the component auditors where appropriate, performed procedures on the items excluded from normalised Group PBTCO.

The Group audit team approved the component materiality levels, which ranged from £0.4 million to £5.6 million (2019: £0.4 million to £6.4 million), having regard to the mix of size and risk profile of the Group across the components.

Detailed audit instructions were sent to the component auditors. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. In the prior year audit, a senior member of the group audit team visited Germany, covering one of the overseas components in scope. Following the outbreak of COVID-19 and the related travel restrictions, we were unable to perform physical site visit to overseas components for the current year audit. To replace these, senior members of the Group audit team held regular virtual meetings with component auditors throughout the audit and in the United Kingdom, Germany and Switzerland. At these virtual meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor. The Group audit team routinely reviewed the audit documentation of all component audits through various stages of their audits.

5 Going concern basis of preparation

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Parent Company, or to cease their operations, and as they have concluded that the Group and the Parent Company's financial position means that this is realistic for at least 18 months from the date of approval of the financial statements (“the going concern period”). As stated in section 2 of our report, they have also concluded that there are material uncertainties related to going concern.

An explanation of how we evaluated management's assessment of going concern is set out in section 2 of our report.

Our conclusions based on this work:

- We consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- We have nothing material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting, and their identification therein of material uncertainties over the Group and Parent Company's ability to continue to use that basis for the going concern period; and
- The related statement under the Listing Rules set out on page 71 is materially consistent with the financial statements and our audit knowledge.

6 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of Directors, the Audit and Risk Committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board and Audit and Risk Committee meeting minutes;
- Considering remuneration incentive schemes and performance targets for management and Directors including the short-term incentive plan and long-term incentive plan for management remuneration;
- Using analytical procedures to identify any usual or unexpected relationships; and
- Using our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the Group and Parent Company.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, and taking into account possible pressures to meet profit targets and market consensus and using our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue and profit recognition. In particular the risk that Group and component management may be in a position to make inappropriate accounting entries for long-term contracts, and the risk of bias in accounting estimates and judgements such as contract modifications and terminations.

We also identified fraud risks related to inappropriate capitalisation and recoverability of contract fulfilment assets and inappropriate classification of items excluded from adjusted profit in response to possible pressures to meet profit targets.

Further detail in respect of revenue and profit recognition, capitalisation and recoverability of contract fulfilment assets, and items excluded from adjusted profit is set out in the key audit matter disclosures in section 3 of this report.

In determining the audit procedures, we took into account the results of our evaluation of some of the Group-wide fraud risk management controls which are set out in the Audit and Risk Committee report within the Corporate Governance section of the Group's annual report.

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted and approved by the same user, and those posted to unusual accounts.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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

As some of the Group's subsidiaries are regulated, our assessment of risks involved gaining an understanding of the control environment including these entities' procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group audit team to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group.

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

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

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of some of the Group's subsidiaries' license to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, data protection, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities in the Life & Pensions and Employee Benefits sectors. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Further detail in respect of provisions and contingent liabilities is set out in the key audit matter disclosures in section 3 of this report.

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

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

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

7 We have nothing to report on the other information in the Annual Report and Accounts

The Directors are responsible for the other information presented in the Annual Report and Accounts together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- 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.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.



Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, other than the material uncertainties related to going concern and viability referred to in section 2 of this report, we have nothing further material to add or draw attention to in relation to:

- The Directors' confirmation within the Viability Statement on page 58 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- The emerging and principal risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- The Directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability Statement set out on page 58 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. 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 anything to report on these statements is not a guarantee as to the Group's and Parent Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- The Directors' statement that they consider that the Annual Report and Accounts, and financial statements, taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- The section of the Annual Report and Accounts describing the work of the Audit and Risk Committee, including the significant issues that the Committee considered in relation to the financial statements, and how these issues were addressed; and
- The section of the Annual Report and Accounts that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

8 We have nothing to report on the other 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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Parent Company financial statements and the part of the Directors' Remuneration Report to be audited 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.

9 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 76, the Directors are responsible for: the preparation of the financial statements including 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 Group and Parent 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 Group or the Parent 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 other irregularities (see below), 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, other irregularities 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.

10 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 and the terms of our engagement by the Company. 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 the further matters we are required to state to them in accordance with the terms agreed with the Company, 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.

Robert Brent (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square, London, E14 5GL
16 March 2021

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Consolidated income statement

For the year ended 31 December 2020

	Notes	2020 £m	2019 ¹ £m
Continuing operations:			
Revenue	2.2	3,324.8	3,678.6
Cost of sales		(2,640.6)	(2,756.4)
Gross profit		684.2	922.2
Administrative expenses	2.3, 2.4, 2.8	(716.2)	(921.8)
Operating (loss)/profit	2.3, 2.4, 2.8	(32.0)	0.4
Share of results in associates and investment gains		0.8	(0.6)
Net finance expense	4.3	(49.6)	(62.4)
Gain on business disposal	2.8	31.4	—
Loss before tax	2.4	(49.4)	(62.6)
Income tax credit	2.6	47.6	3.5
Loss for the year from continuing operations		(1.8)	(59.1)
Discontinued operations:			
Profit for the year	2.9	20.8	5.0
Total profit/(loss) for the year		19.0	(54.1)
Attributable to:			
Owners of the Company		14.0	(64.2)
Non-controlling interests	4.7	5.0	10.1
		19.0	(54.1)
Earnings/(loss) per share			
Continuing:	2.7		
– basic		(0.41)p	(4.18)p
– diluted		(0.41)p	(4.18)p
Total operations:			
– basic		0.85 p	(3.89)p
– diluted		0.85 p	(3.89)p
Adjusted operating profit	2.4	111.0	254.5
Adjusted profit before tax	2.4	65.2	197.7
Adjusted earnings per share	2.7	4.19p	9.30p
Adjusted and diluted earnings per share	2.7	4.19p	9.30p

1. The 2019 comparatives have been re-presented to align with the current year allocation of costs between cost of sales and administrative expenses. This has resulted in an increase to cost of sales of £73.4m and an equivalent reduction to administrative expenses.

Consolidated statement of comprehensive income

For the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Total profit/(loss) for the year		19.0	(54.1)
Other comprehensive expense			
Items that will not be reclassified subsequently to the income statement			
Actuarial loss on defined benefit pension schemes	5.2	(32.1)	(106.7)
Deferred tax effect on defined benefit pension schemes	2.6	10.9	18.1
Loss on fair value of investments		(0.7)	—
Items that will or may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations		(9.0)	(1.2)
(Loss)/gain on cash flow hedges	4.2.4	(1.6)	1.0
Cash flow hedges recycled to the income statement	4.2.4	(4.5)	(2.6)
Income tax effect on cash flow hedges	2.6	1.1	0.3
Other comprehensive expense for the year net of tax		(35.9)	(91.1)
Total comprehensive expense for the year net of tax		(16.9)	(145.2)
Attributable to:			
Owners of the Company		(21.9)	(155.3)
Non-controlling interests	4.7	5.0	10.1
		(16.9)	(145.2)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated balance sheet

At 31 December 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Property, plant and equipment	3.2	157.2	194.3
Intangible assets	3.3	265.0	354.2
Goodwill	3.4	1,120.5	1,177.8
Right-of-use assets	3.5	342.1	480.9
Investments in associates and joint ventures		5.1	3.8
Contract fulfilment assets	3.1.3	294.8	275.8
Financial assets	4.5	117.0	82.2
Deferred tax assets	2.6	242.8	181.6
Trade and other receivables	3.1.1	22.1	26.4
		2,566.6	2,777.0
Current assets			
Financial assets	4.5	32.1	25.1
Disposal group assets held-for-sale	2.8	114.6	12.4
Trade and other receivables	3.1.1	551.0	748.4
Cash	4.5.4	460.9	409.1
Income tax receivable		2.9	4.5
		1,161.5	1,199.5
Total assets		3,728.1	3,976.5
Current liabilities			
Trade and other payables	3.1.2	635.0	619.8
Deferred income		822.2	884.5
Overdrafts	4.5.4	332.7	286.3
Lease liabilities	4.4,4.5	77.5	81.9
Disposal group liabilities held-for-sale	2.8	53.9	7.9
Finance liabilities	4.5	347.8	351.8
Provisions	3.6	107.0	71.3
		2,376.1	2,303.5
Non-current liabilities			
Trade and other payables	3.1.2	23.6	6.0
Deferred income		153.0	176.5
Lease liabilities	4.4,4.5	426.0	480.7
Financial liabilities	4.5	554.3	795.7
Deferred tax liabilities	2.6	6.7	16.3
Provisions	3.6	17.4	9.3
Employee benefits	5.2	252.1	252.5
		1,433.1	1,737.0
Total liabilities		3,809.2	4,040.5
Net liabilities		(81.1)	(64.0)
Capital and reserves			
Share capital	4.6	34.5	34.5
Share premium	4.6	1,143.3	1,143.3
Employee benefit trust and treasury shares	4.6	(11.2)	(11.2)
Capital redemption reserve		1.8	1.8
Other reserves		(13.4)	0.6
Retained deficit		(1,289.5)	(1,295.8)
Deficit attributable to owners of the Company		(134.5)	(126.8)
Non-controlling interests	4.7	53.4	62.8
Total deficit		(81.1)	(64.0)

The accompanying notes are an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Board of directors on 16 March 2021 and signed on its behalf by:

Jon Lewis
Chief Executive Officer

Gordon Boyd
Chief Financial Officer (interim)

Company registered number: 02081330

Consolidated statement of changes in equity

For the year ended 31 December 2020

	Share capital £m	Share premium £m	Employee benefit trust and treasury shares £m	Capital redemption reserve £m	Retained deficit £m	Other reserves £m	Total attributable to the owners of the parent £m	Non-controlling interests £m	Total (deficit)/equity £m
At 1 January 2019	34.5	1,143.3	(11.2)	1.8	(1,135.3)	3.1	36.2	67.1	103.3
Impact of change in accounting standards – IFRS 16 ¹	—	—	—	—	(26.8)	—	(26.8)	—	(26.8)
Impact of change in accounting standards – IFRIC 23 ²	—	—	—	—	6.2	—	6.2	—	6.2
At 1 January 2019, after adoption of IFRS 16 ¹ and IFRIC 23 ²	34.5	1,143.3	(11.2)	1.8	(1,155.9)	3.1	15.6	67.1	82.7
(Loss)/profit for the year	—	—	—	—	(64.2)	—	(64.2)	10.1	(54.1)
Other comprehensive expense	—	—	—	—	(88.6)	(2.5)	(91.1)	—	(91.1)
Total comprehensive (expense)/income for the year	—	—	—	—	(152.8)	(2.5)	(155.3)	10.1	(145.2)
Share based payment net of deferred tax effect (note 2.6; note 5.1)	—	—	—	—	3.8	—	3.8	—	3.8
Shares purchased (note 4.6)	—	—	—	—	(0.7)	—	(0.7)	—	(0.7)
Dividends paid ³	—	—	—	—	—	—	—	(14.4)	(14.4)
Movement in put-options held by non-controlling interests	—	—	—	—	9.8	—	9.8	—	9.8
At 1 January 2020	34.5	1,143.3	(11.2)	1.8	(1,295.8)	0.6	(126.8)	62.8	(64.0)
Profit for the year	—	—	—	—	14.0	—	14.0	5.0	19.0
Other comprehensive expense	—	—	—	—	(21.9)	(14.0)	(35.9)	—	(35.9)
Total comprehensive (expense)/income for the year	—	—	—	—	(7.9)	(14.0)	(21.9)	5.0	(16.9)
Share based payment net of deferred tax effect (note 2.6; note 5.1)	—	—	—	—	5.2	—	5.2	—	5.2
Dividends paid ³	—	—	—	—	—	—	—	(14.4)	(14.4)
Movement in put-options held by non-controlling interests	—	—	—	—	9.0	—	9.0	—	9.0
At 31 December 2020	34.5	1,143.3	(11.2)	1.8	(1,289.5)	(13.4)	(134.5)	53.4	(81.1)

1. The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.

2. The Group initially applied IFRIC 23 Uncertainty over Income Tax Treatments at 1 January 2019. The cumulative effect of initially applying IFRIC 23 has been recognised in retained earnings at the date of initial application.

3. Dividends paid and proposed: £14.4m (2019: £14.4m) relate to dividends paid to non-controlling interests. No dividends were declared, paid or proposed in 2020 or 2019 on the Parent Company's ordinary shares.

Share capital – The balance classified as share capital is the nominal proceeds on issue of the Parent Company's equity share capital, comprising 2 1/15p ordinary shares.

Share premium – The amount paid to the Parent Company by shareholders, in cash or other consideration, over and above the nominal value of shares issued to them less issuance costs.

Employee benefit trust and treasury shares – Shares that have been bought back by the Parent Company which are available for retirement or resale; shares held in the employee benefit trust have no voting rights and no entitlement to a dividend.

Capital redemption reserve – The Parent Company can redeem shares by repaying the market value to the shareholder, whereupon the shares are cancelled. Redemption must be from distributable profits. The Capital redemption reserve represents the nominal value of the shares redeemed.

Retained deficit – Net (losses)/profits accumulated in the Group after dividends are paid.

Other reserves – This consists of foreign currency translation reserve deficit of £8.6m (2019: £0.4m surplus) and cash flow hedging reserve deficit of £4.8m (2019: £0.2m surplus).

Non-controlling interests (NCI) – This represents the equity in subsidiaries that is not attributable directly or indirectly to the Parent Company.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated cash flow statement

For the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Cash generated from operations	2.10	434.2	32.8
Cash generated from discontinued operations		18.6	4.7
Income tax paid		(8.8)	(5.4)
Net interest paid		(47.7)	(58.4)
Net cash inflow/(outflow) from operating activities		396.3	(26.3)
Cash flows from investing activities			
Purchase of property, plant and equipment	3.2	(40.8)	(57.7)
Purchase of intangible assets	3.3	(46.6)	(124.7)
Proceeds from sale of property, plant and equipment/intangible assets	2.3, 3.2, 3.3	13.5	0.4
Additions to investments in associates		(0.6)	(0.6)
Additions to investments held at fair value		(0.3)	—
Disposals of investments held at fair value		3.9	—
Deferred consideration paid		—	(1.3)
Contingent consideration paid		(4.9)	(2.4)
Subsidiary partnership payment		(9.4)	(9.4)
Capital element of lease rental receipts		2.8	—
Net proceeds/(loss) on disposal of subsidiary undertakings	2.8	51.3	(8.9)
Cash disposed of with subsidiary undertakings	2.8	(3.2)	—
Net cash outflow from investing activities		(34.3)	(204.6)
Cash flows from financing activities			
Dividends paid to non-controlling interests		(14.4)	(14.4)
Purchase of shares	4.6	—	(0.7)
Capital element of lease rental payments	2.10.3	(98.0)	(93.7)
Repayment of private placement loan notes	2.10.3	(242.9)	(96.8)
Proceeds from cross-currency interest rate swaps	2.10.3	24.5	10.9
Repayment of term loan	2.10.3	—	(100.0)
Financing arrangement costs	2.10.3	(0.5)	(1.1)
Net cash outflow from financing activities		(331.3)	(295.8)
Increase/(decrease) in cash and cash equivalents		30.7	(526.7)
Cash and cash equivalents at the beginning of the period		119.3	642.7
Effect of exchange rates on cash and cash equivalents		(8.9)	3.3
Cash and cash equivalents at 31 December		141.1	119.3
Cash and cash equivalents comprise:			
Cash	4.5.4	460.9	409.1
Overdrafts	4.5.4	(332.7)	(286.3)
Cash, net of overdrafts, included in disposal group assets and liabilities held-for-sale	2.8	12.9	(3.5)
Total		141.1	119.3
Adjusted cash generated from operations	2.10	367.5	213.6
Adjusted free cash flows	2.10	238.6	(23.2)

The accompanying notes are an integral part of these consolidated financial statements.

Section 1: Basis of preparation

This section sets out the Group's accounting policies relating to these consolidated financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

In this section you will also find details of new accounting standards, amendments and interpretations including their effective dates and explanation on the expected impact to the financial position and performance of the Group.

For ease of reference, this symbol has been used to denote any accounting policies included within the notes:

AP Denotes accounting policies

These financial statements consolidate those of Capita plc (the Company or the Parent Company) and all of its subsidiaries (the Group). Capita plc is a public limited company incorporated in England and Wales whose shares are publicly traded. The principal activities of the Group are given in the strategic report on pages 26 to 37.

These consolidated financial statements of Capita plc for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the directors on 16 March 2021.

These consolidated financial statements are presented in British pounds sterling and all values are rounded to the nearest tenth of a million (£m) except where otherwise indicated.

Statement of compliance

These consolidated financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Group at 31 December each year. Subsidiaries are consolidated from the date on which control is transferred to the Group until control is transferred out of the Group. Where there is a loss of control of a subsidiary, these consolidated financial statements include the results for that part of the reporting year during which Capita plc had control and the profit or loss on disposal is calculated as the difference between the fair value of the consideration received and the carrying amount of the assets (including goodwill) disposed of. Losses applicable to the non-controlling interests in subsidiaries are attributed to the non-controlling interests even if that results in the non-controlling interests having a deficit balance.

Investments in associates are accounted for using the equity method. Under the equity method, the investment in the entity is stated as a one line item at cost plus the investor's share of retained post-acquisition profits or losses and other changes in net assets less any impairment.

Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2020, the directors are required to consider whether the Group and Parent Company can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts, key uncertainties and sensitivities, as set out below, and that align with the viability statement as set out on page 58.

Accounting standards require that the foreseeable future covers a period of at least 12 months from the date of approval of the financial statements, although they do not specify how far beyond 12 months a Board should consider. In the prior year, the Board considered an extended period out to 31 August 2022 (30 months) which aligned with the expiry of the revolving credit facility (RCF). The Board continue to consider the period out to 31 August 2022 for the purpose of the going concern assessment, which reflects a period of at least 18 months from the date of approval of these financial statements (the going concern period). While this is a shorter period, it does align with the expiry of the RCF which is a key consideration. The Board have also considered any committed outflows beyond this period in forming their assessment.

The base case projections prepared for the going concern assessment are derived from the 2021–2023 business plans (BP) as approved by the Board in February 2021. The BP captures the benefits that the transformation plan is anticipated to deliver, and the costs to achieve these.

Covid-19 has introduced unprecedented economic uncertainties and has led to increased judgement particularly in forecasting future financial performance. Many parts of the Group have demonstrated resilience throughout 2020, adapting to address the impact of Covid-19, but as discussed at the half year, the pandemic has slowed the progress of the transformation plan. The impact has been incorporated within the base case projections.

The going concern assessment considers the Group's existing debt facilities, committed funding and liquidity positions, and covenant compliance throughout the period under review. The Group's committed RCF (£452.0m at 31 December 2020) matures in August 2022 but the Group is targeting completion of its refinancing agenda during 2021, which it expects will include a RCF with a maturity at least a year later. There are scheduled debt repayments totalling £277m over the period to August 2022, with a further repayment of c.£163m in November 2022 on the private placement loan notes. Details of the covenant requirements and definitions are set out in section 8.2.

Financial position at 31 December 2020

The Group had net debt of £1,077.1m at 31 December 2020 (2019: £1,353.2m) and adjusted net debt of £616.4m (2019: £832.7m). Adjusted EBITDA was £293.0m at 31 December 2020 (2019: £439.4m). The Group was in compliance with all debt covenants at 31 December 2020 (see section 8.2).

Board assessment

Base case scenario

Under the base case projections, the transformation plan will simplify and strengthen the business and drive a reduced cost base to generate sustainable revenue growth and cash flows. Details of the plan are set out in the strategic report on pages 10 to 16.

This realises positive free cash flows, and when combined with available committed facilities allows the Group to manage the scheduled debt repayments. Under the base case there is liquidity headroom throughout the forecast period to 31 August 2022, and compliance with all covenant measures.

The base case assumes the extension of the RCF as set out above, given the improved financial position of the Group which benefits from the successful delivery of the transformation plan. The key sensitivity to the base case is the execution risk associated with delivering the revenue growth, exacerbated should the pandemic continue to impact the Group's activities.

Section 1: Basis of preparation continued

Severe but plausible downside

In considering the severe but plausible downside scenarios the Board has considered trading downside risks, which assumes the transformation plan is not successful in delivering the anticipated revenue growth, together with increased attrition, and further impacts of Covid-19. In addition, the downside scenario includes potential adverse financial impacts that could arise from unforeseen operational issues leading to contract losses and cash outflows, and unexpected potential fines and losses linked to incidents such as data breaches and/or cyber attacks.

There are mitigations, under the direct control of the Group, that the Board can introduce to address these shortfalls. These include continued reductions to variable pay rises, setting aside any bonus payments and limiting discretionary spend. While these are available as possible short-term mitigations and would be actioned if required to ensure compliance with debt covenants, the Board is mindful that such restrictions may be detrimental to the success of the transformation plan. In addition, such actions would not address the liquidity requirements beyond the going concern period. Absent these mitigating actions, on a downside scenario there is insufficient headroom to ensure compliance with the debt covenants throughout the measurement period to 31 August 2022, and insufficient liquidity taking into account the facilities currently available, due to a combination of the downside risks crystallising and scheduled debt repayments.

To address the resilience of the Group to such downside scenarios, the Board has been exploring a refinancing of the debt maturities to reprofile the debt repayments to align with the completion of the transformation programme while also providing the financial support necessary to complete the required investments. While refinancing was not completed in 2020, the Board did successfully arrange backstop facilities in February and August 2020, is already in discussion with lenders, and is targeting completion of a refinancing in 2021.

In addition to refinancing, the Board has approved a continuation of the previously announced disposal programme which covers businesses that do not align with the longer-term strategy for the Group.

The Group has a strong track record of executing major planned disposals. Examples include net cash proceeds from the disposal of the Asset Services business in 2017 (c.£865m) and ParkingEye and Constructionline in 2018 (c.£390m). More recently the Group generated net cash proceeds of c.£50m from the disposal of Eclipse Legal Services in June 2020 and c.£300m from the disposal of the Education Software Solutions business in February 2021. The Board is confident that the disposal programme can be delivered given the strength of the underlying businesses and the value they deliver. The planned disposals will introduce considerable net cash proceeds to the Group, albeit with a corresponding removal of consolidated profits associated with these businesses.

The net proceeds received during 2020 have been effective in reducing the Group's indebtedness from £1,353.2m at 31 December 2019 to £1,077.1m at 31 December 2020. The deferral of £118.8m of VAT under the Government's Covid-19 measures has also contributed to this reduction in net debt.

Material uncertainties

The Board recognises that any refinancing, should the severe downside play out, would require third party agreements from lenders.

Furthermore, the disposal programme requires agreement from third parties, and major disposals may be subject to shareholder and lender approval. Such agreements and approvals are outside the direct control of the Company. Accordingly, these events give rise to material uncertainties, as defined in auditing and accounting standards, relating to events and circumstances which may cast significant doubt about the Group's and Parent's ability to continue as a going concern and, therefore, that the Group and Company may be unable to realise their assets and discharge their liabilities in the normal course of business.

Reflecting the Board's confidence in the transformation programme, ability to refinance, and execution of the approved disposal programme, the Company continues to adopt the going concern basis in preparing the financial statements. The Board has concluded that the Group and Parent Company will continue to have adequate financial resources to realise their assets and discharge their liabilities as they fall due over the period to 31 August 2022. Consequently, these financial statements do not include any adjustments which would be required if the going concern basis of preparation is inappropriate.

Foreign currency translation

The functional and presentation currency of Capita plc and its United Kingdom (UK) subsidiaries is the British pound sterling (£). Transactions in foreign currencies are initially recorded at the functional currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency exchange rate ruling at the balance sheet date. All differences are taken to the consolidated income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also taken directly to equity. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of the overseas operations include the euro, Indian rupee, South African rand, and the US dollar. At the reporting date, the assets and liabilities of the overseas operations are retranslated into the presentation currency of Capita plc at the exchange rate ruling at the balance sheet date and their income statements are translated at the weighted average exchange rate for the year.

The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative foreign currency translation difference recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that a non-current asset may be impaired. Where an indicator of impairment exists, the Group 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, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Section 1: Basis of preparation continued

Significant accounting judgements, estimates and assumptions

The preparation of financial statements in accordance 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 presented periods. Although these judgements and assumptions are based on the directors' best knowledge of the amount, events or actions, actual results may differ.

The potential impact of Covid-19 on the Group has been considered in the preparation of these consolidated financial statements, including management's evaluation of critical accounting estimates and judgements. The impact on the Group has varied by business.

Covid-19 has introduced unprecedented economic uncertainties and has led to increased judgement particularly in forecasting future financial performance. There have also been direct impacts on revenue and costs arising from: new contracts helping customers respond to the pandemic; costs of setting up colleagues to work remotely; the release of the 2019 bonus accruals; and utilisation of the Government's furlough scheme. The Board has not reported these items separately, but where there is an impact this is captured in the divisional performance reviews.

The Board has continued with a policy to separately identify items such as restructuring, where the plans have been advanced and adapted in response to Covid-19 and these are set out in note 2.4. The Board has also considered the impact on the provisions recorded at 31 December 2020, with no significant adjustments recorded, and the valuation of the defined benefit pension scheme.

As described in note 2.1, given the level of judgement and estimation involved in assessing the future profitability of contracts, it is reasonably possible that outcomes within the next financial year may be different from management's assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions. This risk is increased further by the uncertainly Covid-19 brings to forecasting.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are summarised below and set out in more detail in the related note:

- Contract accounting (note 2.1)
 - Impairment of contract fulfilment assets
 - Onerous contract provisions
- The impairment of goodwill (note 3.4)
- The measurement of defined benefit obligations (note 5.2)

The key areas where significant accounting judgements have been made are summarise below and set out in more detail in the related note:

- The capitalisation of contract fulfilment assets (note 3.1)
- The measurement of goodwill (note 3.4)
- The measurement of provisions (note 3.6) and contingent liabilities (note 6.2)

For ease of reference, this symbol has been used to denote significant accounting judgements and estimates where they occur within the note:

J Denotes significant accounting judgements, estimates and assumptions

New standards and interpretations adopted

The accounting policies adopted are consistent with those of the previous financial year. In addition, the Group has adopted the new amendments to standards detailed below but they do not have a material effect on the Group's consolidated financial statements.

New amendments or interpretation

Effective date

Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
Definition of a Business (Amendments to IFRS 3)	1 January 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Covid-19-Related Rent Concessions – amendments to IFRS 16	1 June 2020

New standards and interpretations not yet adopted

The IASB has issued the following standards, amendments and interpretations with an effective date after the date of these consolidated financial statements. These are effective for annual reporting periods beginning on or after the date indicated:

International Accounting Standards (IAS/IFRS)

Effective date

Not endorsed at 31 December 2020:

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
Annual Improvements to IFRS Standards 2018–2020	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023

Section 2: Results for the year

This section contains notes related to the financial performance of the Group. These include:

- 2.1 Contract accounting
- 2.2 Revenue including segmental revenue
- 2.3 Operating profit
- 2.4 Adjusted operating profit and adjusted profit before tax
- 2.5 Segmental information
- 2.6 Taxation
- 2.7 Earnings/(loss) per share
- 2.8 Business exits and assets held-for-sale
- 2.9 Discontinued operations
- 2.10 Cash flow information

AP Denotes accounting policies

J Denotes significant accounting judgements, estimates and assumptions

Key highlights

Adjusted revenue¹

£3,181.2m

(2019: £3,501.0m)

Adjusted free cash flow¹

Aim: Achieve sustainable, long-term free cash flow growth

£238.6m

(2019: £(23.2)m)

Adjusted profit before tax¹

Aim: achieve long-term growth in profit

£65.2m

(2019: £197.7m)

Adjusted earnings per share (EPS)¹

Aim: achieve long-term growth in EPS

4.19p

(2019: 9.30p)

Reported revenue

£3,324.8m

(2019: £3,678.6m)

Reported free cash flow

£303.8m

(2019: £(213.0)m)

Reported loss before tax

£(49.4)m

(2019: £(62.6)m)

Reported loss per share (EPS) – continuing operations

(0.41)p

(2019: (4.18)p)

1. Definitions of the alternative performance measures and related KPIs can be found in section 8.2.

Section 2: Results for the year continued

In 2020 the Group's adjusted revenue¹ declined as a result of 2019 contract losses and the economic impact of the Covid-19 pandemic on transactional revenue and volume-based framework contracts which were not offset by contract wins. The negative impact on adjusted profit before tax¹ of the revenue reduction, other cost increases and unplanned contractual one-offs could not be off-set by cost savings, both transformational and in response to the pandemic. The lower level of profit was more than offset by improvements in working capital and a reduction in capital expenditure, resulting in adjusted free cash inflow¹ of £238.6m (2019: £23.2m outflow).

The Group had additional cash inflows of £65.2m, which included inflows arising from non-recourse receivables financing (£13.6m), VAT deferral (£118.8m) and business exit gains (£33.9m), which were partially offset by outflows relating to restructuring (£64.1m) and pension deficit payments (£29.5m). This resulted in headline net debt decreasing to £1,077.1m (2019: £1,353.2m).

Revenue

Adjusted revenue¹ declined by 9.1% year-on-year. For additional information, which does not form part of these consolidated financial statements, the interim Chief Financial Officer's review in the strategic report includes a bridge of drivers of the movement.

There were one-offs in 2019 of £39.3m related to contract termination payments and releases of deferred income from contract modifications.

The reduction in revenue was due to contract losses in 2019, mainly in Local Government and a number of losses in Specialist Services which were not offset by contract wins including the DFRP contract, a project in Customer Management and a number of smaller wins across all divisions.

There was a net reduction of £152.6m attributed to Covid-19, largely due to lower transactional revenue, including a number of our framework agreements which are driven by volumes. This reduction was offset by additional revenue won, predominantly within Government Services to assist with the UK's response to the pandemic.

In 2020, one-off benefits similar to 2019, of £14.7m, related to the release of deferred income from a contract modification.

The difference of £143.6m between adjusted revenue of £3,181.2m and reported revenue of £3,324.8m is related to business exits in the year (refer to note 2.8).

Profit before tax

Adjusted profit before tax¹ declined by 67.0% year-on-year. For additional information, which does not form part of these consolidated financial statements, the interim Chief Financial Officer's review in the strategic report includes a bridge of drivers of the movement.

The adjusted profit before tax¹ decreased as a result of the following the profit impact of the following:

- The reversal of one-off contract related items in 2019 relating to the release of deferred income and write-off of contract assets arising from contract terminations, settlements and modifications.
- The benefit from contract wins (which includes the initial loss on the DFRP contract of £15m (refer to note 2.1)) not yet replacing profits from lost contracts.
- Scope and volume reductions, and other cost increases, partly mitigated by cost savings from the transformation cost competitiveness programme.
- Other cost increases, such as, inflation (including the commitment in the UK to the real living wage), additional depreciation, amortisation and running costs on completed transformation programmes, and an increase in bad debt provision.
- Reduction in transactional revenue (mostly attributable to Covid-19) which has a high initial margin impact due to fixed and semi-fixed cost base. This could not be fully mitigated by cash preservation actions, for example the impact of furloughing employees.
- Unplanned contractual one-offs of £23.9m, including the release of deferred income and write-off of contract assets arising from contract terminations, settlements and modifications, provisions recognised on onerous contracts and contract related asset impairments.

Adjusted profit before tax¹ excludes a number of specific items so users of these consolidated financial statements can more clearly understand the financial performance of the Group. Reported loss before tax was £49.4m (2019: loss £62.6m). A reconciliation of the adjusted profit before tax¹ to reported loss before tax is detailed in note 2.4.

Reported operating loss for the year was £32.0m (2019: profit £0.4m). Details of items charged/credited in arriving at operating profit can be found in note 2.3.

Taxation

The income tax credit of £13.6m on adjusted profit before tax¹ resulted in an adjusted tax rate of (20.9)% (2019: income tax charge of £29.0m and adjusted tax rate 14.7%). This is different from the UK statutory rate of tax of 19% predominantly due to the UK corporation tax rate change impact on deferred tax, and a partial release of the unremitted earnings provision due to tax rate reduction on overseas dividend distributions.

Earnings per share (EPS)

The movement in adjusted basic earnings per share¹ for continuing operations and reported basic earnings per share was as a result of the performance explained above.

Dividend

The Board is not recommending the payment of a final dividend (2019: £nil). However, the Board recognises the importance of regular dividend payments to investors in forming part of their total shareholder return and will consider the payment of dividends when the Group is generating sufficient sustainable free cash flow.

1. Definitions of the alternative performance measures and related KPIs can be found in section 8.2.

Section 2: Results for the year continued

Adjusted free cash flow¹

Adjusted free cash flow¹ in 2020 was an inflow, as improved contractual working capital movements and inflows from other working capital more than off-set the decline in adjusted operating profit.

We have analysed working capital between 'contractual' – being those balances which relate to long-term contract movements of deferred income, accrued income and contract fulfilment assets to derive cash from trading operations – and 'other working capital', which represents routine normal working capital items such as trade receivables, trade payables and prepayments.

Adjusted operating profit to adjusted free cash flow ¹	2020 £m	2019 £m
Adjusted operating profit¹	111.0	254.5
Add: depreciation/amortisation and impairment property, plant and equipment and intangible assets	182.0	184.9
Adjusted EBITDA	293.0	439.4
Contractual working capital movement (deferred income, contract fulfilment assets and accrued income)	(42.5)	(215.7)
Cash from trading operations*	250.5	223.7
Net capital expenditure	(72.4)	(172.9)
Other working capital	60.5	(74.0)
Adjusted free cash flow¹	238.6	(23.2)

* Cash from trading operations defined as adjusted EBITDA less contractual working capital movements.

Cash from trading operations increased to £250.5m (2019: £223.7m) due to reduction in contractual working capital outflows.

Contractual working capital improved with an outflow of £42.5m (2019: outflow £215.7m) due to:

- An accrued income inflow of £27m, driven by invoice phasing in Technology Solutions and the impact of lower revenues across People Solutions and Software.
- A reduced deferred income outflow of £154m, largely from advanced receipts and higher activity levels on the DFRP contract where cash has been received in 2020 in respect of transformation, and invoice timing on a contract with a telecom customer, compared to an outflow in 2019 which included the £78m one-off impact of ending local government contracts, offset by
- A contract fulfilment asset outflow of £8m, mostly from an increase in additions on Government Services contracts, the most significant being on the DFRP contract, offset by contract asset write off's in Customer Management and Government Services.

Net capital expenditure decreased in 2020 in line with previously planned reductions as we drove focused investment and Group cash preservation methods in response to the pandemic.

Other working capital related cash inflows reflected shorter public sector payment cycles as part of the Covid-19 response, the impact of lower revenue, and actions taken to improve working capital.

1. Definitions of the alternative performance measures and related KPIs can be found in section 8.2.

Section 2: Results for the year continued

2.1 Contract accounting

At 31 December 2020, the Group had the following results and balance sheet items related to long-term contracts:

	Notes	2020 £m	2019 £m
Long-term contractual adjusted revenue	2.2	2,317.0	2,491.5
Non-current and current deferred income		975.2	1,061.0
Non-current contract fulfilment assets	3.1.3	294.8	275.8
Non-current and current onerous contract provision		16.5	6.1

Background

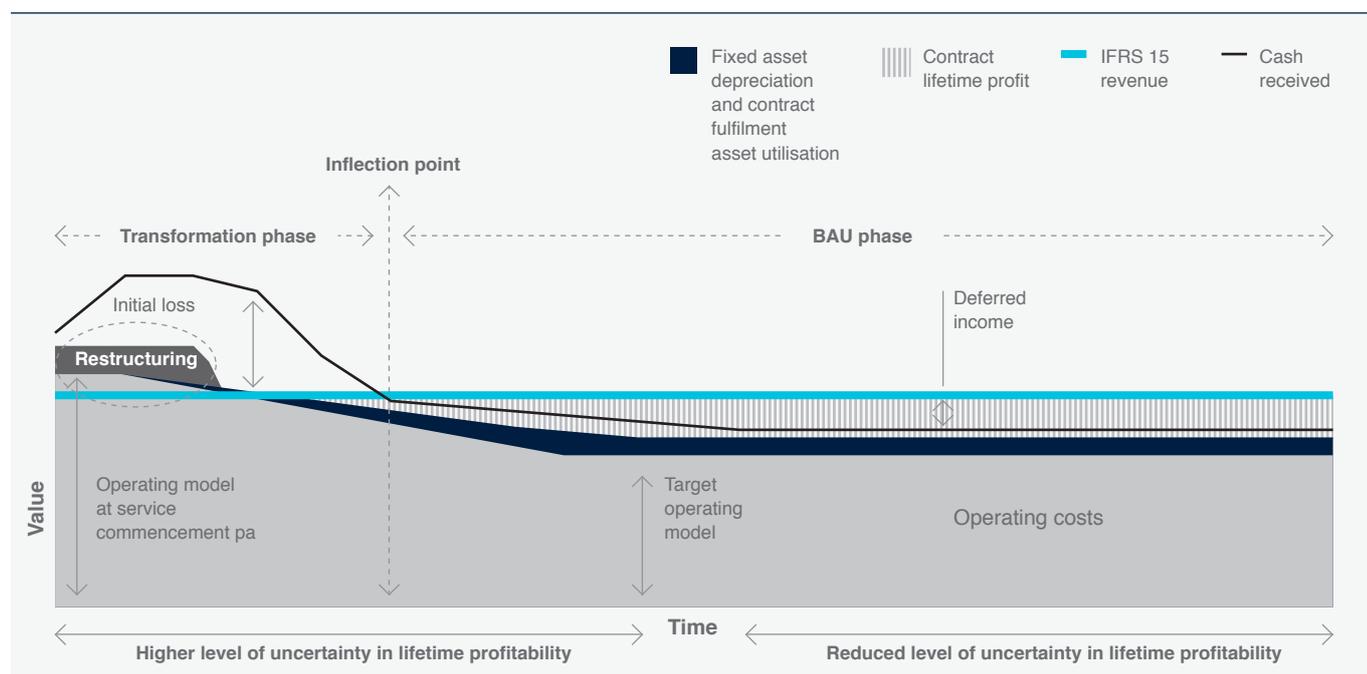
The Group operates a number of diverse businesses. The majority of the Group's revenue is from contracts greater than two years in duration (long-term contractual), being 73% of Group adjusted revenue in 2020 (2019: 71%).

These long-term contracts can be complex in nature given the breadth of solutions the Group offers and the transformational activities involved. Typically, Capita takes a customer's process and transforms it into a more efficient and effective solution which is then operated for the customer. The outcome is a high quality solution that addresses a customer's needs and is delivered consistently over the life of the contract.

The Group recognises revenue on long-term contracts as the value is delivered to the customer, which is generally evenly over the contract term, regardless of any restructuring and transformation activity. Capita will often incur greater costs during the transformation phase with costs diminishing overtime as the target operating model is implemented and efficiencies realised. This results in lower profits or losses in the early years of contracts and potentially higher profits in later years as the transformation activities are successfully completed and the target operating model fully implemented (the business as usual (BAU) phase). The inflection point is when the contract becomes profitable.

Contract fulfilment assets are recognised for those costs qualifying for capitalisation and the utilisation of these assets is recognised over the contract term. The cash received from our customers reflects when the costs are incurred to transform, restructure and run the service. This results in income being deferred and released as the Group continues to deliver against its obligation to provide services and solutions to its customers.

An example, showing the revenue, cost, profit and cash profit of a typical long-term contract lifecycle is as follows:



J Significant accounting judgements, estimates and assumptions

Due to the size and complexity of some of the Group's contracts, there are significant judgements to be applied, specifically in assessing: (1) the recoverability of contract fulfilment assets; and (2) the completeness of onerous contract provisions. These judgements are dependent on assessing the contract's future profitability. It is reasonably possible that outcomes within the next financial year may be different from management's assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions. This risk is increased further by the uncertainty Covid-19 brings to forecasting.

It should be noted that while management must make judgements in relation to applying the revenue recognition policy and recognition of related balance sheet items (trade receivables; deferred income; and accrued income) these are not considered significant judgements (refer to note 2.2 for the Group's policies).

Section 2: Results for the year continued

2.1 Contract accounting continued

Assessing contract profitability

In assessing a contract's future lifetime profitability, management must estimate forecast revenue and costs to both transform and run the service over the remaining contract term. The ability to accurately forecast the outcomes involves estimates in respect of: costs to be incurred; cost savings to be achieved; future performance against any contract-specific key performance indicators (KPIs) that could trigger variable consideration or service credits; and the outcome of any commercial negotiations.

The level of uncertainty in the estimated future profitability of a contract is directly related to the stage of the life-cycle of the contract and the complexity of the performance obligations. Contracts in the transformation stage and pre-inflection stages are considered to have a higher level of uncertainty because of:

- the ability to accurately estimate the costs to deliver the transformed process;
- the dependency on the customer to agree to the specifics of the transformation: for example, where they are involved in signing off that the new process or the new technical solution designed by Capita meets their specific requirements; and
- the assumptions made to forecast expected savings in the target operating model.

Those contracts which are post-inflection and in BAU stage tend to have a much lower level of uncertainty in estimating the contract's future profitability.

Recoverability of contract fulfilment assets and completeness of onerous contract provisions

Management first assesses whether the contract assets are impaired and then further considers whether an onerous contract exists. The Audit and Risk Committee specifically reviews the material judgements and estimates and the overall approach in respect of the Group's major contracts for each reporting period, including comparison against previous forecasts. Major contracts include those that are material in size or risk to the Group's results. Other contracts are reported to the Audit and Risk Committee as deemed appropriate. These contracts are collectively referred to as 'major contracts' in the remainder of this note.

The major contracts contributed £1.5billion (2019: £1.4billion) or 47% (2019: 40%) of Group adjusted revenue. Non-current contract fulfilment assets at 31 December 2020 were £294.8m, of which £152.7m (2019: £80.7m) relates to major contracts with on-going transformational activities. The remainder relates to contracts post transformation and includes non-major contracts.

The major contracts, both pre- and post-transformation, are rated according to their financial risk profile, which is linked to the level of uncertainty over future assumptions. For those that are in the high and medium rated risk categories the associated non-current contract fulfilment assets were, in aggregate, £44.5m at 31 December 2020 (2019: £52.4m). The recoverability of these assets is dependent on no significant adverse change in the key contract assumptions arising in the next financial year. The deferred income associated with these contracts was £232.3m at 31 December 2020 (2019: £243.6m) and is forecast to be recognised as performance obligations continue to be delivered over the life of the respective contracts.

Following these reviews, as outlined in note 3.1.3, contract fulfilment asset provisions of £17.5m (2019: £9.6m) were identified and recognised within adjusted cost of sales, of which £2.0m (2019: £2.2m) relates to contract fulfilment assets added during the period, and net onerous contract provisions of £10.4m (2019: £(1.3)m) were identified and recognised within adjusted cost of sales.

Given the quantum of the relevant contract assets and liabilities, and the nature of the estimates noted above, management has concluded that it is reasonably possible, that outcomes within the next financial year may be different from management's current assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions. However, as noted above, £152.7m of non-current contract fulfilment assets relates to major contracts with on-going transformational activities and £44.5m of non-current contract fulfilment assets relates to the highest and medium rated risk category. Due to the level of uncertainty, combination of variables and timing across numerous contracts, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied, and management do not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a user of the financial statements. Due to commercial sensitivities, the Group does not specifically disclose the amounts involved in any individual contract.

Certain of the major contracts in transformation have key milestones during the next 12 months and inability to meet these key milestones could lead to reduced profitability and a risk of impairment of the associated contract assets. These contracts include Primary Care Support England (PCSE) and Electronic Monitoring Services (EMS).

Additional information, which does not form part of these consolidated financial statements, on the results and performance of the underlying divisions including the outlook on certain contracts is set out in the divisional performance review.

2.2 Revenue including segmental revenue

AP Accounting policies

Revenue

The Group generates revenue largely in the UK and Europe. The Group operates a number of diverse businesses and accordingly applies a variety of methods for revenue recognition, 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.

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

For all contracts, the Group determines if the arrangement with a customer creates enforceable rights and obligations. This assessment results in certain Master Service Agreements (MSA) or Frameworks not meeting the definition of a contract under IFRS 15 and as such the individual call-off agreements, linked to the MSA, are treated as individual contracts.

The Group 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.

Section 2: Results for the year continued

2.2 Revenue including segmental revenue continued

For contracts with multiple components to be delivered such as transformation, transitions and the delivery of outsourced services, management applies judgement to consider whether those promised goods and services are:

- (i) distinct – to be accounted for as separate performance obligations;
- (ii) not distinct – to be combined with other promised goods or services until a bundle is identified that is distinct; or,
- (iii) part of a series of distinct goods and services that are substantially the same and have the same pattern of transfer to the customer.

At contract inception the total transaction price is estimated, being the amount to which the Group expects to be entitled and has rights to under the present contract. This includes an assessment of any variable consideration where the Group'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 Group allocates this to the identified performance obligations in proportion to their relative standalone selling prices and recognises revenue when (or as) those performance obligations are satisfied.

The Group infrequently sells standard products with observable standalone prices due to the specialised services required by clients and therefore the Group applies judgement to determine an appropriate standalone selling price. More frequently, the Group sells the customer a bespoke solution, and in these cases the Group typically uses the expected cost-plus margin or a contractually stated price approach to estimate the standalone selling price of each performance obligation.

The Group may offer price step downs during the life of a contract, but with no change to the underlying scope of services to be delivered. In general, any such variable consideration, price step down or discount is included in the total transaction price to be allocated across all performance obligations unless it relates to only one performance obligation in the contract.

For each performance obligation to be recognised overtime, the Group applies a revenue recognition method that faithfully depicts the Group'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 Group has promised to transfer to the customer. The Group applies the relevant output or input method consistently to similar performance obligations in other contracts.

When using the output method, the Group 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. Where the output method is used, in particular for long-term service contracts where the series guidance is applied, the Group often uses a method of time elapsed which requires minimal estimation. Certain long-term contracts use output methods based upon estimations of: user numbers; service activity levels; or fees collected.

If performance obligations in a contract do not meet the overtime criteria, the Group recognises revenue at a point-in-time when the service or good is delivered.

Contract modifications

The Group's contracts are often amended for changes in contract specifications and requirements. Contract modifications exist when the amendment either creates new, or changes existing, enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group'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 Group 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 overtime, 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 because 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 through 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 uses judgement to estimate the change in total transaction price. Importantly, any variable consideration is only recognised to the extent that it is highly probable that no revenue reversal will occur.

Principal versus agent

The Group has arrangements with some of its clients whereby it needs to determine if it acts as a principal or an agent because more than one party is involved in providing the goods and services to the customer. The Group is a principal if it controls a promised good or service before transferring that good or service to the customer. The Group is an agent if its role is to arrange for another entity to provide the goods or services. Factors considered in making this assessment are most notably: the discretion the Group has in establishing the price for the specified good or service; whether the Group has inventory risk; and whether the Group is primarily responsible for fulfilling the promise to deliver the service or good.

This assessment of control requires judgement particularly in relation to certain service contracts. An example is the provision of certain recruitment and learning services where the Group may be assessed to be agent or principal dependent upon the facts and circumstances of the arrangement and the nature of the services being delivered.

Where the Group is acting as a principal, revenue is recorded on a gross basis. Where the Group is acting as an agent, revenue is recorded on a net basis reflecting the margin earned.

Section 2: Results for the year continued

2.2 Revenue including segmental revenue continued

Licences

Software licences delivered by the Group can either be right to access (active) or right to use (passive) licences, which determines the timing of revenue recognition. The assessment of whether a licence is active or passive involves judgement.

The key determinant of whether a licence is active is whether the Group is required to undertake continuing 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. The Group 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. All other licences which have significant standalone functionality are treated as passive licences.

When software upgrades are sold as part of the software licence agreement (ie software upgrades are promised to the customer), the Group applies judgement to assess whether the software upgrades are distinct from the licence (ie a separate performance obligation). If the upgrades are 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.

The Group considers for each contract that includes a separate licence performance obligation all the facts and circumstances in determining whether the licence revenue is recognised overtime (active) or at a point-in-time (passive) from the go live date of the licence.

Deferred and accrued income

The Group's customer contracts include a diverse range of payment schedules dependent upon the nature and type of goods and/or services being provided. This can include performance-based payments or progress payments as well as regular monthly or quarterly payments for ongoing service delivery. Payments for transactional goods and services may be at delivery date, in arrears or part payment in advance. The long-term service contracts tend to have higher cash flows early on in the contract to cover transformational activities.

Where payments made to date are greater than the revenue recognised up to the reporting date, the Group recognises a deferred income contract liability for this difference. Where payments made are less than the revenue recognised up to the reporting date, the Group recognises an accrued income contract asset for this difference.

At each reporting date, the Group assesses whether there is any indication that accrued income assets may be impaired by considering whether the revenue remains highly probable that no revenue reversal will occur. Where an indicator of impairment exists, the Group 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.

Contract types

The Group disaggregates revenue from contracts with customers by contract type, because management believe this best depicts how the nature, amount, timing, and uncertainty of the Group's revenue and cash flows are affected by economic factors. Categories are: long-term contractual – greater than two years; short-term contractual – less than two years; and transactional. The years being measured from the service commencement date.

Long-term contractual – greater than two years

The Group provides a range of services in the majority of its reportable 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.

The majority of long-term contractual agreements form part of a series of distinct goods and services because they are substantially the same service; and have the same pattern of transfer, since the series constitutes services provided in distinct time increments (eg daily, monthly, quarterly or annually), and therefore treats the series as one performance obligation.

Short-term contractual – less than two years

The nature of contracts or performance obligations categorised within this revenue type is diverse and includes:

- (i) short-term outsourced service arrangements in the public and private sectors; and
- (ii) software maintenance contracts.

The Group has assessed that maintenance and support (ie on-call support, remote support) for software licences is a performance obligation that can be considered capable of being distinct and separately identifiable in a contract if the customer has a passive licence. These recurring services are substantially the same because the nature of the promise is for the Group to 'stand ready' to perform maintenance and support when required by the customer. Each day of 'standing ready' is distinct from each following day and is transferred in the same pattern to the customer.

Transactional (point-in-time) contracts

The Group 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 or services and acceptance by the customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria.

The nature of contracts or performance obligations categorised within this revenue type is diverse and includes:

- (i) provision of IT hardware goods;
- (ii) passive software licence agreements;
- (iii) commission received as agent from the sale of third-party software; and
- (iv) fees received in relation to the delivery of professional services.

Section 2: Results for the year continued

2.2 Revenue including segmental revenue continued

2.2.1 Segmental revenue

The Group's operations are managed separately according to the nature of the services provided, with each segment representing a strategic business division offering a different package of client outcomes across the markets the Group serves. A description of the service provision for each segment can be found in the strategic report on pages 26 to 37.

The tables below present revenue for the Group's business segments for the years 2020 and 2019. During 2020, there were a number of transfers of businesses between the segments due to changes in the structure and how the business performance is measured and monitored, relevant to the KPIs for the segment. Comparative information has been re-presented accordingly. For segmental reporting, Consulting is aggregated within the 'Group trading and central services' segment.

Adjusted revenue, excluding results from businesses exited in both years (adjusting items), was £3,181.2m (2019: £3,501.0m), an organic decline of 9.1% (2019: 4.4%).

Year ended 31 December 2020	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations											
Long-term contractual		232.2	284.5	902.1	574.0	266.9	43.3	14.0	2,317.0	126.3	2,443.3
Short-term contractual		9.8	77.8	235.7	8.9	24.7	110.7	3.4	471.0	18.5	489.5
Transactional (point-in-time)		4.0	109.7	1.9	140.9	93.4	42.5	0.8	393.2	(1.2)	392.0
Total segment revenue		246.0	472.0	1,139.7	723.8	385.0	196.5	18.2	3,181.2	143.6	3,324.8
Trading revenue		298.6	584.0	1,294.0	751.2	608.5	209.4	61.3	3,807.0	—	3,807.0
Inter-segment revenue		(52.6)	(112.0)	(154.3)	(27.4)	(223.5)	(12.9)	(43.1)	(625.8)	—	(625.8)
Total adjusted segment revenue		246.0	472.0	1,139.7	723.8	385.0	196.5	18.2	3,181.2	—	3,181.2
Business exits – trading	2.8	97.8	10.4	30.3	—	—	5.1	—	—	143.6	143.6
Total segment revenue		343.8	482.4	1,170.0	723.8	385.0	201.6	18.2	—	—	3,324.8
Year ended 31 December 2019											
Continuing operations											
Long-term contractual		234.5	310.6	900.8	647.8	317.5	61.4	18.9	2,491.5	147.4	2,638.9
Short-term contractual		12.7	82.3	248.1	19.0	41.7	142.0	2.4	548.2	15.4	563.6
Transactional (point-in-time)		4.9	142.1	1.7	126.6	90.7	92.2	3.1	461.3	14.8	476.1
Total segment revenue		252.1	535.0	1,150.6	793.4	449.9	295.6	24.4	3,501.0	177.6	3,678.6
Trading revenue		305.7	729.6	1,283.5	820.2	698.4	315.9	79.0	4,232.3	—	4,232.3
Inter-segment revenue		(53.6)	(194.6)	(132.9)	(26.8)	(248.5)	(20.3)	(54.6)	(731.3)	—	(731.3)
Total adjusted segment revenue		252.1	535.0	1,150.6	793.4	449.9	295.6	24.4	3,501.0	—	3,501.0
Business exits – trading	2.8	107.9	13.0	31.0	—	—	25.7	—	—	177.6	177.6
Total segment revenue		360.0	548.0	1,181.6	793.4	449.9	321.3	24.4	—	—	3,678.6

Geographical location

The table below presents revenue by geographical location.

	2020			2019		
	United Kingdom £m	Other £m	Total £m	United Kingdom £m	Other £m	Total £m
Revenue	3,011.0	313.8	3,324.8	3,358.4	320.2	3,678.6

Section 2: Results for the year continued

2.2 Revenue including segmental revenue continued

2.2.2 Order book

The tables below show the order book for each division, categorised into long-term contractual (contracts with length greater than two years) and short-term contractual (contracts with length less than two years). The length of the contract is calculated from the start of the service commencement date. The figures represent the aggregate amount of currently contracted transaction price allocated to the performance obligations that are wholly or partially unsatisfied. The current environment has contributed to the Group's order book declining with contract wins not offsetting revenue recognised in the period, however, in January 2021 the Group signed a contract with the Royal Navy which represents a £0.9 billion addition to the order book which is not included below. Revenue expected to be recognised upon satisfaction of these performance obligations is as follows:

Order book 31 December 2020	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central functions £m	Total £m
Long-term contractual	489.6	533.4	2,106.8	1,980.8	338.4	201.0	4.4	5,654.4
Short-term contractual	21.3	1.0	27.9	76.2	31.8	33.2	4.9	196.3
Total	510.9	534.4	2,134.7	2,057.0	370.2	234.2	9.3	5,850.7

Order book 31 December 2019	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central functions £m	Total £m
Long-term contractual	496.7	497.2	2,734.0	2,140.6	344.0	259.0	2.9	6,474.4
Short-term contractual	81.7	—	26.5	36.1	45.7	47.6	7.6	245.2
Total	578.4	497.2	2,760.5	2,176.7	389.7	306.6	10.5	6,719.6

The table below shows the expected timing of revenue to be recognised on long-term contractual orders at 31 December 2020:

Time bands expected revenue recognition from long-term contractual orders	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central functions £m	Total £m
< 1 year	221.0	199.3	691.5	403.9	117.7	29.1	1.0	1,663.5
1–5 years	243.1	334.1	1,185.0	1,179.1	175.1	46.0	3.4	3,165.8
> 5 years	25.5	—	230.3	397.8	45.6	125.9	—	825.1
Total	489.6	533.4	2,106.8	1,980.8	338.4	201.0	4.4	5,654.4

The order book represents the consideration that the Group will be entitled to receive from customers when the Group satisfies its remaining performance obligations under the contracts. However, the total revenue that will be earned by the Group will also include non-contracted volumetric revenue, new wins, scope changes and anticipated contract extensions. These elements have been excluded from the figures in the tables above because they are not contracted. In addition, revenue from contract extensions is also excluded from the order book unless they are pre-priced extensions whereby the Group has a legally binding obligation to deliver the performance obligations during the extension period. The total revenue related to pre-priced extensions that has been included in the tables above amounted to £800.7m (2019: £605.4m). The amounts presented do not include orders for which neither party has performed, and each party has the unilateral right to terminate a wholly unperformed contract without compensating the other party.

Of the £5.7 billion (2019: £6.5 billion) revenue to be earned on long-term contractual, £3.8 billion (2019: £4.4 billion) relates to major contracts. This amount excludes revenue that will be derived from frameworks (transactional 'point-in-time' contracts), non-contracted volumetric revenue, non-contracted scope changes and future unforeseen volume changes from these major contracts, which together are anticipated to contribute an additional £2.1 billion (2019: £1.8 billion) of revenue to the Group over the life of these contracts.

No single customer makes up more than 10% of the Group's revenues.

2.2.3 Deferred Income

The Group's deferred income balances solely relate to revenue from contracts with customers. Revenue recognised in the reporting period that was included in the deferred income balance at the beginning of the period was £998.7m (2019: £1,119.3m).

Movements in the deferred income balances were driven by transactions entered into by the Group within the normal course of business in the year, other than the accelerated revenue recognised of £17.5m relating to the partial termination of a contract in Customer Management.

Section 2: Results for the year continued

2.3 Operating profit

2.3.1 Items charged/(credited) to reported operating profit

	Notes	2020 £m	2019 £m
Depreciation of property, plant and equipment	3.2	50.9	60.3
Depreciation of right-of-use assets	3.5	88.2	99.2
Impairment of property, plant and equipment	3.2	10.3	14.7
Amortisation of intangible assets	3.3	74.6	81.4
Impairment of intangible assets	3.3	2.6	13.8
Loss on sale of property, plant and equipment and intangibles	2.10.1	17.1	1.8
Foreign exchange differences		(1.0)	2.9
Restructuring costs	2.4	109.6	159.4
Contract fulfilment asset utilisation, impairment and derecognition	3.1.3	105.0	102.3
Contract termination gains		—	(13.3)
The net of: accelerated deferred income unwind, and contract fulfilment asset utilisation		(15.4)	(24.9)
Onerous contract provisions		10.4	(1.3)

Contract fulfilment asset utilisation, impairment and derecognition: the Group undertook a comprehensive review of its major contracts to identify indicators of impairment of contract fulfilment assets. Following this review, management made provisions against costs capitalised as contract fulfilment assets totalling £17.5m (2019: £9.6m) within cost of sales.

Contract termination gains: customer contracts usually contain provisions to compensate the Group for exit costs and future profits in the event of early termination. In-year customer contract terminations in Government Services for customer convenience have led to associated exit fees earned by Capita of £nil (2019: £9.3m) being recorded as income in-year and £nil (2019: £4.0m) of fees relating to final settlement of the Prudential contract termination.

The net of: accelerated deferred income unwind and contract fulfilment asset utilisation: in 2020 the Group recognised gains of £15.4m (2019: £24.9m) related to the net of accelerated deferred income unwinds and contract fulfilment asset utilisation. In 2020 and 2019, this primarily related to contracts in the Customer Management division where the scope of our services changed due to the partial termination of the contracts. The other gains in 2020 related to hand backs of various services in contracts within the Government Services division and in 2019 the extension of a contract in the Customer Management division.

Onerous contract provisions: in 2020 the Group recognised net losses of £10.4m (2019: £1.3m gain) related to onerous contract provisions.

2.3.2 Fees payable to auditors

The amounts included in the table below relate to fees payable to KPMG LLP and its associates:

	2020 £m	2019 £m
Audit and audit-related services		
The audit of the Parent Company and Group's consolidated financial statements	4.3	3.7
The audit of the financial statements of subsidiaries of the Group	1.9	2.2
Total audit and audit-related services	6.2	5.9
Non-audit services		
Other assurance services	1.4	0.2
Total non-audit services	1.4	0.2
Total audit and non-audit services	7.6	6.1

The non-audit fees in respect of 2020 related to the review of interim results, services as reporting accountant for the disposal of the Education Software Solutions business, and a refinancing which had to be aborted due to the impact Covid-19 had on the debt markets during the year.

Section 2: Results for the year continued

2.4 Adjusted operating profit and adjusted profit before tax

AP Accounting policies

IAS 1 permits an entity to present additional information for specific items to enable users to better assess the entity's financial performance.

The Board has adopted a policy to separately disclose those items that it considers are outside the underlying operating results for the particular year under review and against which the Group's performance is assessed. In the Board's judgement, these need to be disclosed separately by virtue of their nature, size and/or incidence, for users of the consolidated financial statements to obtain a proper understanding of the financial information and the underlying in-year performance of the Group. Accordingly, these items are also excluded from the discussion of divisional performance in the strategic report. This policy is kept under review by the Board and the Audit and Risk Committee, and is discussed in the committee's report on pages 80 to 89. Those items which relate to the ordinary course of the Group's operating activities remain within adjusted profit.

The items below are excluded from the adjusted results:

	Notes	Operating (loss)/profit		(Loss)/profit before tax	
		2020 £m	2019 £m	2020 £m	2019 £m
Reported		(32.0)	0.4	(49.4)	(62.6)
Amortisation and impairment of acquired intangibles	3.3	33.9	49.9	33.9	49.9
Impairment of goodwill	3.4	—	41.4	—	41.4
Impairment of loans and investments		0.4	—	0.4	—
Litigation and claims		0.7	(0.7)	0.7	(0.8)
Net finance costs	4.3	—	—	3.0	6.3
Contingent consideration and acquisition cost movements		—	(1.4)	—	(1.4)
Business exit – trading	2.8	(51.0)	(46.6)	(51.0)	(46.6)
Business exit – non-trading expenses	2.8	41.9	52.1	41.9	52.1
Business exit – gain on business disposals	2.8	—	—	(31.4)	—
Business exit – on-hold disposal costs		7.5	—	7.5	—
Significant restructuring		109.6	159.4	109.6	159.4
Adjusted		111.0	254.5	65.2	197.7

1. Adjusted operating profit decreased by 56.4% (2019: 8.5%) and adjusted profit before tax decreased by 67.0% (2019: 2.2%). Adjusted operating profit of £111.0m (2019: £254.5m) was generated on adjusted revenue of £3,181.2m (2019: £3,501.0m) resulting in an adjusted operating profit margin of 3.5% (2019: 7.3%).

2. The tax credit on adjusted profit before tax is £13.6m (2019: charge of £29.0m) resulting in adjusted profit after tax of £78.8m (2019: £168.7m)

3. The adjusted operating profit and adjusted profit before tax at 31 December 2019 have been restated for the impact of business exits in 2020, and for the impact of IFRS 16. This has resulted in adjusted operating profit decreasing from £306.1m to £254.5m and adjusted profit before tax decreasing from £275.0m to £197.7m.

Amortisation and impairment of acquired intangible assets: the Group recognised acquired intangible amortisation of £32.3m (2019: £50.3m) of which £nil relates to business exits (2019: £0.4m) and impairment of £1.6m (2019: £nil).

Impairment of goodwill: goodwill is subject to annual impairment testing and any impairment charges are reported separately. Refer to note 3.4 for further details.

Litigation and claims: In September 2020 the Group agreed a liability relating to past services received under supplier software licence agreements. In June 2020, the Group made a provision of £5.0m for the cash element of the settlement, and in September 2020 booked a provision of £0.1m for related professional fees. These are excluded from adjusted results because they relate to services received in prior periods and are not reflective of current year trading. Refer to note 6.2 for further details. This is partially offset by a gain of £4.4m (2019: gain of £0.7m) from net movements in historical provisions for litigation and claims which were excluded from adjusted profit when originally recognised due to their age and size.

Net finance costs: net finance costs excluded from adjusted profits includes movements in the mark-to-market valuation of certain financial instruments.

Business exits: the trading result of businesses exited, or in the process of being exited, and the gain or loss on business disposals, are excluded from the Group's adjusted results. Refer to note 2.8 for further details.

Business exits - on-hold disposal cost: the costs incurred in respect of business exit activities where the anticipated disposal was primarily put on hold due to the impact of Covid-19 pandemic had on the underlying businesses, are excluded from the Group's adjusted results but disclosed separately from other business exits given their materiality. These costs include professional fees in respect of legal and financial due diligence, and separation planning costs.

Significant restructuring: in January 2018, the Group announced a multi-year transformation plan. In 2020 a charge of £109.6m (2019: £159.4m) was recognised in relation to the cost of the transformation plan. The costs include the following:

- **Cost to realise cost savings and efficiencies from the transformation plan £66m (2019: £80m):** including significant reductions in overheads, the elimination of duplicate roles and management layers, and the Group's operational excellence programme which will improve the consistency of the Group's operations, reduce spans and layers, increasing the use of off-shoring and automation, adopting lean methodologies and working smarter. These costs also include rationalisation and increased utilisation of the Group's property estate in metro centres and regionally. As the Group continues to rationalise its property estate, costs associated with onerous property commitments and dilapidation liabilities, and impairment of property right of use assets and fixtures and fittings, will be captured and presented as part of the transformation adjustments.

Section 2: Results for the year continued

2.4 Adjusted operating profit and adjusted profit before tax

- **Professional fees £3m (2019: £26m):** incurred to support reigniting sales growth, increasing the proportion of centrally controlled spend, and refinancing costs which had to be aborted due to the impact Covid-19 had on the debt markets.
- **Transformation of central Group functions £15m (2019: £53m):** investment in programmes to improve the Group's central functions, including: finance; sales; human resources; and information technology. All costs associated with these programmes are recorded separately, and exclude any costs capitalised as part of the investment and the ongoing depreciation and amortisation of such assets.
- **Cost of accelerating savings to mitigate the financial impact of Covid-19 £26m (2019: £nil):** these are incremental to those planned to be incurred as part of the transformation plan and include accelerated property estate rationalisation and severance costs.

2.5 Segmental information

The Group's operations are managed separately according to the nature of the services provided, with each segment representing a strategic business division offering a different package of client outcomes across the markets the Group serves. A description of the services provided by each segment can be found in the strategic report on pages 26 to 37.

The tables below present the trading results of the Group's business segments for the years 2020 and 2019. During 2020, there were a number of transfers between the segments due to changes in structure, and comparative information has been re-presented accordingly. For segmental reporting, Consulting is aggregated within the 'Group trading and central services' segment.

Information on segmental revenue can be found in note 2.2.

Year ended	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
31 December 2020											
Adjusted operating profit	2.4	43.4	52.5	105.9	11.1	34.9	(4.4)	(132.4)	111.0	—	111.0
Restructuring	2.4	(1.5)	(8.5)	(6.2)	(3.2)	(9.2)	(3.4)	(77.6)	—	(109.6)	(109.6)
Business exits – trading	2.8	53.2	(1.8)	2.1	—	—	(2.5)	—	—	51.0	51.0
Total trading result		95.1	42.2	101.8	7.9	25.7	(10.3)	(210.0)	111.0	(58.6)	52.4
Non-trading items:											
Business exits – non-trading	2.8								—	(41.9)	(41.9)
Other adjusting items	2.4								—	(42.5)	(42.5)
Operating profit/(loss)									111.0	(143.0)	(32.0)
Year ended	Notes										
31 December 2019											
Adjusted operating profit	2.4	50.7	68.9	119.8	51.8	58.0	44.3	(139.0)	254.5	—	254.5
Restructuring	2.4	(5.4)	(34.3)	(10.8)	(2.7)	(15.2)	(3.9)	(87.1)	—	(159.4)	(159.4)
Business exits – trading	2.8	57.0	(9.1)	3.6	—	—	(4.9)	—	—	46.6	46.6
Total trading result		102.3	25.5	112.6	49.1	42.8	35.5	(226.1)	254.5	(112.8)	141.7
Non-trading items:											
Business exits – non-trading	2.8								—	(52.1)	(52.1)
Other adjusting items	2.4								—	(89.2)	(89.2)
Operating profit/(loss)									254.5	(254.1)	0.4

Geographical location

The table below presents the carrying amount of non-current assets (excluding deferred tax and financial assets) by the geographical location of those assets.

	2020			2019		
	United Kingdom £m	Other £m	Total £m	United Kingdom £m	Other £m	Total £m
Non-current assets	2,168.4	38.4	2,206.8	2,457.3	55.9	2,513.2

Section 2: Results for the year continued

2.6 Taxation

AP Accounting policies

Tax on the profit or loss for year comprises current tax and deferred tax. Tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in the consolidated statement of changes in equity or the consolidated statement of 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 basis 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;
- 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/loss nor taxable profit/loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, 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.

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 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.

2.6.1 Income tax charge on adjusted profit before tax

The income tax credit of £13.6m on adjusted profit before tax¹ resulted in an adjusted tax rate of (20.9)% (2019: income tax charge of £29.0m and adjusted tax rate 14.7%). This is different from the UK statutory rate of tax of 19% predominantly due to the UK corporation tax rate change impact on deferred tax, and a partial release of the unremitted earnings provision due to tax rate reduction on overseas dividend distributions.

2.6.2 Income tax charge

The income tax credit of £47.6m on reported loss before tax of £49.4m resulted in an effective tax rate of 96.4% (2019: income tax credit of £3.5m on loss of £62.6m and effective tax rate of 5.6%). This is different from the UK statutory rate of tax of 19% predominantly due to the above mentioned rate changes, release of uncertain tax positions, the non-taxable profit on disposal, together with non-deductible business exit costs detailed further in the tax reconciliation.

The major components of income tax charge/(credit) for the years ended 31 December are set out below:

Consolidated income statement	2020 £m	2019 £m
Current income tax		
Current income tax charge	14.1	10.5
Adjustment in respect of prior years	0.2	(2.1)
Deferred tax		
Origination and reversal of temporary differences	(42.0)	(3.5)
Adjustment in respect of prior years	(19.9)	(8.4)
	(47.6)	(3.5)
Consolidated statement of comprehensive income and consolidated statement of changes in equity		
Income tax movement on cash flow hedges	(1.1)	(0.3)
Deferred tax movement in relation to actuarial losses on defined benefit pension schemes	(10.9)	(18.1)
Deferred tax movement in relation to share based payment	1.2	(0.8)
	(10.8)	(19.2)

1. Definitions of the alternative performance measures and related KPIs can be found in section 8.2

Section 2: Results for the year continued

2.6 Taxation continued

The reconciliation between both the total tax and the current tax charge/(credit) and the accounting profit multiplied by the UK corporation tax rate for the years ended 31 December is as follows:

	Total tax		Current tax	
	2020 £m	2019 £m	2020 £m	2019 £m
Loss before tax	(49.4)	(62.6)	(49.4)	(62.6)
Notional credit at UK corporation tax rate of 19%	a (9.4)	(11.9)	(9.4)	(11.9)
Adjustments in respect of current income tax of prior years	b 0.2	(2.1)	0.2	(2.1)
Adjustments in respect of deferred tax of prior years	c (19.9)	(8.4)	—	—
Non-deductible expense/(non-taxable income) – adjusted	d 3.5	(0.3)	3.5	(0.3)
Non-deductible expenses – business exit	e 5.6	0.3	5.6	0.3
Non-deductible expense/(non-taxable income) – specific items	f 2.0	(0.3)	2.0	(0.3)
Profit on disposal	g (6.4)	(0.1)	(6.4)	(0.1)
Difference in rate recognition of temporary differences	Note 2.6.3 (17.5)	—	—	—
Non-deductible goodwill impairment	h 0.6	14.6	0.6	14.6
Tax provided on unremitted earnings	i (7.6)	2.6	1.9	—
Attributable to different tax rates in overseas jurisdictions	j (0.7)	(0.7)	(0.1)	(0.7)
Movement in deferred tax unrecognised	k 2.0	2.3	2.0	2.3
Current year movement in uncertain tax positions	—	0.5	—	0.5
Accounting depreciation in excess of fixed asset tax deductions	—	—	12.4	15.9
Current tax impact on other timing differences	l —	—	7.1	(9.2)
Utilisation of losses in current period	m —	—	(5.1)	(0.7)
At the effective total tax rate of 96.4% (2019: 5.6%) and the effective current tax rate of (28.9)% (2019: (13.4)%)	a (47.6)	(3.5)	14.3	8.3
Tax (credit)/charge reported in the income statement	(47.6)	(3.5)	14.3	8.3

- a. The 2020 current tax charge of £14.3m (2019: £8.3m) results in an effective current tax rate of (28.9)%, which is different from the UK statutory rate of tax of 19% predominantly due to depreciation, amortisation and impairment of fixed assets exceeding the tax deductions on the same assets. The impact of differing overseas tax rates is minimal and covered in footnote j. below.
- b. The £0.2m prior year charge adjustment includes: (i) £1.3m credit on release of some of the Group's previously uncertain tax positions which are no longer considered likely to arise, due to expiry of statute of limitation; and, (ii) a £1.5m charge with corresponding deferred tax prior year credits.
- c. The £19.9m prior year credit adjustment includes: (i) a £1.5m credit with corresponding current income tax prior year charges; (ii) a £4.6m credit following the finalisation of submitted tax returns; and, (iii) a £13.8m credit relating to the release of uncertain tax positions due to resolution of tax enquiries.
- d. Higher in 2020 mainly due to non-deductible depreciation, accounting losses on non-qualifying assets, and IFRS 2 charge in respect of share based payments.
- e. Business exit: relates to non-deductible costs associated with the businesses detailed in note 2.8.
- f. Specific items: relates to non-deductible restructuring costs associated with business exits, detailed in note 2.4.
- g. Relates to the application of the UK tax exemption on substantial shareholdings to relevant disposals.
- h. Relates to the intangible asset impairments as detailed further in notes 2.4, 2.8 and 3.4.
- i. Movement on the deferred income tax liability recognised on the unremitted earnings of those subsidiaries affected by withholding taxes, due to: (i) 2020 charge of £0.9m; and, (ii) £8.5m reduction in the tax rate on overseas dividend distributions.
- j. Relates to the difference between tax payable at higher rates in India and South Africa, and tax payable at lower rates in other trading jurisdictions (Poland, Isle of Man and UAE).
- k. Relates to the derecognition of deferred tax on losses and other timing differences.
- l. The current tax reconciliation item is predominantly the capital expense incurred on property rationalisation, detailed in note 2.4.
- m. Relates to the (utilisation)/carry forward of tax losses, and the reactivation of deferred interest, in the current period.

2.6.3 Deferred tax

A change to the main UK corporation tax rate was substantively enacted on 17 March 2020. The rate applicable from 1 April 2020 now remains at 19.0%, instead of the previously enacted reduction to 17.0%. The UK deferred tax asset/(liability) at 31 December 2020 has been calculated based on this rate, resulting in a £17.5m tax credit to the income statement in 2020.

Deferred tax assets and liabilities at 31 December:

	2020 £m	2019 £m
Deferred tax asset ¹	242.8	181.6
Deferred tax liability ¹	(6.7)	(16.3)
Net deferred tax	236.1	165.3

1. Analysed after jurisdictional netting has been applied to offset balances within countries.

Section 2: Results for the year continued

2.6 Taxation continued

Deferred tax at 31 December relates to the following:

	At 1 January £m	Charged/(Credited) to			At 31 December £m
		Income statement £m	OCI and changes in equity £m	Other movements ² £m	
Deferred tax assets					
Property, plant and equipment	60.0	13.1	—	(0.3)	72.8
Deferred income	5.6	(0.7)	—	(0.4)	4.5
Provisions	10.4	1.3	—	—	11.7
Pension schemes' liability	38.9	1.8	10.9	—	51.6
Share based payments	2.7	0.1	(1.2)	—	1.6
Tax losses ¹	86.0	25.4	—	(0.2)	111.2
	203.6	41.0	9.7	(0.9)	253.4
Deferred tax liabilities					
Intangibles	(6.2)	4.0	—	—	(2.2)
Contract fulfilment assets	(16.8)	7.3	—	0.1	(9.4)
Unremitted earnings	(15.3)	9.6	—	—	(5.7)
	(38.3)	20.9	—	0.1	(17.3)
Net deferred tax	165.3	61.9	9.7	(0.8)	236.1

1. Mainly trading losses available to shelter future profits and deferred interest

2. Other movements includes transfers to disposal group assets/liabilities held-for-sale and business disposals

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. The recoverability of deferred tax assets is supported by the deferred tax liabilities against which the reversal can be offset and the expected level of future profits in the countries concerned. The recognition for 2020 was based on the PBTs (excluding forecast restructuring costs) contained in the 2021-2023 business plans and 2024-2025 strategic plans, approved by the Board during February 2021. These are the same plans used to derive forecast cash flows for the goodwill impairment test (refer to note 3.4). The strategic plan cash flow forecasts for 2024-2025 have been further risk adjusted to reflect additional uncertainty in outer year forecasts. In accordance with the impairment test model, a long-term growth rate of 1.6% was applied to the years beyond the strategic plan (2026 and onwards) in the deferred tax asset recognition model.

These forecasts provide support that it is probable that there will be sufficient future taxable profits to enable the utilisation of the recognised deferred tax assets on losses within six to seven years. Other deferred tax assets, which have a longer unwind period by their nature (ie PPE and Pension schemes liabilities) are being recognised on the basis that they will unwind within periods when profitability will arise.

The Group has unrecognised tax losses of £208.6m (2019: £209.1m) and other temporary differences of £55.4m (2019: £45.5m) that are available for offset against future taxable profits of the companies in which the losses or other temporary differences arose, but have not been recognised as their recoverability is uncertain. These are made up as follows:

- (i) UK assets – £184.2m (2019: £185.3m) with no time expiry. The losses will be subject to enacted UK tax loss relief legislation which could result in restricted utilisation in the future. £77.2m of the losses were incurred by companies acquired by the Group and therefore not as a result of the Group's trading performance.
- (ii) Overseas assets – £79.9m (2019: £69.3m), some of which are subject to specific loss restriction rules but have no time expiry. £6.7m of the losses were incurred by companies acquired by the Group and therefore not as a result of the Group's trading performance.

Dividends received from subsidiaries are largely exempt from UK tax but may be subject to dividend withholding taxes levied by the overseas tax jurisdictions in which the subsidiaries operate. The gross temporary differences of those subsidiaries affected by such potential taxes is £62.6m (2019: £80.2m). A deferred income tax liability of £5.7m (2019: £15.3m) has been recognised on the unremitted earnings of those subsidiaries affected by such potential taxes as the Group is able to control the timing of reversal and it is anticipating dividends to be distributed. The reduction in the Indian distribution tax rate has contributed to the reduction in the closing deferred income tax liability, along with earnings being remitted during the year.

Section 2: Results for the year continued

2.6 Taxation continued

2.6.4 Uncertain tax positions

The Group files income tax returns in several jurisdictions and some of these returns are open to, or subject to, tax authority audits or examinations. Tax returns contain matters that could be subject to differing interpretations of applicable tax laws and regulations; and, the resolution of tax positions, through negotiations with relevant tax authorities or through litigation, can take several years. Tax uncertainties are assessed throughout the year and specifically at the year-end, with any associated provisions recognised considering the specific circumstances of each risk, including the merits of technical aspects, previous experience with tax authorities, recent tax law and, if relevant, external specialist advice. The Group applies judgement in quantifying uncertainties over income tax treatments in accordance with these criteria.

Income tax receivable of £2.9m at 31 December 2020 includes £5.8m in relation to uncertain tax positions. The Group released £15.1m (2019: £7.2m) of uncertain tax positions in 2020 relating to tax risks which are no longer considered likely to arise, due to the expiry of statute of limitations and conclusion of enquiries. The release is split within the current income tax prior year adjustment (£1.3m) and deferred tax prior year adjustment (£13.8m). Expiry of statute of limitations, or conclusion of tax audits could result in a further release of the provision in the next financial year. While it is difficult to predict the ultimate outcome in some cases, and there are a range of different outcomes, currently it is not anticipated that there will be a material impact on the Group's financial position or results of operations in the next financial year.

2.6.5 Capita's responsible approach to taxation

Capita has an open and positive working relationship with HMRC, has a designated customer compliance manager, and is committed to prompt disclosure and transparency in all dealings with HMRC and overseas tax authorities. The Group does not have a complex tax structure, nor does it pursue aggressive tax avoidance activities. The Group has a low-risk rating from HMRC and has been awarded the Fair Tax Mark for its 2018 and 2019 tax disclosures. The Group has operations in a number of countries outside the UK. All Capita operations outside the UK are trading operations and pay the appropriate local taxes on these activities. Further detail, regarding Capita's approach to tax can be found on the Policies & Principles area of the Capita website (<https://www.capita.com/our-company/about-capita/policies-and-principles>).

Capita contributed £181.1m (2019: £183.1m) in taxes from its UK operations in the year. This consisted of a net repayment of £2.6m (2019: £7.9m) of UK corporation tax; £19.3m (2019: £17.9m) in irrecoverable VAT payments; £128.0m (2019: £136.9m) in employer national insurance contributions; and £31.2m (2019: £36.2m) in other levies including business rates, import duties, the apprenticeship levy and environmental taxes. Additionally, the Group collected: £336.2m (2019: £319.3m) of VAT, of which £217.4m was remitted to the UK Government in 2020, and £118.8m will be remitted in 2021/22 as part of the Government's VAT payment deferral measures; and £288.0m (2019: £317.0m) of Capita employee PAYE and NIC. Capita entities in overseas jurisdictions paid £4.9m (2019: £8.6m) of tax on local profits and dividend repatriations.

2.6.6 Post Balance Sheet Event – Budget 2021

On 3 March 2021, it was announced in the Budget that the UK tax rate will increase from 19% to 25% from 1 April 2023 onwards. This will increase the company's future income tax charge from 2023, and, result in an increase in deferred tax assets and a material one-off deferred tax credit in the period that the change is substantively enacted. If this rate change had theoretically been applied to the deferred tax balances at 31 December 2020, the deferred tax assets would increase by approximately £75m.

Section 2: Results for the year continued

2.7 Earnings/(loss) per share

AP Accounting policies

Basic earnings/(loss) per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings/(loss) per share amounts are calculated by dividing the net profit for the period attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

		2020		2019	
		Continuing operations p	Total operations p	Continuing operations p	Total operations p
Basic earnings/(loss) per share	– adjusted	4.19	4.19	9.30	9.30
	– reported	(0.41)	0.85	(4.18)	(3.89)
Diluted earnings/(loss) per share	– adjusted	4.19	4.19	9.30	9.30
	– reported	(0.41)	0.85	(4.18)	(3.89)

The following tables show the earnings and share data used in the basic and diluted earnings/(loss) per share calculations:

		2020		2019	
		Continuing operations £m	Total operations £m	Continuing operations £m	Total operations £m
Adjusted profit before tax for the period	2.4	65.2	65.2	197.7	197.7
Income tax credit/(charge)	2.6.1	13.6	13.6	(29.0)	(29.0)
Adjusted profit for the period		78.8	78.8	168.7	168.7
Less: Non-controlling interest		(9.4)	(9.4)	(14.7)	(14.7)
Adjusted profit attributable to shareholders		69.4	69.4	154.0	154.0
Reported loss before tax for the period		(49.4)	(28.6)	(62.6)	(57.6)
Income tax credit	2.6	47.6	47.6	3.5	3.5
Reported loss for the period		(1.8)	19.0	(59.1)	(54.1)
Less: Non-controlling interest		(5.0)	(5.0)	(10.1)	(10.1)
Total loss attributable to shareholders		(6.8)	14.0	(69.2)	(64.2)
				2020 m	2019 m
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share				1,656.1	1,656.1
Dilutive potential ordinary shares:					
Employee share options				—	—
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution				1,656.1	1,656.1

At 31 December 2020 27,447,210 (2019: 25,313,414) options were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive. Under IAS 33 *Earnings per Share*, potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

The earnings per share figures are calculated based on earnings attributable to ordinary equity holders of the Parent Company, and therefore excludes non-controlling interest. The earnings per share is calculated on an adjusted and total reported basis. The earnings per share for business exits and specific items are bridging items to adjusted and total reported earnings per share.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date on which these consolidated financial statements were authorized for issue.

Section 2: Results for the year continued

2.8 Business exits and assets held-for-sale

AP Accounting policies

Business exits

Business exits are businesses that have been disposed of, or exited during the year; or, are in the process of being disposed of, or exited. None of these business exits meet the definition of 'discontinued operations' as stipulated by IFRS 5, which requires comparative financial information to be restated where the relative size of a disposal or business closure is significant, which is normally understood to mean a reported segment.

However, the trading result of these businesses exits, non-trading expenses, and any gain/loss on disposal, have been excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 2019 comparatives have been re-presented to exclude the 2020 business exits.

Assets held-for-sale

The Group classifies a non-current asset (or disposal group) as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than continued use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

2020 business exits

Business exits during the year ended 31 December 2020 comprised:

- the Eclipse Legal Services business whose disposal was completed on 30 June 2020;
- the Capita Workplace Technology business whose disposal was completed on 1 August 2020;
- the Employee Benefits business whose disposal was completed on 30 November 2020;
- two businesses in the process of being exited and which met the held-for-sale criteria. Accordingly, these businesses were treated as disposal groups held-for-sale at the reporting date. The sale of both businesses completed subsequently; and
- the exit costs relating to further planned disposals, including professional fees and separation planning costs.

Further disposals are planned as part of the simplification agenda. Since these disposals did not meet the definition of business exits or assets held-for-sale at 31 December 2020, their trading results were included within adjusted results.

Income statement impact	Non-trading disposal				2020	Non-trading disposal				2019
	Trading £m	Cash £m	Non-cash £m	Total £m	Total £m	Trading £m	Cash £m	Non-cash £m	Total £m	Total £m
Revenue	143.6	—	—	—	143.6	177.6	—	—	—	177.6
Cost of sales	(67.6)	—	—	—	(67.6)	(80.8)	—	—	—	(80.8)
Gross profit	76.0	—	—	—	76.0	96.8	—	—	—	96.8
Administrative expenses	(25.0)	(17.2)	(24.7)	(41.9)	(66.9)	(50.2)	—	(52.1)	(52.1)	(102.3)
Operating profit/(loss)	51.0	(17.2)	(24.7)	(41.9)	9.1	46.6	—	(52.1)	(52.1)	(5.5)
Gain on business disposal	—	48.1	(16.7)	31.4	31.4	—	—	—	—	—
Profit/(loss) before tax	51.0	30.9	(41.4)	(10.5)	40.5	46.6	—	(52.1)	(52.1)	(5.5)
Taxation	(9.6)	2.2	13.8	16.0	6.4	(8.8)	3.0	—	3.0	(5.8)
Profit/(loss) after tax	41.4	33.1	(27.6)	5.5	46.9	37.8	3.0	(52.1)	(49.1)	(11.3)

Trading revenue and costs represent the current year trading performance of those businesses up to the point of being disposed or exited. Trading expenses primarily comprise of payroll costs of £60.3m (2019: £73.9m) and IT costs of £26.3m (2019: £37.8m).

Non-trading administrative expenses primarily comprise closure costs of £17.2m (2019: £nil), goodwill impairment of £2.8m (2019: £35.3m), accruals of £8.8m (2019: £nil), held-for-sale asset impairments £8.9m including £0.8m of contract fulfilment assets and £3.2m of property plant and equipment, other asset impairments of £6.3m (2019: £14.7m) which is partially offset by releases of provisions of £2.1m (2019: £2.8m).

Section 2: Results for the year continued

2.8 Business exits and assets held for sale continued

2020 disposals

During the year, the Group disposed of three businesses: Eclipse Legal Services; the Capita Workplace Technology business; and, the Employee Benefits business.

In 2020 the gain arising on the disposal of these businesses of £31.4m comprised the disposal of net assets of £17.3m for £58.1m consideration and disposal costs of £9.4m. The net cash proceeds of £54.9m comprised the cash purchase consideration of £58.1m less £3.2m of cash disposed of.

	2020		
	Cash £m	Non-cash £m	Total £m
Gain on business disposals			
Property, plant and equipment	—	0.6	0.6
Intangible assets	—	3.2	3.2
Goodwill	—	12.1	12.1
Trade and other receivables	—	2.3	2.3
Disposal group assets held-for-sale	—	4.3	4.3
Trade and other payables	—	(6.5)	(6.5)
Deferred income	—	(0.4)	(0.4)
Disposal group liabilities held-for-sale	—	(1.2)	(1.2)
Income tax payable	—	(0.3)	(0.3)
Cash disposed of	3.2	—	3.2
Total net assets disposed of	3.2	14.1	17.3
Cash purchase consideration received	58.1		58.1
Costs of disposal – paid and accrued	(6.8)	(2.6)	(9.4)
Proceeds, less costs, on disposal	51.3	(2.6)	48.7
Gain on business disposals	48.1	(16.7)	31.4

Disposal group assets and liabilities held-for-sale

	2020 £m	2019 £m
Property, plant and equipment	0.1	0.2
Intangibles	44.4	0.1
Goodwill	45.3	2.8
Right-of-use assets	4.5	—
Income tax receivable and deferred tax asset	0.1	1.1
Contract fulfilment assets	3.1	—
Trade and other receivables	2.9	3.3
Accrued income	0.6	4.8
Prepayments	0.7	0.1
Cash and cash equivalents	12.9	—
Disposal group assets held-for-sale	114.6	12.4
Trade and other payables	1.5	0.9
Accruals	3.5	1.0
Lease liabilities	4.6	—
Other taxes and social security	0.1	0.1
Deferred income	40.3	1.0
Income tax payable and deferred tax liability	3.5	1.4
Provisions	0.4	—
Overdraft	—	3.5
Disposal group liabilities held-for-sale	53.9	7.9

Business exit cash flows

Businesses exited and being exited generated net operating cash inflows of £56.2m (2019: cash inflows of £39.7m).

Post balance sheet disposal

The disposal of the Education Software Solutions business completed on 1 February 2021. Refer to note 6.3 for further details.

Section 2: Results for the year continued

2.9 Discontinued operations

Capita completed the disposal of its Asset Services businesses, including Capita Financial Managers Limited (CFM), to the Link Group on 3 November 2017. The disposal met the definition of a discontinued operation as stipulated by IFRS 5.

The credit of £20.8m (2019: £5.0m) relates to additional payments received in connection with the sale of the Asset Services businesses arising from the return of redress payments made to the Financial Conduct Authority (FCA) regarding the Connaught Income Series 1 Fund (2019: £3.1m).

Cash flows generated from discontinuing operations of £18.6m (2019: £4.7m) relate to the above return of redress payments made to the FCA less previously accrued amounts paid in connection with the sale of the Asset Services business.

The earnings per share impact from discontinued operations is 1.26p (2019: 0.29p) on basic earnings per share and 1.26p (2019: 0.29p) on diluted earnings per share.

Section 2: Results for the year continued

2.10 Cash flow information

AP Accounting policies

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 three months or less. In the consolidated cash flow statement, cash and cash equivalents consist of cash and short-term deposits net of outstanding bank overdrafts and include cash and overdrafts within assets and liabilities held for sale. Cash at bank earns interest at fixed and floating rates based on prevailing bank deposit rates.

2.10.1 Additional cash flow information

Cash flow from operating activities declined year-on-year as a consequence of lost revenue, margin on new business and investment off-set by cost out and one-off benefits. Working capital outflow driven by contract terminations and renegotiations, partially offset by additional payments on account and reduced spend on contract transformations.

	Note	2020		2019	
		Adjusted £m	Reported £m	Adjusted ¹ £m	Reported £m
Cash flows from operating activities:					
Operating profit/(loss)	2.4	111.0	(32.0)	254.5	0.4
Adjustments for non-cash items:					
Depreciation	3.2, 3.5	137.5	139.1	154.9	159.5
Amortisation of intangible assets	3.3	41.0	74.6	30.0	81.4
Share based payment expense	5.1	6.4	6.4	3.0	3.0
Employee benefits	5.2	13.1	13.1	11.2	11.2
Loss on sale of property, plant and equipment / intangible assets	2.3	2.4	17.1	1.8	1.8
Contingent consideration	2.4	—	—	—	(1.4)
Impairment of disposal group assets		—	11.7	—	—
Impairment of non-current assets		3.5	32.2	0.9	106.1
Other adjustments:					
Movement in provisions		31.5	44.0	(3.3)	(19.0)
Pension deficit contribution		—	(29.5)	—	(71.1)
Other contributions into pension schemes		(19.5)	(19.5)	(17.0)	(17.0)
Movements in working capital:					
Trade and other receivables		162.9	172.7	(7.1)	2.4
Non-recourse trade receivables financing		—	13.6	—	—
Trade and other payables		(62.0)	(58.4)	(8.6)	(14.8)
VAT deferral		—	118.8	—	—
Deferred income		(36.7)	(46.8)	(190.5)	(198.1)
Contract fulfilment assets (non-current)		(23.6)	(22.9)	(16.2)	(11.6)
Cash generated by operations		367.5	434.2	213.6	32.8
Adjustments for free cash flows:					
Income tax paid		(8.8)	(8.8)	(5.4)	(5.4)
Net interest paid		(47.7)	(47.7)	(58.5)	(58.4)
Purchase of property, plant and equipment	3.2	(40.2)	(40.8)	(48.7)	(57.7)
Purchase of intangible assets	3.3	(42.7)	(46.6)	(124.6)	(124.7)
Proceeds from sale of property, plant and equipment / intangible assets		10.5	13.5	0.4	0.4
Free cash flow		238.6	303.8	(23.2)	(213.0)

1. The 2019 adjusted cash flow has been restated for business exits in 2020 and also for the inclusion of IFRS 16. This has resulted in adjusted cash generated by operations increasing from £158.6m to £213.6m and adjusted free cash outflow decreasing from £(61.3)m to £(23.2)m.

Section 2: Results for the year continued

2.10 Cash flow information continued

2.10.2 Adjusted free cash flow and cash generated from operations

	Free cash flow		Cash generated/(used) by operations	
	2020 £m	2019 £m	2020 £m	2019 £m
Reported	303.8	(213.0)	434.2	32.8
Pension deficit contributions	29.5	71.1	29.5	71.1
Significant restructuring	64.1	148.5	67.1	148.5
Business exits	(33.9)	(32.5)	(38.4)	(41.5)
Business exits - on hold disposal costs	7.5	—	7.5	—
Non-recourse trade receivables financing	(13.6)	—	(13.6)	—
VAT deferral	(118.8)	—	(118.8)	—
Other	—	2.7	—	2.7
Adjusted	238.6	(23.2)	367.5	213.6

A reconciliation of net cash flow to movement in net debt is included in note 2.10.3.

Pension deficit contributions: in November 2018, the Group agreed a deficit recovery plan with the Trustees of the Capita Pension and Life Assurance Scheme (the 'Scheme'). The payments under the agreed deficit recovery plan total £176.0m, of which £29.5m was paid in 2020 (2019: £71.1m). These payments have been excluded from adjusted cash flows since the Group treats them as a debt like item.

Significant restructuring: in April 2018, the Group announced a multi-year transformation plan. In the period to 31 December 2020, a cash outflow of £64.1m (2019: £148.5m) was incurred in relation to the cost of the transformation plan, and restructuring costs relating to Capita's previously announced cost reduction plan.

Business exits: the cash flows of businesses exited, or in the process of being exited, and the proceeds from disposals, are disclosed outside the adjusted results. The 2019 results have been restated for those businesses exited, or in the process of being exited during 2020 to enable comparability of the adjusted results.

Business exits - on hold disposal costs: these are costs incurred in respect of business exit activities where the anticipated disposal was put on hold due to the impact that the Covid-19 pandemic had on the underlying businesses. They are excluded from the Group's adjusted results but disclosed separately given their materiality.

Non-recourse trade receivables financing: a non-recourse receivables financing facility was put in place to mitigate the risk of customer receipts slippage resulting from the impact of the Covid-19 pandemic.

VAT deferral: utilisation of the Government's VAT deferral scheme. Refer to note 2.6.5 for further details.

Other: includes the cash flows related to other items excluded from adjusted profit.

2.10.3 Reconciliation of net cash flow to movement in net debt

Year ended 31 December 2020	Note	Net debt at 1 January £m	Cash flow movements £m	Non-cash movement ² £m	Net debt at 31 December £m
Cash, cash equivalents and overdrafts	4.5.4	122.8	27.2	(8.9)	141.1
Other loan notes	4.5	(0.3)	—	(2.0)	(2.3)
Private placement loan notes ¹	4.5	(990.7)	243.4	(17.8)	(765.1)
Cross-currency interest rate swaps ¹	4.5	77.3	(24.5)	4.7	57.5
Interest rate swaps ¹	4.5	1.0	—	(0.5)	0.5
Lease liabilities	4.4	(562.6)	98.0	(43.5)	(508.1)
Total net liabilities from financing activities		(1,475.3)	316.9	(59.1)	(1,217.5)
Deferred consideration	4.5	(0.7)	—	—	(0.7)
Net debt	4.1.1	(1,353.2)	344.1	(68.0)	(1,077.1)

1. The sum of these items equates to the fair value of the Group's private placement loan note's debt of £707.1m (2019: £912.4m). Cash flow movement in private placement loan notes includes both repayment of private placement loan notes of £242.9m and finance arrangement costs of £0.5m.

2. Non-cash movement relates to: the effect of changes in foreign exchange on cash; fair value changes on the swaps; amortisation of loan notes issue costs; amortisation of the discount on the euro debt; and additions and terminations and foreign exchange rate effects on the Group's leases.

Section 2: Results for the year continued

2.10 Cash flow information continued

2.10.3 Reconciliation of net cash flow to movement in net debt continued

Year ended 31 December 2019	Note	Net debt at 1 January £m	Lease liability adjustment ¹ £m	Cash flow movements £m	Non-cash movement £m	Net debt at 31 December £m
Cash, cash equivalents and overdrafts	4.5.4	642.7	—	(523.2)	3.3	122.8
Other loan notes	4.5	(0.3)	—	—	—	(0.3)
Private placement loan notes	4.5	(1,108.0)	—	97.9	19.4	(990.7)
Cross-currency interest rate swaps	4.5	99.6	—	(10.9)	(11.4)	77.3
Interest rate swaps	4.5	1.9	—	—	(0.9)	1.0
Term loan	4.5	(100.0)	—	100.0	—	—
Lease liabilities ¹	4.4	—	(643.9)	93.7	(12.4)	(562.6)
Total net liabilities from financing activities		(1,106.8)	(643.9)	280.7	(5.3)	(1,475.3)
Deferred consideration	4.5	(2.0)	—	1.3	—	(0.7)
Net debt	4.1.1	(466.1)	(643.9)	(241.2)	(2.0)	(1,353.2)

1. The Group first adopted IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.

Section 3: Operating assets and liabilities

This section shows the operating assets and liabilities used to generate the Group's trading performance. Liabilities relating to the Group's financing activities are contained in Section 4. Current tax and deferred tax assets and liabilities are shown in note 2.6. Deferred income is shown in note 2.1.

In this section you will find disclosures about:

- 3.1 Working capital
 - 3.1.1 Trade and other receivables
 - 3.1.2 Trade and other payables
 - 3.1.3 Contract fulfilment assets
- 3.2 Property, plant and equipment
- 3.3 Intangible assets
- 3.4 Goodwill
- 3.5 Right-of-use assets
- 3.6 Provisions



Denotes accounting policies



Denotes significant accounting judgements, estimates and assumptions

Key highlights

Return on capital employed (ROCE)¹

Aim: Deliver ROCE in excess of our cost of capital

3.8%

(2019: 7.8%)

1. Definitions of the alternative performance measures and related KPIs can be found in section 8.2.

	Note	2020 £m	2019 £m	Year on year movement £m
Working capital	3.1	(765.9)	(636.2)	(129.7)
Trade and other receivables – current	3.1.1	551.0	748.4	(197.4)
Trade and other receivables – non-current	3.1.1	22.1	26.4	(4.3)
Trade and other payables – current	3.1.2	(635.0)	(619.8)	(15.2)
Trade and other payables – non-current	3.1.2	(23.6)	(6.0)	(17.6)
Deferred income – current	2.1	(822.2)	(884.5)	62.3
Deferred income – non-current	2.1	(153.0)	(176.5)	23.5
Contract fulfilment assets	3.1.3	294.8	275.8	19.0
Property, plant and equipment	3.2	157.2	194.3	(37.1)
Intangibles	3.3	265.0	354.2	(89.2)
Goodwill	3.4	1,120.5	1,177.8	(57.3)
Right-of-use-assets	3.5	342.1	480.9	(138.8)
Provisions – current	3.6	(107.0)	(71.3)	(35.7)
Provisions – non-current	3.6	(17.4)	(9.3)	(8.1)

The decrease in trade and other receivables was as a result of the lower in business volumes and shorter public sector payment cycles as part of the Covid-19 response reducing trade receivables (£142.3m), a decrease in accrued income (£24.2m) from lower operational activity and prepayments (£24.3m) particularly within Government Services.

During the year a non-recourse receivables facility was put in place to mitigate the risk of customer receipts slippage resulting from the impact of the Covid-19 pandemic. The outstanding invoices sold under this facility at 31 December 2020 was £13.6m.

The increase in trade and other payables was as a result of an increase in other taxes and social security (£117.2m) from the 2020 VAT deferral which was offset by a decrease in accruals (£20.8m). The impact of lower operational activity in 2020 and some early payments reduced trade payables (£69.8m).

The decrease in deferred income was as a result of the normal reduction in deferred income balances as well as one-off releases on contract terminations and modifications in 2020, partially off-set by increases from advanced receipts and higher activity levels on contracts such as DFRP, where cash has been received in 2020 in respect of transformation activity.

Section 3: Operating assets and liabilities continued

Contract fulfilment assets increased as a result of additions of £127.4m predominantly in Government Services (£85.2m) on contracts including DFRP and Transport for London - Congestion Charge, Software (£22.8m) and Technology Solutions (£17.3m). This was offset by a utilisation of £78.0m mainly within Software (£26.9m), Government Services (£7.3m) and Technology Solutions (£10.2m), as well as an impairment of £17.5m across a number of contracts.

Property, plant and equipment decreased as additions of £40.8m including a property purchase at the start of the year and various investments across each division were offset by a £10.3m impairment of assets, disposals of £19.3m of leasehold improvements and other plant and machinery from property rationalisation and depreciation of £50.9m.

Intangible assets decreased due to amortisation of £74.6m and the impact of £44.4m of assets transferred to assets held for sale in respect of businesses being exited, with ESS being the largest contributor. Additionally, there were £9.7m asset disposals including an asset sale under an in-year contract extension and impairments of £2.6m which were offset by £46.6m of additions relating primarily to investment in our Customer Relationship Management (CRM) tool and payment facilitator tool, and other investments across each division to drive future growth.

Goodwill decreased as a result of transfers to assets held for sale in 2020 comprising £45.3m for ESS and £12.1m for other business disposals completed in 2020, being Eclipse Legal Services and Capita Employee Benefits.

The increase in provisions of £43.8m during the year was predominantly due to new provisions totalling £98.4m with the largest increases being increased restructuring provisions (£31.1m), legal provisions (£13.1m), additional customer contract provisions (£36.8m) and business exit provisions (£11.6m). This was offset by releases and utilisations totalling £54.3m.

3.1 Working capital

3.1.1 Trade and other receivables

AP Accounting policies

Trade receivables: Trade receivables are initially recognised at cost (being the same as fair value) and subsequently at amortised cost less any provision for impairment, to ensure the amounts recognised represent their recoverable amount.

Impairment: For trade receivables, the Group 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Derecognition: A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (ie removed from the Group's consolidated balance sheet) when (i) the rights to receive the cash flows from the asset have expired; or, (ii) the Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risk and rewards of the asset; or, (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Trade receivables that are sold without recourse are derecognised at the point of sale when the risks and rewards of the receivables have been fully transferred.

Accrued income: Accrued income in relation to contract assets is recognised when payments received from customers are less than the revenue recognised by the reporting date.

	Current		Non-current	
	2020 £m	2019 £m	2020 £m	2019 £m
Trade receivables	250.5	392.8	—	—
Other receivables ¹	40.9	48.4	5.7	4.3
Current contract fulfilment assets ²	9.0	13.8	—	—
Accrued income	164.6	191.2	2.9	0.5
Prepayments	86.0	102.2	13.5	21.6
	551.0	748.4	22.1	26.4

1. Other receivables includes £4.1m (2019 £nil) of accrued interest on cross-currency interest rate swaps.

2. Refer to note 3.1.3 for non-current contract fulfilment assets.

Trade receivables are non-interest bearing and are generally on 30-day terms.

The Group's accrued income balances solely relate to revenue from contracts with customers. Movements in the accrued income balances were driven by transactions entered into by the Group in the normal course of business during the year.

Movements in the loss allowance made against receivables were as follows:

	2020 £m	2019 £m
At 1 January	4.9	11.2
Utilised	(0.3)	(0.3)
Provided in the year	11.7	3.2
Released in the year	(4.4)	(9.2)
Business disposal	(0.6)	—
At 31 December	11.3	4.9

The Group monitors the level of trade receivables on a monthly basis, continually assessing the risk of default by any counterparty.

Non-recourse trade receivables facilities

The value of the outstanding invoices sold under non-recourse trade receivable facilities was £22.2m at 31 December 2020 (2019: £nil). The costs of selling such invoices £0.3m was included in net finance costs in the consolidated income statement.

Section 3: Operating assets and liabilities continued

3.1 Working capital continued

3.1.2 Trade and other payables

	Current		Non-current	
	2020 £m	2019 £m	2020 £m	2019 £m
Trade payables	131.1	200.9	—	—
Other payables	22.8	21.5	7.9	3.0
Other taxes and social security	221.5	115.2	10.9	—
Accruals	259.6	282.2	4.8	3.0
	635.0	619.8	23.6	6.0

Trade payables are non-interest bearing and are settled on terms agreed with the suppliers.

3.1.3 Contract fulfilment assets

AP Accounting policies

The Group 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 Group's accounting policy for property, plant and equipment), software licence costs (generally in scope of the Group's accounting policy for intangible assets), recruitment costs and training.

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 Group 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 Group applies the following criteria which, if met, result in capitalisation of costs that: (i) directly relate to a contract or to a specifically identifiable anticipated contract; (ii) generate or enhance resources that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) are expected to be recovered.

The Group has determined that, where the relevant specific criteria are met, the costs for (i) process mapping and design; (ii) system development; and (iii) project management; are likely to qualify to be capitalised as contract fulfilment assets.

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

The Group has determined that the following costs may be capitalised as contract fulfilment assets: (i) legal fees to draft a contract after the Group has been selected as preferred supplier; and (ii) sales commissions directly related to winning a specific contract.

Costs incurred prior to selection as preferred supplier are not capitalised but expensed as incurred.

Utilisation: The utilisation charge is included within cost of sales. The Group utilises contract fulfilment assets over the expected contract period on a systematic basis that mirrors the pattern in which the Group transfers control of the service to the customer.

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 Group 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 Group expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Group 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.

J Significant accounting judgements, estimates and assumptions

Judgement is applied by the Group when determining what costs qualify to be capitalised in particular when considering whether these costs are incremental and when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable. For example, the Group 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. See note 2.1 for further information.

Section 3: Operating assets and liabilities continued

3.1 Working capital continued

3.1.3 Contract fulfilment assets continued

Movements in non-current contract fulfilment assets were as follows¹:

	2020 £m	2019 £m
At 1 January	275.8	264.2
Additions	127.4	114.3
Transfer to assets held-for-sale	(3.9)	—
Impairment - excluded from adjusted profit	(17.5)	(9.6)
Derecognition	(9.5)	(2.0)
Utilised during the year	(78.0)	(90.7)
Exchange movement	0.5	(0.4)
At 31 December	294.8	275.8

1. Refer to note 3.1.1 for current contract fulfilment assets.

Impairment: In 2020, the Group recognised an impairment of £17.5m (2019: £9.6m) in adjusted cost of sales, of which, £2.0m (2019: £2.2m) relates to contract fulfilment assets added during the year.

Derecognition: In 2020, £9.5m (2019: £2.0m) was derecognised in relation to business exits and a contract in Customer Management where the scope of our services changed due to the partial termination of the contract and the Group had no further use for the assets. In the prior year, derecognition related to business exits.

3.2 Property, plant and equipment

AP Accounting policies

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation: Depreciation is disclosed as an administrative expense in the consolidated income statement, and is calculated on a straight-line basis over the estimated useful life of the asset, as follows:

- Freehold buildings and long leasehold property – up to 50 years.
- Leasehold improvements – period of the lease.
- Plant and machinery – 3 to 10 years.

Impairment: The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are disclosed as administrative expenses in the consolidated income statement.

Derecognition: An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset (retired). Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying value of the asset, is included in the consolidated income statement when the asset is derecognised.

Section 3: Operating assets and liabilities continued

3.2 Property, plant and equipment

	2020			2019		
	Leasehold improvement, land and buildings £m	Plant and machinery £m	Total £m	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m
Cost						
At 1 January	118.1	206.6	324.7	103.0	175.7	278.7
Additions	21.0	19.8	40.8	18.0	39.7	57.7
Disposal of business	(0.7)	(0.1)	(0.8)	—	—	—
Disposals – included in adjusted profit	(5.3)	(14.8)	(20.1)	(2.4)	(4.6)	(7.0)
Disposals – excluded from adjusted profit	(19.9)	(14.4)	(34.3)	—	—	—
Transfer to assets held-for-sale	(1.0)	(11.8)	(12.8)	(0.2)	—	(0.2)
Reclassifications	(1.1)	7.8	6.7	—	—	—
Asset retirements	(6.8)	(1.4)	(8.2)	—	—	—
Exchange movement	(1.0)	1.5	0.5	(0.3)	(4.2)	(4.5)
At 31 December	103.3	193.2	296.5	118.1	206.6	324.7
Depreciation and impairment						
At 1 January	47.3	83.1	130.4	41.8	23.3	65.1
Depreciation charged during the year	9.0	41.9	50.9	9.6	50.7	60.3
Disposal of business	(0.2)	(0.1)	(0.3)	—	—	—
Disposals – included in adjusted profit	(4.6)	(12.3)	(16.9)	(2.2)	(3.8)	(6.0)
Disposals – excluded from adjusted profit	(3.9)	(14.3)	(18.2)	—	—	—
Impairment – included in adjusted profit	1.2	2.2	3.4	—	—	—
Impairment – excluded from adjusted profit	—	6.9	6.9	—	14.7	14.7
Transfer to assets held-for-sale	(0.7)	(8.8)	(9.5)	—	—	—
Asset retirements	(6.8)	(1.4)	(8.2)	—	—	—
Exchange movement	0.3	0.5	0.8	(1.9)	(1.8)	(3.7)
At 31 December	41.6	97.7	139.3	47.3	83.1	130.4
Net book value						
At 1 January	70.8	123.5	194.3	61.2	152.4	213.6
At 31 December	61.7	95.5	157.2	70.8	123.5	194.3

At 31 December 2020, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £5.3m (2019: £6.7m), relating to building improvements on leased property.

In January 2020, the Group acquired a property from the lessor for £3.0m which was subsequently sold and leased back in October 2020. Refer note 3.5 for details.

During the year, the Group exited a number of properties and their related leasehold improvement assets were disposed of for £nil consideration. Since these exits were part of the Group wide transformation, the related charge was excluded from adjusted profit.

3.3 Intangible assets

AP Accounting policies

Intangible assets acquired separately are capitalised at cost and those identified in a business acquisition are capitalised at fair value at the date of acquisition. In the case of capitalised software development costs, research expenditure is written off to the consolidated income statement in the period in which it is incurred. Development expenditure is written off in the same way unless and until the Group is satisfied as to the technical, commercial and financial viability of individual projects. Where this condition is satisfied, the development expenditure is capitalised and amortised over the period during which the Group is expected to benefit.

Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. There were no indefinite-lived assets in 2020 or 2019.

Amortisation: Amortisation is charged on assets with finite lives and is disclosed as an administrative expense in the consolidated income statement. Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. The amortisation method used reflects the expected pattern of consumption of future economic benefits and generally amortised on a straight-line basis, the amortisation periods used are as follows:

- Intangible assets acquired in business combinations – 1.5 to 20 years.
- Intangible assets purchased or internally capitalised – 3 to 20 years.

Section 3: Operating assets and liabilities continued

3.3 Intangible assets continued

Impairment: Intangible assets with finite lives are only tested for impairment, either individually or at the cash-generating unit level, where there is an indicator of impairment.

Derecognition: Intangible assets are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset (retired). Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying value of the asset, is included in the consolidated income statement when the asset is derecognised.

The measurement of intangible assets other than goodwill in a business combination: on the acquisition of a business, the identifiable intangible assets may include licences, customer lists and brands. The fair value of these assets is determined by discounting estimated future net cash flows generated by the asset because in most cases no active market for the assets exists and therefore no observable value exists. The use of different assumptions for the expectations of future cash flows and the discount rate would change the valuation of the intangible assets. The potential impact of Covid-19 which has introduced unprecedented economic uncertainties has been considered, and given the level of judgement and estimation involved in assessing future cash flows, it is reasonably possible that outcomes within the next financial year may be different from management's assumptions and require a material adjustment to the carrying value of intangible assets. The relative size of the Group's intangible assets, excluding goodwill, makes the judgements surrounding the estimated useful lives material to the Group's financial position and performance.

The assessment of costs capitalised as intangible assets to generate future economic benefits: judgement is applied in assessing whether costs incurred, both internal and external, will generate future economic benefits. Significant judgements and estimates are applied in determining the carrying value of the assets, including assumptions made in respect of the status of the programme each asset relates to, and there may be a range of possible outcomes when a programme is complex.

	2020			2019		
	Intangible assets acquired in business combinations £m	Capitalised/purchased intangible assets £m	Total £m	Intangible assets acquired in business combinations £m	Capitalised/purchased intangible assets £m	Total £m
Cost						
At 1 January	371.0	363.0	734.0	552.5	254.0	806.5
Business disposal	—	(3.5)	(3.5)	—	—	—
Additions	—	46.6	46.6	—	124.7	124.7
Disposals – included in adjusted profit	—	(31.6)	(31.6)	—	(2.7)	(2.7)
Disposals – excluded from adjusted profit	—	(2.0)	(2.0)	—	—	—
Transfer to assets held-for-sale	—	(46.0)	(46.0)	—	(0.1)	(0.1)
Asset retirement	(202.9)	(13.9)	(216.8)	(179.2)	(12.2)	(191.4)
Exchange movement	6.2	1.6	7.8	(2.3)	(0.7)	(3.0)
At 31 December	174.3	314.2	488.5	371.0	363.0	734.0
Amortisation and impairment						
At 1 January	296.9	82.9	379.8	425.8	52.0	477.8
Amortisation charged during the year	32.3	42.3	74.6	50.3	31.1	81.4
Impairment – included in adjusted profit	—	0.1	0.1	—	—	—
Impairment – excluded from adjusted profit	1.6	0.9	2.5	—	13.8	13.8
Business disposal	—	(0.3)	(0.3)	—	—	—
Disposals – included in adjusted profit	—	(21.9)	(21.9)	—	(1.5)	(1.5)
Disposals – excluded from adjusted profit	—	(0.4)	(0.4)	—	—	—
Transfer to assets held-for-sale	—	(1.6)	(1.6)	—	—	—
Asset retirement	(202.9)	(13.9)	(216.8)	(179.2)	(12.2)	(191.4)
Exchange movement	7.5	—	7.5	—	(0.3)	(0.3)
At 31 December	135.4	88.1	223.5	296.9	82.9	379.8
Net book value						
At 1 January	74.1	280.1	354.2	126.7	202.0	328.7
At 31 December	38.9	226.1	265.0	74.1	280.1	354.2

Intangible assets acquired in business combinations include brands (net book value 2020: £2.6m, 2019: £8.8m), Intellectual Property software and licences (net book value 2020: £20.9m, 2019: £28.7m), contracts and committed sales (net book value 2020: £7.7m, 2019: £15.9m) and clients lists and relationships (net book value 2020: £7.7m, 2019: £20.7m). Intangible assets capitalised or purchased include capitalised software development (net book value 2020: £184.0m, 2019: £237.0m) and other intangibles (net book value 2020: £42.1m, 2019: £43.1m).

Section 3: Operating assets and liabilities continued

3.3 Intangible assets continued

The aim of the finance transformation is to improve the Group's financial reporting systems, processes and controls, by increasing standardisation, automation and the quality of available data. The new financial systems were due to go live in the second half of 2019. While progress was made, we took the decision to defer the go-live as more work is required on the core processes and procedures before the system can be effectively implemented. As such, we impaired £12.3m at 31 December 2019, representing areas that we expected to redesign before going live. Several interim activities were progressed during 2020 and the technical asset including the IT infrastructure, software and codebase have been preserved through 2020 and remain ready to deploy. No impairment has been recorded during 2020 because it is believed that the solution is fit for purpose. The carrying value of the investment at 31 December 2020 is £58.6m (31 December 2019: £58.6m). Further impairment may arise should there be a material change to the Group's operating model. The Group has continued to invest in shared service centres and offshoring, and in making improvements to the Group's existing reporting systems, processes and controls.

3.4 Goodwill

AP Accounting policies

Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill arising on acquisitions prior to 31 December 1997 remains set-off directly against reserves and does not get recycled through the consolidated income statement.

At the acquisition date, any goodwill acquired is allocated to the cash-generating units (CGU) which are expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained.

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the Parent company.

Prior to the adoption of IAS 27 (Amended), goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

J Significant accounting judgements, estimates and assumptions

Measurement and impairment of goodwill: the amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement. Allocation of the purchase price affects the results of the Group as finite lived intangible assets are amortised. The Group determines whether goodwill is impaired on an annual basis or more frequently if required and this requires an estimation of the recoverable amount of the CGUs to which the intangible assets are allocated utilising an estimation of future cash flows and choosing a suitable discount rate. The potential impact of Covid-19 which has introduced unprecedented economic uncertainties has been considered and given the level of judgement and estimation involved in assessing future cash flows, it is reasonably possible that outcomes within the next financial year may be different from management's assumptions and require a material adjustment to the carrying value of goodwill.

	2020 £m	2019 £m
Cost		
At 1 January	2,016.1	2,020.6
Business disposal	(52.4)	—
Transfer to disposal group assets held-for-sale	(45.3)	(2.8)
Exchange movement	0.1	(1.7)
At 31 December	1,918.5	2,016.1
Accumulated impairment		
At 1 January	838.3	761.6
Business disposal	(40.3)	—
Impairment – excluded from adjusted profit	—	41.4
Impairment – business exit	—	35.3
At 31 December	798.0	838.3
Net book value		
At 1 January	1,177.8	1,259.0
At 31 December	1,120.5	1,177.8

Section 3: Operating assets and liabilities continued

3.4 Goodwill continued

Cash-generating units

Cash generating units reflect the way management exercises oversight and monitors the Group's performance. The lowest level at which goodwill is monitored is at the divisional level for five divisions (Software, People Solutions, Technology Solutions, Consulting, and Specialist Services (see below)), and at a sub-divisional level for the other two divisions (Government Services and Customer Management (see below)). Goodwill is allocated to these CGUs or groups of CGUs. At 31 December 2020, the Group has nine CGUs or groups of CGUs for the purpose of impairment testing.

In line with our drive to simplify the Group, we have continued to review the portfolio of businesses in each division. In early 2020 we decided a number of businesses in Specialist Services would benefit from closer alignment with core Capita and should be moved into other divisions (People Solutions, Government Services, Customer Management and Technology Solutions), and that some other businesses should be moved into Specialist Services (from Government Services and Software). The relevant goodwill balances were reallocated to reflect these transfers. Transfers made were the entire goodwill balances relating to the underlying businesses moving between groups of CGUs, with no individual goodwill balances needing to be apportioned out as part of this process.

Capita's Regulated Services business was transferred from Specialist Services to Customer Management. For goodwill testing purposes the Regulated Services business will continue to be treated as a separate CGUs, although as there is no goodwill attributable to this group, it has been excluded from the disclosures below. The remaining businesses in the Specialist Services division will also continue to be treated as one group of CGUs, which now encompasses the whole division.

In accordance with the divisional strategy to further align and consolidate management and oversight of the Technology Solutions division, for impairment testing the previously separate IT Services and Network Services groups of CGUs were merged into one combined Technology Solutions group of CGUs during the year.

The Board will continue to assess the level at which management exercise oversight and monitors the Group's performance to ensure the allocation of goodwill to CGUs remains appropriate.

Carrying amount of goodwill allocated to groups of CGUs:

CGU	Software £m	People Solutions £m	Customer Management £m	Central Government £m	Technology Solutions £m	Specialist Services £m	Consulting £m	Total £m
At 1 January	254.9	199.7	137.0	8.7	276.3	280.5	20.7	1,177.8
Restructuring transfers	(19.6)	88.5	(12.6)	9.1	10.2	(75.6)	—	—
Business disposal	(3.8)	(8.3)	—	—	—	—	—	(12.1)
Transfer to assets held for sale	(45.3)	—	—	—	—	—	—	(45.3)
Exchange movement	—	—	0.1	—	—	—	—	0.1
At 31 December	186.2	279.9	124.5	17.8	286.5	204.9	20.7	1,120.5

Capita Regulated Services and Local Government CGUs are not included in the table above because their related goodwill was fully impaired in prior years.

Business exits

As set out in note 2.8, three businesses (within Software, People Solutions and Specialist Services) were fully disposed of during the year, with goodwill relating to them written off as part of business disposals.

Two businesses (within Software and Regulated Services) that the Group has or intends to dispose of in 2021 meet the criteria to be treated as held-for-sale at 31 December 2020, with goodwill relating to the Software business reclassified to assets held-for-sale. There was no goodwill relating to the businesses in Regulated Services at 31 December 2020.

The impairment test

The Group's impairment test compares the carrying value of each CGU with its recoverable amount. The recoverable amount of a CGU is the higher of fair value less cost of disposal, and its value in use. As the Group continues to implement the Group-wide transformation plan, described earlier in the strategic report, it has been determined that for 2020, fair value less costs of disposal will generate the higher recoverable amount. The valuation of CGUs under fair value less costs of disposal also assumes that a third-party acquirer would undertake a similar transformation plan to derive similar benefits in the business going forward. Fair value less costs of disposal have been estimated using discounted cash flows. The fair value measurement was categorised as a Level-3 fair value based on the inputs in the valuation technique used.

In undertaking the annual impairment review, the directors considered both external and internal sources of information, and any observable indications that may suggest that the carrying value of goodwill may be impaired. This included comparison to the Group's share price and market capitalisation.

The enterprise value of each CGU is dependent on the successful implementation of the transformation plan. If the transformation plan fails to drive improved returns and sustainable free cash flow in one or more of the CGUs, then this may give rise to an impairment of goodwill in future periods.

No impairment has arisen from the impairment test performed.

The key inputs to the calculations are described below, including changes in market conditions.

Section 3: Operating assets and liabilities continued

3.4 Goodwill continued

Forecast cash flows

The cash flow projections prepared for the impairment test are derived from the 2021-2023 business plans (BP) and 2024-2025 strategic plans, approved by the Board in February 2021. The BP captures the benefits that the transformation plan is anticipated to deliver, and the costs to achieve these.

Covid-19 has introduced unprecedented economic uncertainties and has led to increased judgement particularly in forecasting future financial performance. Many parts of the Group have demonstrated resilience throughout 2020, adapting to address the impact of Covid-19, but the pandemic has slowed the progress of the transformation plan. The impact has been incorporated within the BP assumptions approved by the Board.

For the purpose of the impairment test, the strategic plan cash flow forecasts for 2024-2025 have been further risk adjusted to reflect additional uncertainty in outer year forecasts.

Other than for movements in deferred income and contract fulfilment assets, cash flows are adjusted to exclude working capital movements as the corresponding balances are not included in the CGU carrying amount. The cash flows include forecast capital expenditure and restructuring, as well as an allocation of the costs of central functions.

The Board have considered an appropriate methodology to apply when allocating central function costs, which is a key sensitivity. Forecast CGU EBITDA measures for 2022 (2019: 2021) were used for this purpose because these are seen to represent a steady state forecast for the Group, and an appropriate approximation of the attention and focus of the Group's central functions. As the transformation plan delivers, and there is more certainty over the impact of Covid-19 on the Group and the wider economy as a whole, the Board will assess any changes required to ensure the allocation methodology continues to reflect the efforts of the central functions.

The long-term growth rate is based on economic growth forecasts by recognised bodies and this has been applied to forecast cash flows for the terminal period. The 2020 long-term growth rate is 1.6% (2019: 1.6%).

Discount rates

Management estimates discount rates using pre-tax rates that reflect the latest market assumptions for the risk-free rate, the equity risk premium and the net cost of debt, which are all based on publicly available external sources.

The table below represents the pre-tax discount rates used on the cash flows.

	Software	People Solutions	Customer Management	Central Government	Technology Solutions	Specialist Services	Consulting
2020	11.8 %	11.2 %	11.0 %	10.5 %	10.2 %	10.9 %	10.9 %
2019	11.5 %	10.9 %	10.7 %	10.2 %	9.9 %	10.6 %	10.6 %

As set out above, discount rates used in 2020 are 0.3% higher than those for 2019. The key drivers for this increase are changes in market assumptions for market risk premiums and the levered beta of peer group comparators, off-set by decreases in UK corporate bond yields and risk-free rates.

To further risk-adjust discounted cash flows for the purposes of the impairment test, the discount rate applied to years 2023 and onwards has been increased by 3% compared to that used for 2021 and 2022 (2019: no additional adjustment applied to outer year discount rates).

Sensitivity analysis

The impairment testing as described is reliant on the accuracy of management's forecasts and the assumptions that underlie them; and on the selection of the discount and growth rates to be applied. In order to gauge the sensitivity of the result to a change in any one, or combination of the assumptions that underlie the model, a number of scenarios were developed to identify the range of reasonably possible alternatives and measure which CGUs are the most susceptible to an impairment should the assumptions used be varied. This sensitivity analysis is only applicable to the CGUs that have goodwill.

The table below shows how the enterprise value would be impacted (with all other variables being equal) by: an increase in discount rate of 1%, or a decrease of 1% in the long-term growth rate (for the terminal period) for the Group in total and each of the CGUs; or, by the severe but plausible downsides applied to the base-case projections for assessing going concern and viability, without mitigations, for both 2021 and 2022, and the long-term growth rate (1.6%) applied to projected cash flows for 2023 to 2025 and the terminal period. This downside scenario includes trading risks which assume the transformation plan is not successful in delivering the anticipated revenue growth. We have also considered the impact of all of the scenarios together and disclosed the impact on impairment in the final column.

	1% increase in discount rate £m	Long-term growth rate decrease by 1% £m	Severe but plausible downside £m	Combination sensitivity £m	2020 goodwill impairment using combination scenario £m
Software	(27.9)	(19.4)	(82.1)	(116.4)	—
People Solutions	(38.5)	(25.6)	(90.4)	(143.5)	—
Customer Management	(25.7)	(18.1)	(21.2)	(65.4)	—
Central Government	(32.6)	(24.1)	(111.5)	(150.1)	—
Technology Solutions	(48.1)	(33.3)	(160.1)	(219.2)	—
Specialist Services	(24.3)	(16.6)	(124.9)	(148.0)	(74.1)
Consulting	(4.1)	(2.9)	(43.7)	(43.7)	(20.7)
Total	(201.2)	(140.0)	(633.9)	(886.3)	(94.8)

Section 3: Operating assets and liabilities continued

3.4 Goodwill continued

At 31 December 2020, no impairment of goodwill has arisen from the impairment test performed. Under the combination sensitivity scenario, impairments have been highlighted in relation to Specialist Services and Consulting, whereas under the base case impairment test the recoverable amount exceeded the carrying amount of assets (including goodwill) relating to these CGUs by £74.0m for Specialist Services, and by £20.9m for Consulting. Under the severe but plausible downside and combination sensitivity scenarios presented, the enterprise value impact for Consulting has been capped at the enterprise value for the CGU under the base case impairment test.

Management continue to monitor closely the performance of all CGUs and consider the impact of any changes to the key assumptions. Given the Group is in the middle of a multi-year transformation, in addition to trading being affected by the impact of Covid-19, there is a greater range of potential future outcomes. A number of these downsides would give rise to an impairment.

3.5 Right-of-use assets

AP Accounting policies

At the inception of the lease, the Group recognises a right-of-use asset at cost, which comprises the present value of minimum lease payments determined at the inception of the lease. 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 administrative expenses in the consolidated income statement. Amendment to lease terms resulting in a change in payments or the length of the lease results in an adjustment to the right-of-use asset and liability. 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-use assets exclude leases with low values and terms of 12 months or less. These leases are expensed to the consolidated income statement as incurred.

Net Book Value	Property £m	Motor vehicles £m	Equipment £m	Total £m
At 1 January	446.0	4.3	30.6	480.9
Addition of new leases	11.3	17.9	0.1	29.3
Depreciation charged during the year	(69.2)	(5.1)	(13.9)	(88.2)
Impairment - excluded from adjusted profit	(20.1)	—	(2.1)	(22.2)
Transfer to disposal group assets held-for-sale	(4.5)	—	—	(4.5)
Transfer to financial lease receivables	(68.0)	—	—	(68.0)
Exchange movement	0.5	(0.1)	(0.4)	—
Other movements	14.0	(0.1)	0.9	14.8
At 31 December	310.0	16.9	15.2	342.1

During 2020, as part of the property rationalisation, the Group entered into the following transactions, impacting the right-of-use-assets:

- in January 2020, the Group acquired the freehold of a property (for £3.0m refer to note 3.2) by extinguishing its lease liability (for £22.9m). This resulted in the de-recognition of £7.1m of the right-of-use asset, and a charge to significant restructuring of £9.1m (refer to note 2.4);
- in October 2020, the above property was sold and leased back over a two-year lease term at market rent. Cash proceeds of £3.5m were received of which £0.5m was recognised as a financing arrangement to be repaid over the two-year lease term; and
- in October 2020, the Group sublet a leased property where the sub-lease was assessed as a finance lease. This resulted in the de-recognition of the right-of-use asset (£66.6m) and the recognition of a finance lease receivable (£69.9m). Refer to note 4.4.

Other movements include amendments to existing leases and terminations.

Section 3: Operating assets and liabilities continued

3.6 Provisions

AP Accounting policies

Provisions are recognised when the Group has a present legal or constructive obligation arising from past events, it is probable that cash will be paid to settle it, and the amount can be estimated reliably. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows by a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a financing cost in the consolidated income statement. The value of the provision is determined based on assumptions and estimates in relation to the amount, timing and likelihood of actual cash flows, which are dependent on future events.

J Significant accounting judgements, estimates and assumptions

Judgement is required in measuring and recognising provisions related to pending litigation or other outstanding claims subject to negotiated settlement, mediation and arbitration, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision. Where practicable, the range of reasonably possible outcomes and sensitivities of the carrying amounts to the methodology, assumptions, and estimates, the reason for the sensitivity, the expected resolution of uncertainties and the range of reasonable possible alternatives, are provided. Where no reliable basis of estimation can be made, no provision is recorded. However, contingent liabilities disclosures are given when there is a greater than a remote probability of outflow of economic benefits. See note 6.2.

On an ongoing basis, management monitor provisions and their accurate estimation when compared to final outcomes.

Onerous contract provisions

See note 2.1 for further information.

Provisions

The movements in provisions during the year are as follows:

	Restructuring provision £m	Business exit provision £m	Claim and litigation provision £m	Property provision £m	Customer contract provision £m	Other provisions £m	Total £m
At 1 January	6.1	10.5	41.2	8.3	6.1	8.4	80.6
Provisions provided for in the year	31.1	11.6	13.1	2.5	36.8	3.3	98.4
Provisions released in the year	(0.8)	(3.2)	(4.6)	(2.0)	(2.9)	(1.9)	(15.4)
Utilisation	(22.9)	(3.6)	(8.0)	(0.1)	(1.9)	(2.4)	(38.9)
Transfer to disposal group liabilities held for sale	—	—	—	—	—	(0.4)	(0.4)
Exchange movement	—	—	—	—	—	0.1	0.1
At 31 December	13.5	15.3	41.7	8.7	38.1	7.1	124.4

The provisions made above have been shown as current or non-current on the balance sheet to indicate the Group's expected timing of the matters reaching conclusion.

Restructuring provision: The provision represents the cost of reducing role count where communication to affected employees has crystallised a valid expectation that roles are at risk and it is likely to unwind over a period of one to two years. Additionally, it relates to unavoidable running costs of leasehold properties, such as insurance and security, and dilapidation provision, where properties are exited as a result of the transformation plan. These provisions are likely to unwind over periods of up to 25 years.

Business exit provision: The provision relates to the cost of exiting businesses through disposal or closure including professional fees related to business exits and the costs of separating the businesses being disposed. These are likely to unwind over a period of one to five years.

Claims and litigation provision: The Group is exposed to claims and litigation proceedings arising in the ordinary course of business. These matters are reassessed regularly and where obligations are probable and estimable, provisions are made representing the Group's best estimate of the expenditure to be incurred. £23.7m of claims provided for were settled in early 2021. Due to the nature of the remaining claims, the Group cannot give an estimate of the period over which this provision will unwind.

Property provision: The provision relates to unavoidable running costs, such as insurance and security, of leasehold property where the space is vacant or currently not planned to be used for ongoing operations, and for dilapidation costs, as part of the ordinary course of business and not the group wide transformation plan (where such costs are included in the restructuring provision). The expectation is that this expenditure will be incurred over the remaining periods of the leases which vary up to seven years.

Customer contract provision: The provision includes onerous contract provisions in respect of customer contracts where the unavoidable costs of meeting the obligations under the contracts exceeds the economic benefits expected to be received under them, claims/obligations associated with missed milestones in contractual obligations, and other potential exposures related to contracts with customers. These provisions are forecast to unwind over periods up to seven years.

During 2020, an onerous contract provision of £11.2m was recognised on a contract in Customer Management. The contract has a clause such that the customer can continue to extend the contract indefinitely. Accordingly, judgement is required in assessing the remaining length of the contract to determine the provision. Management considered previous discussions with the customer regarding their intentions and experiences on other contracts, and concluded the best estimate of the remaining contract term is the current contractually committed period to 2023. However, the contract may end earlier or be extended for longer, resulting in a material release or increase in the provision in future reporting periods.

Other provisions: Relates to provisions in respect of other potential exposures arising due to the nature of some of the operations that the Group provides. These are likely to unwind over periods of up to five years.

Section 4: Capital structure and finance costs

This section outlines the Group's capital structure and financing costs. The Group defines its capital structure as its cash and cash equivalents, non-current interest bearing loans and borrowings and equity. The Group aims to manage its capital structure to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders. The Group manages its capital structure to maintain a sustainable mix of debt and equity that ensures that the Group can pursue its strategy. The Group makes adjustments to its capital structure in light of changes in economic conditions and strategic operational risk. To maintain or adjust the capital structure, the Group may return capital to shareholders through dividends and share buy backs, sell assets, raise additional equity, or arrange additional debt facilities. In this section you will find disclosures about:

- 4.1 Net debt, capital and capital management
- 4.2 Financial risk
- 4.3 Net finance costs
- 4.4 Leases
- 4.5 Financial instruments and the fair value hierarchy
- 4.6 Issued share capital
- 4.7 Group composition and non-controlling interests



Denotes accounting policies



Denotes significant accounting judgements, estimates and assumptions

Key highlights

Headline gearing²: headline net debt to adjusted EBITDA¹ (post IFRS 16)

Aim: Maintain the ratio of headline net debt to adjusted EBITDA¹ (post IFRS 16) in the range of 1.7x and 2.7x over the long term

3.1x

(2019: 2.7x)

1. Details of all alternative performance measures and related KPIs can be found in section 8.2.

2. Headline gearing differs to covenant gearing. Headline gearing is based on net debt of £1,077.1m (2019: £1,353.2m), which includes the Group's restricted cash of £34.5m (2019: £42.1m). Refer to section 8.2 for further details.

Available liquidity

£708.6m

(2019: £494.7m)

Capital strategy

The Group's capital strategy is to build a strong and flexible balance sheet, supporting the strategy and investment needed to grow the business, by reducing debt and pension liabilities. Maturing private placement loan notes will place the Group's balance sheet under pressure over the next two years. The Group plans to address this through the disposal of additional non-core businesses and refinancing.

The Board's view is that the appropriate leverage ratio for Capita over the medium term should be between 1 and 2 times headline net debt to adjusted EBITDA (prior to the adoption of IFRS 16). At 31 December 2020, the Group's headline gearing ratio was 2.4x (2019: 2.1x) excluding the impact of IFRS 16, as a result of the lower adjusted EBITDA due to the impact of Covid-19.

The Board has not formally reviewed the target range, but taking account of the adoption of IFRS 16, the range would increase arithmetically to be between 1.7 and 2.7 times headline net debt to adjusted EBITDA¹. At 31 December 2020, this ratio exceeded this range at 3.1 times (31 December 2019: 2.7 times) for the same reasons set out above.

Liquidity

Net debt (excluding leases and restricted cash) fell by £229.2m from £832.7m to £603.5m in 2020. A further reduction resulted on 1 February 2021 with the receipt of the first tranche of consideration from the disposal of the ESS business. However, liquidity remains a key area of focus. The Group's committed bank facilities provide liquidity for the cash fluctuations of the business cycle and an allowance for contingencies. The Group's revolving credit facility (RCF) expires on 31 August 2022 and is extendable for a further year to 31 August 2023 with the consent of the lenders by 31 August 2021. The facility's size was increased from £414.0m to £452.0m in February 2020 with the addition of a further bank into the facility.

Also, in February 2020, the Group executed a £150.0m committed bank backstop bridge facility. This reduced to £93.5m on 30 June 2020 with the disposal of the Eclipse business. It was then supplemented by a second committed bank backstop bridge facility, so that the total value returned to £150.0m. Both bridge facilities terminated on 1 February 2021 with the receipt of proceeds from the disposal of the ESS business.

All committed facilities were undrawn at 31 December 2020 (combined size £602.0m), and also at 31 December 2019 (£414.0m). No reliance is placed on sources of funding that are not contractually committed.

Net finance costs

Net finance costs have decreased by £12.8m to £49.6m (2019: £62.4m). The reduction is primarily due to lower levels of debt which consequently led to less debt interest (£7.5m), a reduction in the net interest on leases (£1.8m) and a £1.8m decrease in a provision for hedge ineffectiveness.

Section 4: Capital structure and financing costs continued

4.1 Net debt, capital and capital management

4.1.1 Net debt and capital

The components of the Group's net debt and undrawn available liquidity are summarised below.

	Notes	2020 £m	2019 £m	Year on year movement
Cash and cash equivalents	4.5.4	(473.8)	(409.1)	(64.7)
Overdraft	4.5.4	332.7	286.3	46.4
Lease liabilities	4.4.1	508.1	562.6	(54.5)
Private placement loan notes ¹	4.5.2	765.1	990.7	(225.6)
Other loan notes	4.5.2	2.3	0.3	2.0
Currency and interest rate swaps	4.5.2	(58.0)	(78.3)	20.3
Deferred consideration	4.5.2	0.7	0.7	—
Net debt		1,077.1	1,353.2	(276.1)
Undrawn available financing facilities	4.5.2b	602.0	414.0	188.0
Capital		1,679.1	1,767.2	(88.1)

1. Private placement loan notes include US dollar and British pound sterling private placement loan notes, euro fixed rate bearer notes and a Schuldschein loan.

A reconciliation of net debt shown above to cash flow can be found in note 2.10.3.

The overdrafts are part of a cash pooling arrangement, and the underlying balances are fully offset by cash balances in the same arrangement.

Private placement loan notes decreased following the repayment at maturity of £187.2m on 30 June and £55.7m on 30 September. The associated currency and interest rate swaps also expired on these dates, such that the combined net cash outflow was £218.4m. The fair value of the remaining currency and interest rate swaps changed over the year with the passage of time to maturity and changes in market rates.

There are two separate sets of covenant tests underlying the Group's financial instruments. A key difference is the treatment of IFRS 16. The bank facilities and euro instruments fully exclude the impact of IFRS 16 whereas the US private placement loan notes test includes the income statement impact of IFRS 16 but not the balance sheet impact.

Under the test for the bank and euro instruments, at 31 December 2020, adjusted net debt to adjusted EBITDA ratio was 2.5x (2019: 2.2x) compared to a maximum permitted value of 3.5x and annualised interest cover was 7.8x (2019: 10.8x) compared to a minimum permitted level of 4.0x.

Under the test for the US private placement loan notes, at 31 December 2020, adjusted net debt to adjusted EBITDA ratio was 1.8x (2019: 1.7x) compared to a maximum permitted value of 3.0x and annualised interest cover was 8.5x (2019: 11.2x) compared to a minimum permitted level of 4.0x.

In calculating adjusted EBITDA for covenant purposes consideration is given to consistency of treatment of adjusted items with the prior measurement dates, including the exclusion of restructuring.

4.1.2 Capital Management

Focus on capital management forms an important component of Board meetings, including review of forecast headline gearing and key covenant tests, and the mix of funding sources, thereby ensuring sustainability and flexibility. Shareholder returns will be reviewed over time in accordance with the Group's generation of sustainable free cash flow.

The Group's capital management process ensures that it meets the financial covenants of its borrowing arrangements. There have been no breaches in the financial covenants of any loans or borrowings during the reporting period.

Capita plc supports the obligations of its various regulated financial services businesses. The board of each regulated firm is responsible for ensuring it has embedded capital management frameworks that ensure the availability of adequate financial resources at all times. During the year, each complied with all externally imposed financial services regulatory capital requirements applicable to them.

The committed RCF provides the liquidity needed to cover the cash fluctuations of the business cycle, allowing a buffer for contingencies.

As part of the Group's mitigation of the impact of Covid-19, a non-recourse invoice discounting facility was put in place. The value of invoices sold under the arrangement at 31 December 2020 was £13.6m (2019: £nil). In addition, the Group's German business has established an invoice discounting arrangement relating to a customer contract, and the value of invoices sold under that arrangement at 31 December was £8.5m (2019: £nil).

The Group aims to pay its suppliers on time in accordance with agreed terms and does not seek to accelerate payments from customers beyond terms previously agreed.

Section 4: Capital structure and financing costs continued

4.2 Financial risk

Financial risk management objectives and policies

The Group's Board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework, which is outlined on pages 50 to 57 of the strategic report. The Group's principal financial instruments comprise cash, bank loans, private placement loan notes, lease assets and liabilities, and derivatives. The purpose of these is to fund and provide liquidity for the Group's operations and to manage its financial risks. The Group has various other financial instruments including trade receivables and trade payables arising from its operations.

Derivatives comprise interest rate swaps, cross-currency interest rate swaps, and forward foreign currency contracts held with its relationship banks, all of which have investment grade credit ratings. The derivatives' purpose is to manage interest rate and currency risks arising from the Group's operations and its sources of finance. It is the Group's policy that no speculative trading in financial instruments is undertaken.

The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk, interest rate risk, and credit risk. The Board periodically reviews and agrees policies for managing these risks, each of which are summarised below.

4.2.1 Liquidity risk

The Group's policy is to hold cash and undrawn committed facilities at a level sufficient to fund the Group's operations and its medium-term plans.

The Group monitors the risk of a liquidity shortage through its business plan and liquidity cycle forecasts and analysis. The process considers the maturity of both the Group's financial instruments and projected cash flows from operations. The Group maintains a balance between continuity of funding and flexibility through the use or availability of multiple sources of funding. Maturing private placement loan notes will place the Group's liquidity under pressure over the next two years. The Group plans to address this through the disposal of additional non-core businesses and refinancing.

The Group's committed bank facilities are available for operational funding and as a buffer for contingencies.

The RCF expires on 31 August 2022 and is extendable for a further year to 31 August 2023 with the consent of the lenders by 31 August 2021. The facility size was increased from £414.0m to £452.0m in February 2020 with the addition of a further bank into the facility.

Also, in February 2020, the Group executed a £150.0m committed bank backstop bridge facility. This reduced to £93.5m on 30 June 2020 with the disposal of the Eclipse business. It was then supplemented by a second committed bank backstop bridge facility, so that the total value returned to £150m. Both bridge facilities terminated on 1 February 2021 with the receipt of proceeds from the disposal of the ESS business.

All committed facilities were undrawn at 31 December 2020 (combined size £602.0m), and also at 31 December 2019 (£414.0m). No reliance is placed on sources of funding that are not contractually committed.

The financial instruments providing core funding (private placement loan notes) include US private placement loan notes, euro fixed rate bearer notes, and a euro Schuldschein loan. To mitigate the risk of needing to refinance in challenging conditions, these have been arranged with a spread of maturities to November 2027.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2020 based on contractual undiscounted payments. All balances are stated based on the prevailing foreign exchange rates and the contractual interest rates at the end of the reporting period. In accordance with IFRS 7, payments but not receipts are stated for cross-currency interest rate swaps.

At 31 December 2020	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Overdraft	332.7	—	—	—	—	—	332.7
Private placement loan notes	231.4	238.8	69.4	—	84.2	130.5	754.3
Interest on loan notes	24.9	14.1	8.9	7.3	5.7	6.5	67.4
Lease liabilities	102.3	78.0	69.1	55.8	44.2	350.4	699.8
Deferred consideration	—	—	—	—	—	0.7	0.7
Public sector subsidiary partnership payment	9.4	9.4	9.4	—	—	—	28.2
Put options of non-controlling interests	99.7	—	—	—	—	—	99.7
Cross-currency interest rate swaps	0.8	0.6	0.6	0.3	0.3	0.3	2.9
Other financial instruments	1.1	0.8	0.7	0.1	—	—	2.7
	802.3	341.7	158.1	63.5	134.4	488.4	1,988.4
At 31 December 2019	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Overdraft	286.3	—	—	—	—	—	286.3
Private placement loan notes	232.7	236.0	231.3	70.6	—	214.0	984.6
Interest on loan notes	31.3	25.0	14.0	8.9	7.3	12.1	98.6
Lease liabilities	101.6	86.6	68.1	60.4	50.6	384.6	751.9
Contingent consideration	5.0	—	—	—	—	—	5.0
Public sector subsidiary partnership payment	9.4	9.4	9.4	9.4	—	—	37.6
Put options of non-controlling interests	103.1	5.8	—	—	—	—	108.9
Cross-currency interest rate swaps	1.2	1.2	0.9	0.8	0.4	0.9	5.4
Other financial instruments	0.8	—	—	—	—	—	0.8
	771.4	364.0	323.7	150.1	58.3	611.6	2,279.1

Section 4: Capital structure and financing costs continued

4.2 Financial risk continued

4.2.2 Foreign currency risk

The Group is not generally exposed to significant foreign currency transaction risk apart from two exceptions. Firstly, services are provided by the Group's operations in India and incurred in Indian Rupee (INR). The Group seeks to mitigate the short term effect of this exposure by entering into forward foreign exchange contracts (Non-deliverable Forward Contracts (NDFs)) to fix the British pounds sterling (GBP) cost of highly probable transactions over a rolling 24 month period.

At 31 December 2020, the Group held forward foreign exchange contracts against forecast internal monthly INR costs expected in the years up to and including December 2022. These forecast costs have been determined on the basis of the underlying cash flows associated with the delivery of services under executed customer contracts.

Secondly, the Group holds forward exchange forwards against committed costs relating to the purchase of cloud software services in US dollars (USD) in the years up to and including January 2024.

To maximise hedge effectiveness, forward foreign exchange contracts are executed with terms matching the underlying cash flows.

The following table demonstrates the sensitivity of the Group's profit before tax and equity to a 5% strengthening/(weakening) in INR and USD exchange rates, assuming all other variables are unchanged, that would arise from the resulting changes in the fair value of the Group's forward exchange contracts.

	USD		INR	
	Effect on profit before tax £m	Effect on equity £m	Effect on profit before tax £m	Effect on equity £m
2020	—	(4.4)	—	(5.3)
2019	—	(1.2)	—	(3.9)

4.2.3 Interest rate risk

The Group manages its interest rate exposure, which arises from the Group's private placement loan notes, through cash and deposits at variable interest rates, and through interest rate and cross-currency interest rate swaps. The swaps are designated fair value hedges against the fair value changes of the private placement loan notes.

The replacement of benchmark interest rates such as LIBOR and other interbank offered rates (IBORs) is a priority for global regulators and is expected to be largely completed in 2021. The Group's IFRS 9 designated hedge relationships that are impacted by IBOR reform comprise the cross currency interest rate swaps that hedge certain US private placement loan notes. Excluding those that expire in July 2021, these have a notional value of £181.1m. These derivatives are subject to the International Swaps and Derivatives Association's (ISDA) terms and ISDA has published a fall back protocol. In 2020 the Group started discussions with its banks with the aim of implementing the provisions in 2021.

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended. The Group early adopted the Phase 1 amendments to IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures' in 2019. There was no financial impact from the early adoption of these amendments. Further amendments (Phase 2) were issued on 27 August 2020 and the Group will apply these in 2021.

The net level of floating rate interest exposure is managed, to arrive at an acceptable overall interest rate risk profile. The interest rate profile of the Group's interest-bearing financial instruments was as follows:

At 31 December 2020	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Fixed rate							
Private placement loan notes	35.2	181.1	27.3	—	29.4	95.9	368.9
Floating rate							
Cash in hand	(473.8)	—	—	—	—	—	(473.8)
Overdraft	332.7	—	—	—	—	—	332.7
Private placement loan notes	197.5	58.4	43.5	—	59.2	37.6	396.2
Interest rate swaps	(0.5)	—	—	—	—	—	(0.5)
Cross-currency interest rate swaps	(24.1)	(10.1)	(4.9)	—	(13.2)	(5.2)	(57.5)
At 31 December 2019							
Fixed rate							
Private placement loan notes	92.3	35.7	171.1	27.4	—	122.3	448.8
Floating rate							
Cash in hand	(409.1)	—	—	—	—	—	(409.1)
Overdraft	286.3	—	—	—	—	—	286.3
Private placement loan notes	140.2	204.8	59.4	43.4	—	94.1	541.9
Interest rate swaps	—	(1.0)	—	—	—	—	(1.0)
Cross-currency interest rate swaps	(15.5)	(30.3)	(11.1)	(4.8)	—	(15.6)	(77.3)

A sensitivity analysis to changes in interest rates shows that a 0.5% increase or decrease in interest rates, assuming all other variables are held constant, results in an £1.6m (2019: £2.3m) increase or decrease to profit before tax, and no impact on the Group's equity.

Section 4: Capital structure and financing costs continued

4.2 Financial risk continued

4.2.4 Hedges

Fair value hedges

The Group's fixed rate USD and GBP private placement loan notes are hedged through a combination of interest rate and cross-currency interest rate swaps. The cross-currency interest rate swaps hedge the exposure to changes in the fair value of US dollar denominated loan notes. The loan notes and their corresponding swaps have the same critical terms including nominal and maturity.

The total loss in the year on the fair value hedges of £20.3m (2019: £23.1m) was equal to the gain/loss on the hedged items resulting in no net gain or loss in the income statement apart from hedge ineffectiveness from credit risk and currency basis risk. This effect of hedge ineffectiveness was a £1.0m debit (2019: £2.8m debit) to the consolidated income statement – shown in net finance costs, note 4.3.

The impact of the hedged item and the related financial derivatives on the consolidated balance sheet at 31 December 2020 is as follows:

	Notional amount £m	Carrying amount £m	Line item in the statement of financial position	Change in FV used for measuring ineffectiveness £m
Interest rate swaps – assets	26.0	0.5	Financial assets	(0.5)
Cross-currency interest rate swaps – assets	269.3	60.2	Financial assets	(20.7)
Cross-currency interest rate swaps – liabilities	(44.7)	(2.7)	Financial liabilities	0.9
		58.0		(20.3)

	Carrying amount £m	Accumulated FV adjustment £m	Line item in the statement of financial position	Change in FV used for measuring ineffectiveness £m
Private placement loan notes	765.1	58.0	Financial Liabilities	20.3

Cash flow hedges

The Group holds a series of non-deliverable forward foreign exchange contracts, that are designated as hedges of the highly probable transactions in INR of the Group's Indian operations. The terms of the NDFs match the terms of these commitments.

Secondly, the Group holds foreign exchange forward contracts against committed costs relating to the purchase of cloud software services in USD in years up to and including January 2024.

The fair value of cash flow hedging instruments held at 31 December 2020 is shown in note 4.5.2.

The cash flow hedges have been assessed to be highly effective. The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of the hedging instruments. The following table provides an analysis of components of equity resulting from cash flow hedge accounting:

	2020 £m	2019 £m
At 1 January	0.2	1.5
Change in fair value recognised in the consolidated statement of comprehensive income	(1.6)	1.0
Reclassified to the consolidated income statement	(4.5)	(2.6)
Change in deferred tax	1.1	0.3
At 31 December	(4.8)	0.2

4.2.5 Credit risk

The Group trades only with third parties that are expected to be creditworthy. It is the Group's policy that all clients who wish to trade on credit terms are subject to credit verification procedures. The Group manages its operations to avoid any excessive concentration of counterparty risk and the Group takes all reasonable steps to seek assurance from the counterparties that they can fulfil their obligations. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to credit loss remains low.

The carrying values of the Group's financial assets and contract assets represent its maximum credit exposure.

The mark-to-market movement on derivatives includes the extent to which the fair value of these instruments has been affected by the perceived change in the creditworthiness of the counterparties to those instruments and that of the Group itself (own credit risk). The Group is comfortable that the risk attached to those counterparties is not significant and believes that the swaps continue to act as an effective hedge against the movements in the fair value of the Group's private placement loan notes.

Section 4: Capital structure and financing costs continued

4.3 Net finance costs

The table below shows the composition of net finance costs, including those excluded from adjusted profit:

	Notes	2020 £m	2019 £m
Interest income			
Interest on cash		(1.6)	(3.6)
Interest on finance lease assets		(1.2)	(0.6)
Total interest income		(2.8)	(4.2)
Interest expense			
Private placement loan notes ¹		20.6	28.1
Cash flow hedges recycled to the income statement	4.2.4	(4.5)	(2.6)
Bank loans and overdrafts		5.0	4.2
Interest on finance lease liabilities		25.1	26.3
Net interest cost on defined benefit pension schemes	5.2	3.2	4.4
Total interest expense		49.4	60.4
Net finance expense included in adjusted profit		46.6	56.2
Other financial expenses			
Discount unwind on public sector subsidiary partnership payment	4.5.2	1.1	1.3
Non-designated foreign exchange forward contracts – mark-to-market		0.9	2.1
Fair value hedge ineffectiveness ²	4.2.4	1.0	2.8
Total other financial expenses not included in adjusted profit		3.0	6.2
Total net finance expense		49.6	62.4

1. Private placement loan notes comprise US private placement loan notes, euro fixed rate bearer notes, and a Schuldschein loan.

2. Fair value hedge ineffectiveness arises from changes in currency basis, and the movement in a provision for counterparty risk associated with the swaps.

Section 4: Capital structure and financing costs continued

4.4 Leases

AP Accounting policies

The Group leases various assets, comprising land and buildings, equipment and motor vehicles.

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 Group's lease accounting policy for all leases with the exception of leases with low value and term of 12 months or less which are expensed to the consolidated income statement.

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

The accounting policy for right-of-use assets is included in note 3.5.

The Group recognises lease liabilities where a lease contract exists and right-of-use assets representing the right to use the underlying leased assets.

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of the lease payments to be made over the lease term.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Incremental borrowing rates are determined monthly and depend on the term, country, currency and start date of the lease. The incremental borrowing rate is determined based on a series of inputs including: the risk-free rate based on swap market data; a country-specific risk adjustment; a credit risk adjustment; and an entity-specific adjustment where the entity risk profile is different to that of the Group.

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.

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 net finance costs in the consolidated income statement.

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.

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 Group has reasonable certainty that the option will be exercised, and periods covered by an option to terminate are included if it is reasonably certain that this will not be exercised.

The Group has elected to apply the practical expedient in IFRS 16 paragraph 15 not to separate non-lease components such as service charges from lease rental charges.

The Group as a lessor

When the Group acts as a lessor, it determines at lease commencement whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee all of the risks and rewards of ownership in relation to the underlying asset. If this is the case, then the lease is a finance lease. If not, then it is an operating lease.

The Group acts as an intermediate lessor of property assets and equipment. When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses whether the sub-lease is a finance or operating lease in the context of the right-of-use asset arising from the head lease, not with reference to the underlying asset.

In instances where the Group is the intermediate lessor and the sub-lease is classified as a finance lease, the Group recognises a net investment in sub-leases for amounts recoverable from the sub-lessees while derecognising the respective portion of the gross right-of-use asset. The gross lease liability is retained on the balance sheet. The net investment in sub-leases is classified as current or non-current finance assets in the consolidated balance sheet according to whether or not the amounts will be recovered within 12 months of the balance sheet date. Finance income recognised in respect of net investment in sub-leases is presented within net finance costs in the consolidated income statement and the capital element of lease rental received is presented within investing activities in the consolidated cash flow statement.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term. The Group accounts for finance leases as a finance lease receivables, using incremental borrowing rate where the interest rate implicit in sub-lease is not easily determinable.

Sale and leaseback

A sale and leaseback transaction is one where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer. For sale and leasebacks, any gain or loss from the sale is recognised in proportion to the gain or loss that relates to the rights transferred to the buyer. If the consideration for the sale is not equal to the fair value of the asset, any resulting difference is treated as either a prepayment of the lease payments or additional financing.

Section 4: Capital structure and financing costs continued

4.4.1 The Group as a lessee

Amounts recognised on the balance sheet	Note	2020 £m	2019 £m	Type of financial instrument
Lease liabilities		503.5	562.6	Financial liabilities
Lease liabilities included within disposal group liabilities held-for-sale	2.8	4.6	—	
Total		508.1	562.6	

The lease liability includes £10.7m (2019: £14.3m) of future lease payments (undiscounted) for leases with termination options that could be exercised but are recognised at full term. The potential future cash outflows of £37.2m (2019: £44.2m) (undiscounted) have not been included in the lease liability because the Group is reasonably certain that the leases will not be extended. The total cash outflow for leases was £123.1m (2019: £120.0m) consisting of interest paid of £25.1m (2019: £26.3m) and capital element of £98.0m (2019: £93.7m).

Right-of-use assets are discussed in note 3.5, the maturity analysis of lease liabilities is included in note 4.2 and interest expense in note 4.3.

4.4.2 The Group as a lessor

Amounts recognised on the balance sheet	2020 £m	2019 £m	Type of financial instrument
Lease receivables	82.6	14.9	Financial assets

The maturity analysis of lease receivables, including the undiscounted lease payments to be received, is as follows:

	2020 £m	2019 £m
Within 1 year	4.6	3.8
Between 1-2 years	10.6	3.5
Between 2-3 years	9.7	3.0
Between 3-4 years	9.7	2.1
Between 4-5 years	8.2	2.1
More than 5 years	80.7	2.1
Total undiscounted lease payments receivable	123.5	16.6
Unearned finance income	(40.9)	(1.7)
Net investment in lease receivables	82.6	14.9

During the year, the Group sublet a leased property. The sublease includes an option for the lessee to terminate the lease earlier than the Group's lease with its landlord. Management assessed it was reasonably certain that the break clause will not be exercised and, accordingly, determined that the sublease is a finance lease. This has resulted in the recognition of a finance lease receivable (£69.9m). This judgement was based on a number of factors as prescribed within IFRS 16 'Leases' such as incentive to lessee, importance of the location to the lessee's operations, shorter non-cancellable period of lease and the lessee's planned modifications to, and customisation of, the property.

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy

AP Accounting policies

Financial instruments – classification of financial instruments

The Group classifies its financial instruments in the following measurement categories:

- those to be measured subsequently at fair value, either through other comprehensive income (FVOCI) or through profit or loss (FVPL); and
- those to be measured at amortised cost.

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

Financial instruments – initial recognition

At initial recognition, the Group measures a financial instrument at its fair value plus, in the case of a financial instrument not at FVPL, transaction costs that are directly attributable to the acquisition of the financial instrument. Transaction costs of financial instruments carried at FVPL are expensed in the income statement.

Financial instruments with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Purchases and sales of financial instruments are recognised on their trade date (ie the date the Group commits to purchase or sell the instrument). Financial instruments are derecognised when the rights to receive/pay cash flows from the financial instrument have expired or have been transferred such that the Group has transferred substantially all risks and rewards of ownership.

Debt instruments

Debt instruments are initially recognised at fair value less directly attributable transaction costs and are subsequently remeasured depending on the Group's business model for managing the liability and the cash flow characteristics of the liability. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: instruments that are held for collection/payment of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income/expense from these financial instruments is included in net finance costs using the effective interest rate method.
- FVOCI: instruments that are held for collection/payment of contractual cash flows and for selling the financial instrument, where the instrument's cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through Other Comprehensive Income (OCI), except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in the income statement. When the financial instrument is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the income statement and recognised in other gains/(losses).
- FVPL: instruments that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is measured at FVPL is recognised in the income statement and presented within net finance costs.

The Group reclassifies debt instruments when and only when its business model for managing those instruments changes.

Equity instruments

Investments in equity instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recognised through the income statement, except where an election has been made for the movement to be recognised through OCI. An election can be made on initial recognition of equity instruments that are neither held-for-trading or instruments acquired as part of a business combination. Once an election has been made all movements in fair value, with the exception of dividends, are presented through OCI and there is no subsequent reclassification of fair value gains and losses to the income statement following the derecognition of the investment. Dividends from such investments continue to be recognised in the income statement as other income when the Group's right to receive payments is established.

Impairment

The Group assesses, on a forward looking basis, the expected credit losses associated with its financial instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Derivatives

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value at the end of each reporting period with the movement recognised through the income statement, except where derivatives qualify for cash flow hedge accounting. The effective proportion of cash flow hedges is recognised in OCI and presented in the hedging reserve within equity. The cumulative gain or loss is subsequently reclassified to the income statement in the same period that the relevant hedged transaction is realised.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs incurred in connection with the borrowing of funds.

4.5.1 Fair value hierarchy

The Group's financial assets and liabilities are classified based on the following fair value hierarchy:

- Level-1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level-2: other techniques for which all inputs have a significant effect on the recorded fair value are observable, either directly or indirectly. With the exception of current financial instruments (which have a short maturity), the fair value of the Group's level-2 financial instruments were calculated by discounting the expected future cash flows at prevailing interest rates. The valuation models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves. In the case of floating rate borrowings nominal value approximates to fair value because interest is set at floating rates where payments are reset to market values at intervals of less than one year.
- Level-3: techniques using inputs that have a significant effect on the recorded fair value which are not based on observable market data. Other financial instruments where observable market data is not available have been held at either amortised cost or cost (undiscounted cash flows) as a reasonable approximation of fair value.

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy continued

4.5.1 Fair value hierarchy continued

During the year ended 31 December 2020, there were no transfers between fair value levels.

4.5.2 Financial instruments and their fair value hierarchy classification

The following table analyses, by classification and category, the carrying value of the Group's financial instruments and identifies the level of the fair value hierarchy for the instruments carried at fair value:

At 31 December 2020	Note	Fair value hierarchy	FVPL £m	FVOCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non- current £m
Financial assets									
Lease receivables	4.4.2	Level-2	—	—	—	82.6	82.6	3.8	78.8
Cash flow hedges	4.2.4	Level-2	—	—	0.1	—	0.1	—	0.1
Non-designated foreign exchange forwards and swaps		Level-2	2.9	—	—	—	2.9	1.3	1.6
Interest rate swaps	a	Level-2	—	—	0.5	—	0.5	0.5	—
Cross-currency interest rate swaps	a	Level-2	—	—	60.2	—	60.2	26.5	33.7
Investments		Level-3	1.8	—	—	—	1.8	—	1.8
Other investments		Level-3	—	1.0	—	—	1.0	—	1.0
			4.7	1.0	60.8	82.6	149.1	32.1	117.0
Other financial assets									
Cash	4.5.4	Level-1	—	—	—	473.8	473.8	473.8	—
Total financial assets			4.7	1.0	60.8	556.4	622.9	505.9	117.0

At 31 December 2020	Note	Fair value hierarchy	FVPL £m	FVOCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non- current £m
Financial liabilities									
Private placement loan notes	a	Level-2	—	—	—	765.1	765.1	233.9	531.2
Other loan notes		Level-2	—	—	—	2.3	2.3	2.3	—
Cash flow hedges	4.2.4	Level-2	—	—	2.8	—	2.8	0.6	2.2
Non-designated foreign exchange forwards and swaps		Level-2	1.7	—	—	—	1.7	1.4	0.3
Cross-currency interest rate swaps	a	Level-2	—	—	2.7	—	2.7	1.2	1.5
Public sector subsidiary partnership payment	c	Level-3	—	—	—	27.1	27.1	8.7	18.4
Contingent consideration		Level-3	—	—	—	—	—	—	—
Deferred consideration		Level-2	—	—	—	0.7	0.7	—	0.7
Put options of non-controlling interests	d	Level-3	—	99.7	—	—	99.7	99.7	—
			1.7	99.7	5.5	795.2	902.1	347.8	554.3
Other financial liabilities									
Overdrafts	4.5.4	Level-1	—	—	—	332.7	332.7	332.7	—
Lease liabilities	4.4.1	Level-2	—	—	—	503.5	503.5	77.5	426.0
Lease liabilities included within disposal group liabilities held-for-sale	2.8	Level-2	—	—	—	4.6	4.6	4.6	—
Total financial liabilities			1.7	99.7	5.5	1,636.0	1,742.9	762.6	980.3

Financial assets measured at amortised cost consist of cash, insurance assets recoverable, lease receivables and other investments. The carrying values of these financial assets are a reasonable approximation of their fair value due to the short-term nature of the instruments. Included in other investments are £1.0m (2019: £2.4m) of strategic investments in unlisted equity securities which are not held-for-trading and the Group elected to recognise at FVOCI. During the year no dividends were received from, and no disposals were made of, strategic investments.

Financial liabilities measured at amortised cost consist of overdrafts, lease liabilities and loan notes. With the exception of the series of private placement loan notes which have not been swapped to floating interest, the carrying value of financial liabilities are a reasonable approximation of their fair value. This is because either the interest payable is close to market rates or the liability is short-term in nature. The private placement loan note series that remain subject to fixed rate interest have an underlying carrying value of £368.8m (2019: £450.0m) and a fair value of £309.8m (2019: £462.8m). Lease liabilities are measured at amortised cost using the effective interest rate method.

The Group's key financial liabilities are set out below:

a. Private placement loan notes

Private placement loan notes are issued at fixed rates of interest. Some of the series have been swapped into floating rates of interest.

To mitigate exposure to currency fluctuations the Group has entered into currency and interest rate swaps which effectively hedge movements in the loan notes' fair value arising from changes in foreign exchange and interest rates.

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy continued

b. Bank Facilities

Details of the Group's bank facilities are provided in the Liquidity section above. At 31 December 2020, the total value of committed facilities was £602.0m, all of which were undrawn (2019: total facilities of £414.0m, fully undrawn).

c. Public sector subsidiary partnership payment

The public sector subsidiary partnership payment liability represents the annual deferred payments to be made by AXELOS Limited. Since the payment conditions have been reached and the liability cap met, sensitivity to changes in either the discount rate or projected cash flows have no impact.

d. Put options of non-controlling interests

The liability represents the present value of the cost to acquire non-controlling interests in AXELOS Limited and Fera Science Limited (see note 4.7). The cost to acquire the non-controlling interest in AXELOS Limited is based on a set multiple of earnings before interest and tax specified in the put-option agreement. The put-option held by the non-controlling shareholder of AXELOS Limited was exercisable at 31 December 2020, and as a consequence the liability was classified as current. The put option expired on 28 February 2021 and was not exercised. The option held by the non-controlling shareholder of Fera Science Limited is exercisable from April 2021 and has been classified as current (2019: non-current). A sensitivity analysis assuming a 10% increase/decrease in the earnings potential of the business results in a £10.3m increase/decrease in the valuation.

At 31 December 2019	Note	Fair value hierarchy	FVPL £m	FVOCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non- current £m
Financial assets									
Lease receivables	4.4.2	Level-2	—	—	—	14.9	14.9	3.6	11.3
Cash flow hedges	4.2.4	Level-2	—	—	3.4	—	3.4	2.9	0.5
Non-designated foreign exchange forwards and swaps		Level-2	3.2	—	—	—	3.2	3.1	0.1
Interest rate swaps	a	Level-2	—	—	1.0	—	1.0	—	1.0
Cross-currency interest rate swaps	a	Level-2	—	—	80.9	—	80.9	15.5	65.4
Investments		Level-3	1.5	—	—	—	1.5	—	1.5
Other investments		Level-3	—	2.4	—	—	2.4	—	2.4
			4.7	2.4	85.3	14.9	107.3	25.1	82.2
Other financial assets									
Cash	4.5.4	Level-1	—	—	—	409.1	409.1	409.1	—
Total financial assets			4.7	2.4	85.3	424.0	516.4	434.2	82.2

At 31 December 2019	Note	Fair value hierarchy	FVPL £m	FVOCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non- current £m
Financial liabilities									
Private placement loan note	a	Level-2	—	—	—	990.7	990.7	232.5	758.2
Other loan notes		Level-2	—	—	—	0.3	0.3	0.3	—
Cash flow hedges	4.2.4	Level-2	—	—	0.5	—	0.5	—	0.5
Non-designated foreign exchange forwards and swaps		Level-2	2.6	—	—	—	2.6	1.6	1.0
Cross-currency interest rate swaps	a	Level-2	—	—	3.6	—	3.6	—	3.6
Public sector subsidiary partnership payment	c	Level-3	—	—	—	35.4	35.4	9.4	26.0
Contingent consideration		Level-3	5.0	—	—	—	5.0	5.0	—
Deferred consideration		Level-2	—	—	—	0.7	0.7	—	0.7
Put options of non-controlling interests	d	Level-3	—	108.7	—	—	108.7	103.0	5.7
			7.6	108.7	4.1	1,027.1	1,147.5	351.8	795.7
Other financial liabilities									
Overdrafts	4.5.4	Level-1	—	—	—	286.3	286.3	286.3	—
Lease liabilities	4.4.1	Level-2	—	—	—	562.6	562.6	81.9	480.7
Total financial liabilities			7.6	108.7	4.1	1,876.0	1,996.4	720.0	1,276.4

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy continued

The following table shows the reconciliation from the opening balances to the closing balances for Level-3 fair values.

	Contingent consideration £m	Subsidiary partnership payment £m	Put options of non-controlling interests £m	Investments and other investments £m
At 1 January	5.0	35.4	108.7	3.9
Gain on final settlement recognised in the income statement	(0.1)	—	—	1.6
Payments made	(4.9)	(9.4)	—	—
Change in put-options recognised in other comprehensive income	—	—	(9.0)	—
Additions	—	—	—	2.6
Disposals	—	—	—	(3.9)
Impairments	—	—	—	(0.4)
Loss on fair value recognised in other comprehensive income	—	—	—	(1.0)
Discount unwind recognised in the income statement	—	1.1	—	—
At 31 December	—	27.1	99.7	2.8

4.5.3 Borrowings

Details of the Group's RCF and backstop bridge facilities are shown in the above liquidity section (see note 4.5.2b).

Borrowing costs of £0.5m were capitalised in the year (2019: £nil). At 31 December 2020, the Group's private placement loan note series had a GBP equivalent underlying carrying value of £707.1m (2019: £912.4m) (see note 4.5.2a) analysed as follows:

Maturity	Denomination	Interest rate %	Nominal value Ccy'm
19 July 2021 ¹	GBP	4.760	26.0
27 October 2021	GBP	2.180	36.0
22 January 2022	GBP	3.260	18.6
27 October 2023	GBP	2.520	27.5
22 January 2025	GBP	3.540	7.4
22 April 2025	GBP	3.670	22.3
27 October 2026	GBP	2.770	18.6
22 January 2027	GBP	3.580	23.8
Total GBP denominated	GBP		180.2
19 July 2021	USD	4.500	175.3
26 July 2021	USD	4.750	37.1
27 October 2021	USD	3.030	18.6
22 January 2022	USD	3.330	29.7
22 April 2022	USD	3.430	48.3
22 January 2023	USD	3.450	39.4
27 October 2023	USD	3.370	17.8
22 January 2025	USD	3.650	74.3
27 October 2026	USD	3.590	19.3
22 January 2027	USD	3.800	27.5
Total USD denominated²	USD		487.3
10 November 2022	EUR	2.125	166.1
10 November 2022	EUR	2.125	16.0
10 November 2027	EUR	2.875	60.0
Total euro denominated³	EUR		242.1

1. The Group has entered into interest rate swaps to convert the interest cost to floating rates based on 6-month GBP LIBOR.

2. USD denominated loan notes have a GBP equivalent underlying carrying value of £313.0m. The Group has entered into cross-currency interest rate swaps for the USD issues to achieve a floating rate of interest based on 6-month GBP LIBOR. Further disclosure on the Group's use of hedges is included in note 4.2.

3. Euro denominated loan notes have a GBP equivalent underlying carrying value of £215.5m.

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy continued

4.5.4 Cash, cash equivalents and overdrafts

The Group has a notional cash pool under which the bank may net cash balances with overdrafts held by other Group companies in the arrangements. The overdraft balances shown below are fully offset by credit balances in the same arrangement. The Group's gross cash position is shown in the table below:

	2020 £m	2019 £m
Cash and cash equivalents	460.9	409.1
Overdrafts	(332.7)	(286.3)
Cash, net of overdrafts, included in disposal group assets and liabilities held for sale	12.9	—
Cash, cash equivalents and overdrafts	141.1	122.8

Cash includes £9.4m held in a 32-day notice deposit account (2019: £28.5m held in a 32-day notice account).

Section 4: Capital structure and financing costs continued

4.6 Issued share capital

	2020 m	2019 m	2020 £m	2019 £m
Allotted, called up and fully paid				
Ordinary shares of 2 1/15p each				
At 1 January	1,671.1	1,671.1	34.5	34.5
At 31 December	1,671.1	1,671.1	34.5	34.5
Share premium				
Ordinary shares of 2 1/15p each				
At 1 January			1,143.3	1,143.3
At 31 December			1,143.3	1,143.3
Treasury shares				
Ordinary shares of 2 1/15p				
At 1 January	2.6	2.9	(0.1)	(0.1)
Shares allotted in the year	(0.3)	(0.3)	—	—
At 31 December	2.3	2.6	(0.1)	(0.1)

In 2020, the Group made no purchases of shares into Treasury and allotted 276,614 (2019: 281,762) shares with an aggregate nominal value of £5,717 (2019: £5,824). The total consideration received in respect of these shares was £nil (2019: £nil).

	2020 m	2019 m	2020 £m	2019 £m
Employee benefit trust shares				
Ordinary shares of 2 1/15p				
At 1 January	12.6	12.0	(11.1)	(11.1)
Shares acquired during the year	—	0.6	—	—
At 31 December	12.6	12.6	(11.1)	(11.1)

The Group will use shares held in the employee benefit trust (EBT) to satisfy future requirements for shares under the Group's share option and long-term incentive plans. During the year, the EBT allotted nil (2019: nil) ordinary 2 1/15p shares with an aggregate nominal value of £nil (2019: £nil) to satisfy exercises under the Group's share option and long-term incentive plans. The total consideration received in respect of these shares was £nil (2019: £nil). The Group acquired nil (2019: 0.6m) ordinary 2 1/15p shares paying an average market price of £nil per share with the total value of £nil (2019: £0.7m).

The Group has an unexpired authority to repurchase up to 10% of its issued share capital.

4.7 Group composition and non-controlling interests

The Group's subsidiaries are listed in notes 7.3.4 and 7.3.16 of the Parent Company financial statements on pages 195 and 198 to 202. This list includes AXELOS Limited and Entrust Support Services Limited which both have 49% non-controlling interests, and Fera Science Limited which has a 25% non-controlling interest.

The Group holds a majority of the voting rights in all of its subsidiaries and the directors have determined that, other than the entity commented on below, in each case the Group exercises de facto control.

On 23 September 2014, the Secretary of State for the Department for Energy and Climate Change granted Smart DCC Limited (DCC), a wholly-owned subsidiary of the Group, a licence to establish and manage the smart metering communications infrastructure, governed by the Smart Energy Code. Each year the Group reassesses whether it has control over DCC as required under IFRS 10. The Group's ability to control the relevant activities of DCC is restricted by DCC's operating licence. The power that the Group has over DCC's relevant activities by virtue of owning it is limited (given the restrictions in the licence). That power is held by the board of DCC where the Group has minority representation in compliance with the licence. Consequently, the Group has not consolidated DCC within its Group financial statements. The disclosure of related party transactions with DCC is included in note 6.1.

Section 5: Employee benefits

This section details employee related items that are not explained elsewhere in the financial statements.

In this section you will find disclosures about:

- 5.1 Share-based payment plans
- 5.2 Pensions
- 5.3 Employee benefit expense

AP Denotes accounting policies

J Denotes significant accounting judgements, estimates and assumptions

Key highlights

Additional funding into
the defined benefit schemes

£29.5m

(2019: £71.1m)

Net defined benefit pension liability

£252.1m

(2019: £252.5m)

Employee benefit expense

£1,794.8m

(2019: £1,919.9m)

The net defined benefit liability decreased slightly year on year. As part of the deficit funding plan £29.5m of additional funding was paid into the defined benefit schemes.

Net defined benefit pension liability	2020 £m	2019 £m	Movement £m
Defined benefit obligation	1,882.3	1,697.0	185.3
Fair value of plan assets	(1,630.2)	(1,444.5)	(185.7)
Net defined pension liability	252.1	252.5	(0.4)

The main reason for the increase in liabilities over the year was due to the material fall in the yields available on good quality, long term corporate bonds – which is used to derive the discount rate to value the liabilities. The schemes are highly sensitive to the change in discount rates with a 0.1% pa change resulting in a £39.5m impact. The increase in the liability due to change in market conditions was broadly offset by favourable membership experience, as well as an increase in the scheme assets due to employer contributions and higher than expected returns.

The Capita Pension and Life Assurance Scheme (CPLAS) is the Group's main defined benefit scheme. The valuation of liabilities for funding purposes (the actuarial valuation) differs to the valuation for accounting purposes (which are shown in these financial statements) mainly due to different assumptions being used and different market conditions at the different valuation dates (the effective date for the actuarial valuation is 31 March). The assumptions used for funding purposes allow for an appropriate amount of prudence, with the discount rate being based on the actual assets of the CPLAS. While for accounting purposes the assumptions are determined on a best estimate basis in accordance with IAS 19, with the discount rate being based on the yields available on high quality corporate bonds of appropriate currency and term. Management estimate that at 31 December 2020 the net liability of the CPLAS scheme was significantly less on a funding basis (ie the funding assumption principles adopted for the full actuarial valuation at 31 March 2017) than on an accounting basis.

Decrease in employee benefit expense of £125.1m reflects lower average headcount in 2020, impact of Coronavirus Job Retention Scheme (£21.3m) and lower discretionary bonus scheme charge in 2020, due to cancellation of 2019 scheme in 2020 and decision taken not to issue a 2020 scheme.

Section 5: Employee benefits

5.1 Share-based payment plans

The Group operates a number of executive and employee equity-settled share schemes.

AP Accounting policies

The fair value of the equity instrument granted is measured at grant date 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, only taking into account vesting conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest as a result of not meeting performance or service conditions. Where all service and performance vesting conditions have been met, the awards are treated as vesting, irrespective of whether or not the market condition is satisfied, as market conditions have been reflected in the fair value of the equity instruments.

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 since the previous balance sheet date is recognised in the consolidated income statement, with a corresponding adjustment to equity.

Where the terms of an award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period adjusted for the incremental fair value of any modification ie the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the consolidated income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over the fair value being treated as an expense in the income statement.

The expense recognised for share based payments (before deferred tax) in respect of employee services received during the year to 31 December 2020 was £6.4m (2019: £3.0m), all of which arises from equity-settled share based payment transactions. Details of the schemes are as follows:

Deferred annual bonus plan

This scheme is applicable to executive directors. Under this scheme, awards are made annually consisting of only deferred shares, which are linked to the payout under the annual bonus scheme (details of which are contained in the directors' remuneration report on pages 90 to 108).

The value of deferred shares is determined by the pay-out under the annual bonus scheme: half of the annual bonus is paid in cash and the remainder is deferred into shares under the deferred annual bonus plan. Directors have the option to defer up to 100% of their annual bonus into deferred shares or net bonus into a restricted share award. The deferred/restricted shares are held for a period of three years from the date of award, during which they are not forfeitable, except in the case of dismissal for gross misconduct.

The weighted average share price of options at the date of exercise in 2020 was £0.64. The weighted average share price during the year was £0.57 (2019: £1.31).

The total cash value of the deferred shares awarded during the year was £nil (2019: £0.7m).

Long-term incentive plans (LTIPs) – 2017

The 2017 LTIP was approved and adopted at the AGM on 13 June 2017. This scheme is open to executive directors and senior employees and shares may vest according to performance criteria.

For the 2017 award, 75% of the award was based on EPS growth and 25% was based on return on capital employed, measured over a three year period. Threshold vesting (25%) for each measure was dependent upon: the EPS growth exceeding 3%; return on capital employed exceeding 11%. Maximum vesting (100%) for each measure was dependent upon: the EPS growth exceeding 8%; return on capital employed exceeding 15%. These conditions were not met, therefore all shares awarded lapsed.

For the 2018 award, one-third of the award was subject to retention over a three-year vesting period at which point this portion of the award will vest in full. The remainder of the award was subject to performance conditions, namely: annualised cost savings, free cash flow and EBIT margin, customer satisfaction and employee engagement, all measured over a three-year period. Threshold vesting (25%) for each measure was dependent upon: annualised cost savings reaching £160m; free cash flow reaching £180m; EBIT margin exceeding 9%; 6 point positive swing in NPS for both customer satisfaction and employee engagement. Target vesting (50%) for each measure was dependent upon: annualised cost savings reaching £175m; free cash flow reaching £200m; EBIT margin of 10%; 8 point positive swing in net promoter score (NPS) for both customer satisfaction and employee engagement. Maximum vesting (100%) for each measure was dependent upon: annualised cost savings reaching £205m; free cash flow reaching £240m; EBIT margin of 12%; 12 point positive swing in net promoter score (NPS) for both customer satisfaction and employee engagement. Awards were also subject to an underpin based on an assessment of underlying financial and operational performance.

For the 2019 award, 75% of the award was equally weighted between free cash flow, EBIT margin and organic revenue growth, with the remaining 25% split equally between customer satisfaction and employee engagement, measured over a three-year period. Threshold vesting (25%) for each measure is dependent upon: free cash flow reaching £190m; EBIT margin exceeding 9%; organic revenue growth to £3,900m; 6 point positive swing in NPS for both customer satisfaction and employee engagement. Target vesting (50%) for each measure is dependent upon: free cash flow reaching £120m; EBIT margin exceeding 10%; organic revenue growth to £3,950m; 8 point positive swing in NPS for both customer satisfaction and employee engagement. Maximum vesting (100%) for each measure is dependent upon: free cash flow reaching £240m; EBIT margin of 12%; organic revenue growth to £4,050m; 12 point positive swing in net promoter score (NPS) for both customer satisfaction and employee engagement. Awards are also subject to an underpin based on an assessment of underlying financial and operational performance.

The 2020 award is split into three equal tranches that may vest on the first, second and third anniversary of the grant date. 50% of each tranche is subject to a retention element which will vest in full on each annual vesting date, with the remaining 50% subject to a performance condition that is set in the first quarter of each year. For the first tranche in 2020, headline net debt was set as the performance condition. Threshold vesting (25%) is dependent on headline net debt falling to £872m, target vesting (50%) is dependent on net debt falling to £822m and maximum vesting (100%) is dependent on net debt being below £772m.

Section 5: Employee benefits continued

5.1 Share-based payment plans continued

Details of the LTIP awards made to executive directors over the same period are set out in the directors' remuneration report, on page 103.

All of the above awards are subject to a performance underpin – assessment of the underlying financial and operational performance of Capita over the performance period.

	2020 m	2019 m
Outstanding at 1 January	38.0	29.7
Awarded during the year	16.2	17.2
Exercised	(0.3)	(0.3)
Forfeited	(5.4)	(8.6)
Outstanding at 31 December	48.5	38.0
Exercisable at 31 December	—	—

The weighted average remaining contractual life of the above shares outstanding at 31 December 2020 was 0.8 years (2019: 1.5 years). There are no exercise prices for any options issued under the 2008 LTIP scheme.

All schemes

The fair value of the options granted/awarded during the year was £0.33 per share (2019: £1.25 per share). None of the existing option schemes have exercise prices.

The fair value for the 2017, 2018, 2019 and 2020 share scheme issues is effectively the market price of a Capita share at the date of grant. Accordingly, no assumptions have been disclosed. The fair value of equity-settled share options granted pre-2017 is estimated at the date of grant using a multiple simulation option pricing valuation model, taking into account the terms and conditions upon which the options were granted.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. In addition, within the 2008 LTIP is an average share price floor under which the share award will not vest. This floor is based on the Company's average share price at the date of vesting. No other features of options grant were incorporated into the measurement of fair value.

5.2 Pensions

AP Accounting policies

Defined contribution pension schemes

The Group maintains a number of defined contribution pension schemes and for these schemes the Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the consolidated income statement as the related service is provided and as they fall due.

Defined benefit pension schemes

In addition, the Group operates a defined benefit pension scheme and participates in a number of other defined benefit pension schemes, all of which require contributions to be made to separate trustee-administered funds. The costs of providing benefits under these schemes are determined separately for each scheme using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the defined benefit obligation) and is based on actuarial advice. Past service costs are recognised immediately in the consolidated income statement.

When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the consolidated income statement during the period in which the settlement or curtailment occurs.

Remeasurements of the net defined benefit asset/liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income and reflected immediately in retained earnings and will not be reclassified to the consolidated income statement. The Group generally determines the net interest expense/income on the net defined benefit asset/liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the then net defined benefit asset/liability, taking into account any changes in the net defined benefit asset/liability during the period as a result of contributions and benefit payments. However, due consideration is made to events which require the net interest expense/income on the net defined benefit asset/liability to be re-measured over the course of the year.

Current and past service costs are charged to operating profit while the net interest cost is included within net finance costs.

In respect of one of the defined benefit pension schemes in which the Group participates, the Group accounts for its legal and constructive obligation over the period of its participation which is for a fixed period only.

The liability on the consolidated balance sheet in respect of the defined benefit pension schemes comprises the total for each scheme, or group of schemes, of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. The policy to determine fair value of plan assets is covered in the note below. The value of a net pension benefit asset is restricted to the present value of any amount the Group expects to recover by way of refunds from the plan or reductions in the future contributions.

Section 5: Employee benefits continued

5.2 Pensions continued

J Significant accounting judgements, estimates and assumptions

The measurement of defined benefit obligations – the accounting cost of these benefits and the present value of pension liabilities involve judgements about uncertain events including such factors as the life expectancy of members, the salary progression of our current employees, price inflation and the discount rate used to calculate the net present value of the future pension payments. The Group uses estimates for all of these factors in determining the pension costs and liabilities incorporated in our financial statements. The assumptions reflect historical experience and our judgement regarding future expectations. The Group operates both defined benefit and defined contribution pension schemes.

The Group continued to set RPI inflation in line with the market break-even expectations less an inflation risk premium. The inflation risk premium has been increased from 0.20% pa at 31 December 2019 to 0.25% pa at 31 December 2020, reflecting an allowance for developments linked to the RPI reform proposals. For CPI, the Group reduced the assumed difference between the RPI and CPI by 0.25% pa to an average of 0.75% pa. The estimated impact of the change in the methodology is approximately a £10m increase in the defined benefit obligation in respect of the CPLAS scheme.

Covid-19 has brought into sharp focus the resource and environmental risks faced by companies running occupation pension schemes. Since the start of the pandemic in early 2020, there has been high levels of volatility in investment markets and, as a result, in the funding positions of defined benefit pension schemes sponsored by the Group. The investment markets have stabilized to some degree since then, but a direct impact of Covid-19 has been the write down in certain investment classes currently invested in, such as property funds and private debt. As long as the economic outlook remains uncertain then the volatility in the investment markets is also expected to persist.

The volatility in investment markets also resulted in credit spreads increasing significantly during March 2020 before falling back down. This has led to greater uncertainty around setting an appropriate discount rate to assess the value of the defined benefit pension schemes sponsored by the company for these financial statements. The company has not changed its approach in setting the discount rate assumption (which is by reference to a corporate bond curve fitted to appropriate corporate bond yield data) but will keep this approach under review in light of developments in the marketplace.

The impact on the effects on future life expectancy is also uncertain. The pandemic is likely to have an impact on the setting of appropriate life expectancy assumptions and models for future improvements will need to consider whether the experience in 2020 is a one-off, and if the pandemic will influence future mortality in other ways. For example, the pressure on health services may mean that progress against other causes of death such as cancer is slower than previously expected, meaning an assumption of a lower rate of mortality improvements might be appropriate. Alternatively, the surviving population may be in better health than those dying from Covid-19, meaning that that we might expect remaining members to live slightly longer. For these disclosures, while the mortality assumption reflects more up-to-date information, the principles underlying the setting of the assumptions have remain unchanged.

Pension expense included in the consolidated income statement

	2020 £m	2019 £m
Defined contribution scheme	109.0	108.2
Defined benefit schemes		
Current service cost	6.2	7.0
Administration costs	3.7	3.9
Past service cost	0.1	0.3
Effect of settlements	3.1	—
Total charged to profit before tax	122.1	119.4
Interest cost	3.2	4.4
Total in the consolidated income statement	125.3	123.8

At 31 December 2020, retirement obligations were disclosed in relation to 10 (2019: 11) defined benefit pension schemes. The main defined benefit scheme is the Capita Pension and Life Assurance Scheme.

The Capita Pension and Life Assurance Scheme (CPLAS)

CPLAS is the Group's main defined benefit scheme, which closed to future accrual for most members in 2017 (with around 300 members continuing to accrue benefits). On 31 March 2020, the Group's segregated section of a multi-employer scheme (the Water Associated Employers Pension Scheme (WAEPS)) was merged into the CPLAS. The CPLAS currently represents around 96% of total defined benefit obligations of the Group totalling £1,810.6m (2019: £1,623.8m including WAEPS). The CPLAS has plan assets of £1,568.8m (2019: £1,378.1m including WAEPS) and a net liability of £241.8m (2019: £245.7m including WAEPS). Events have occurred in the CPLAS that has led to the income statement being remeasured during the year.

Responsibility for the operation and governance of the CPLAS lies with a corporate Trustee which is independent of the Group. The Trustee Board is required by law to act in the interest of the CPLAS's beneficiaries in accordance with the rules of the CPLAS and relevant legislation (which includes the Pension Schemes Act 1993, the Pensions Act 1995 and the Pensions Act 2004). The nature of the relationship between the Group and the Trustee Board is also governed by the rules of the CPLAS and relevant legislation. The Trustee Board is chaired by an independent Trustee.

The assets of the CPLAS are held in a separate fund (administered by the Trustee Board) to meet long-term pension liabilities to beneficiaries. The Trustee Board invest the assets in line with their Statement of Investment Principles, which is regularly reviewed.

A full actuarial valuation of the scheme is carried out every three years by an independent actuary for the Trustee Board, with the last full actuarial valuation carried out at 31 March 2017. The purpose of that valuation is to design a funding plan to ensure that the CPLAS has sufficient assets available to meet future benefit payments, based on assumptions agreed between the Trustee Board and the Group. The 31 March 2017 actuarial valuation showed a funding deficit of £185.0m (31 March 2014: £1.4m). This equates to a funding level of 86.1% (31 March 2014: 99.8%).

Section 5: Employee benefits continued

5.2 Pensions continued

As a result of the funding valuation, the Group and the Trustee Board agreed the following plan to eliminate the deficit:

	2018	2019	2020	2021
Deficit contribution	£42.0m	£71.0m	£59.0m	£4.0m

During 2020, the Group and the Trustee Board agreed to defer a deficit payment of £31.7m due in 2020 to 2021 (which was subsequently paid in February 2021). In addition, following the merger of WAEPS in the CPLAS, deficit contributions due to WAEPS were paid into the CPLAS (£0.7m in 2020).

As part of the Funding Agreement put in place between the Trustee Board and the Group, additional monthly contributions of £4.16m were triggered from July 2020 until the 31 March 2020 valuation is finalised (expected Q2 2021). The Trustee Board and the Group have agreed that these contributions would be paid into an escrow account (instead of the scheme), with the escrow account being released to the scheme in 2021.

The next full actuarial valuation is being carried out with an effective date of 31 March 2020 and as part of that valuation the contribution requirements will be reviewed, and if necessary, amended. For the purpose of these accounts, an independent qualified actuary projected the results of the 31 March 2020 funding assessment, currently in progress, to 31 December 2020 taking account of the relevant accounting requirements.

Approximate funding updates are produced at each scheme anniversary when a full actuarial valuation is not being undertaken. The most recent of these, at 31 March 2019, showed a funding level of 96% (31 March 2018: 87%).

In 2012, the Group established the Capita Scotland (Pension) Limited Partnership (the Partnership) with the CPLAS. Under this arrangement, intellectual property rights (IPR) in specific Group software was transferred to the partnership and the rights to use, develop and exploit this IPR was licensed back to the Group in return for an annual fee. The CPLAS's interest in the Partnership entitles it to an annual distribution of £8.0m for 15 years from inception.

The Group's interest in the Partnership is fully consolidated into these Group financial statements. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnerships (Accounts) Regulations 2008 and has, therefore, not appended the accounts of this qualifying partnership to these financial statements. Separate accounts for the Partnership are not required to be, and have not been, filed at Companies House.

Under IAS 19 (Revised) the interest in the Partnership does not represent a plan asset for Group reporting purposes and therefore the CPLAS's deficit position presented in these accounts does not reflect the CPLAS's interest in the Partnership. Accordingly, distributions from the Partnership to the CPLAS are reflected in these Group accounts as pension contributions to the CPLAS on a cash basis as paid.

At 31 December 2020, the CPLAS's interest in the Partnership ceased and in return the CPLAS received a special contribution of £50.1m in February 2021.

Subject to the outcome of the 31 March 2020 full actuarial valuation, the Group expects to contribute around £145m to the CPLAS over 2021.

Other defined benefit schemes

The total employer contributions to the 'Other' schemes for 2021 are estimated to be £7m.

Admitted Body arrangement

For the Admitted Body scheme, under which benefits continued to accrue until the contract ceased on 16 January 2020. The Group was required to pay regular contributions as decided by the Scheme Actuary and as detailed in the scheme's Schedule of Contributions. In addition, the Group will be required to pay any deficit (as determined by the Scheme Actuary) that is remaining at the end of the contract. We expect the deficit contribution to be quantified in the first half of 2021, with this amount estimated to be up to £0.6m. When payment is made this will settle the Group's liability to the Admitted Body scheme. In respect of this, the Group is carrying a sufficient level of provision in these financial statements.

Allocated section of a Local Government Pension Scheme

For the allocated section of a Local Government Pension Scheme, under which benefits continued to accrue until the last contributing member ceased to be an active member on 25 July 2020. The Group was required to pay regular contributions as decided by the Scheme Actuary and as detailed in the scheme's Schedule of Contributions. The latest full actuarial valuation (at 31 March 2019) showed there was a surplus on an ongoing basis and therefore no deficit contributions were required over to the period to 25 July 2020. However, an exit debt was triggered on 25 July 2020 (when the last contributing member ceased to be an active member), and this was calculated by the Scheme Actuary to be £4.3m. When payment is made this will settle the Group's liability to the allocated section of a Local Government Pension Scheme. In respect of this, the Group is carrying a sufficient level of provision in these financial statements. There is no cross subsidy with other employer sections.

Other UK schemes

- Three segregated sections in an industry-wide scheme where benefits are continuing to accrue for only one of these sections. The latest full actuarial valuations (at 31 December 2018) showed that two of these sections were in surplus and therefore no deficit contributions were required. The third section showed a small deficit but the Trustees agreed that no deficit contributions would be required. There is no cross subsidy with other employer sections.
- Participation in a non-associated multi-employer scheme under which defined benefits are not continuing to accrue. The latest full actuarial valuation (at 30 September 2017) resulted in the Group requiring to pay deficit contributions of £0.4m pa until 2026. If the Group were to cease to be a participating employer in this scheme there would be an exit debt payable. At 30 September 2017, this was estimated at £11.9m.

Overseas defined benefit schemes

The Group is responsible for an Irish defined benefit scheme which is classed as a cross-border scheme where the beneficiaries of the scheme have their liabilities, and the trustees hold assets, denominated in euro. The scheme is governed under UK regulations and subject to the further requirements applying to cross-border schemes. There are two segregated sections in the scheme. The latest full actuarial valuation (at 31 March 2020) showed a funding surplus for the main section and therefore no deficit contributions required for that section; and a small funding deficit for the other section requiring a deficit contribution of £8k to be paid by 31 January 2021. There are no members left accruing benefits.

The Group is also responsible for two Swiss schemes that provide defined contribution benefits but with certain guarantees (and are therefore reported as defined benefit schemes under IAS19). They are administered and governed through collective foundations which are separate legal entities. Benefits are continuing to accrue in these schemes.

Section 5: Employee benefits continued

5.2 Pensions continued

Additional defined benefit schemes

There are a further 47 (2019: 48) defined benefit pension arrangements in which various Capita businesses have participated during 2020. 41 (2019: 43) of these arrangements relate to participation in funded and unfunded public sector schemes (referred to as Admitted Body Arrangements as described above) however contractual protections are in place allowing actuarial and investment risk to be passed on to the end customer via recoveries for contributions paid. The nature of these arrangements vary from contract to contract but typically allow for the majority of contributions payable to the schemes in excess of an initial rate agreed at the inception to be recovered from the end customer, as well as exit payments (for funded schemes) payable to the schemes at the cessation of the contract, such that the Group's net exposure to actuarial and investment risk is immaterial.

It is estimated that around £10.5m of employer contributions were paid to these 47 schemes during 2020.

Judgement is required in determining the appropriate accounting treatment for the participation in all of the above schemes, in particular as to whether actuarial and investment risk fall in substance on the Group. It is considered that the net risk to the Group from these defined benefit arrangements is immaterial and therefore the costs in relation to all of the above schemes have been included in the defined contribution pension charge and no amounts are recognised on the Group's balance sheet.

Risks associated with the Group's pension schemes

These defined benefit pension schemes expose the Group to various risks, with the key risks set out below:

Investment risk: the schemes invest in a wide range of assets with a view to provide long-term investment returns at particular levels. There is a risk that investment returns are lower than expected which, in isolation, could result in a worsening of the funding position of the schemes.

Interest rate risk: the IAS 19 discount rate is derived based on the yields available on good quality corporate bonds of suitable duration. If these yields decrease then, in isolation, this would increase the value placed on the IAS 19 obligation and result in a worsening of the funding position of the schemes.

Inflation risk: the liabilities of the schemes are linked to future levels of inflation. If future inflation is higher than expected then this would result in the cost of providing the benefits increasing and thereby worsening the funding position of the schemes.

Longevity risk: if members live longer than expected, then pensions will be paid for a longer time which will increase the value placed on the liabilities and therefore worsen the funding position of the schemes.

In order to manage these risks, the Group and the trustees carry out regular assessments of these risks. For CPLAS, the main defined benefit scheme the following actions have been taken:

- The CPLAS Trustee Board has entered into two bulk annuity contracts with an insurer in respect of a small number of high individual liability pensioner members (one in 2015 and the second in late 2017) with total value included in the assets at 31 December 2020 of £73.6m (2019: £70.9m).
- The CPLAS Trustee Board has entered into a Liability Driven Investment programme. The level of risk that is managed by this is set by various market-related and funding trigger points.

Together, these actions have led to a current level of hedging (interest rate and inflation) of around 90% of CPLAS's liabilities measured on the Trustee Board's medium-term funding basis. As the funding level improves it is planned to further increase the level of hedging.

The hedging aims to match the value of the assets to the movement in liabilities arising from changes in market expectations of future inflation rates and future gilt yields. This is to help protect and reduce volatility in funding valuations which are used to determine the cash contribution requirements to the scheme. As these accounting disclosures use the yields available on corporate bonds to determine the accounting liabilities, the hedging may not have the same impact against changes as they do on a funding valuation. Over 2020, the yields available on long dated corporate bonds have fallen broadly in line with long dated gilt yields. This means that the hedge has broadly had the same impact on the funding position of the scheme and the accounting disclosures.

As part of this strategy and to retain exposure to growth assets, the CPLAS Trustee Board invest in derivatives to gain synthetic equity exposure. Therefore, the equity allocation shown below is in economic exposure terms (ie inclusive of the derivative-based position).

To illustrate how sensitive the value of the defined benefit obligations are to different market conditions, the below table shows how much they would increase if the assumptions were changed as shown (assuming all other assumptions remain constant):

Change in assumptions compared with 31 December 2020 actuarial assumptions	Group Total £m
0.1% pa decrease in discount rate	39.5
0.1% pa increase in salary increases	0.6
0.1% pa increase in inflation (and related assumption, eg salary and pension increases)	22.2
1 year increase in life expectancy	74.4

Assets and liabilities

Under IAS19, plan assets must be valued at the fair value at the balance sheet date. The plan assets are made up of quoted and unquoted investments, and asset valuations have been sourced from the respective scheme's investment managers and custodians, based on their pricing sources and methodologies. Unquoted investments require more judgement as their values are not directly observable. The assumptions used in valuing unquoted investments are affected by current market conditions which could result in changes in fair value after the measurement date.

For the main asset categories:

- Equities listed on recognised stock exchanges are valued at closing bid prices.
- Bonds are measured using a combination of broker quotes and pricing models making assumptions for credit and market risks and market yield curves.

Section 5: Employee benefits continued

5.2 Pensions continued

- Properties are valued on the basis of an open market value or are valued using models based on discounted cash flow techniques.
 - Assets in investment funds are valued at fair value which is typically the net asset value provided by the investment manager.
 - Certain unlisted investments are valued using a model based valuation such as discounted cash flow.
 - The value of bulk annuity contracts have been assessed by discounting the projected cash flows payable under the contracts (projected by an actuary, consistent with the terms of the contract) and is equal to the corresponding liability calculated by reference to the IAS19 assumptions.
- The assets and liabilities of all of the defined benefit pension schemes (excluding additional voluntary contributions) at 31 December are:

	2020			2019		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Scheme assets at fair value:						
Equities:						
– UK	1.1	23.2	24.3	4.2	26.3	30.5
– Overseas	4.6	189.8	194.4	93.9	219.6	313.5
– Private	—	—	—	—	0.6	0.6
	5.7	213.0	218.7	98.1	246.5	344.6
Debt securities:						
– UK Government	760.3	0.2	760.5	638.5	—	638.5
– UK Corporate	1.2	7.5	8.7	1.6	—	1.6
– Overseas Government	2.4	52.9	55.3	43.7	3.7	47.4
– Overseas Corporate	68.8	135.4	204.2	77.2	62.8	140.0
– Emerging Markets	0.6	31.5	32.1	0.7	31.7	32.4
– Private Debt	—	71.3	71.3	—	63.1	63.1
– Secured Loans	—	—	—	1.6	—	1.6
	833.3	298.8	1,132.1	763.3	161.3	924.6
Property	4.2	89.6	93.8	4.6	89.4	94.0
Infrastructure	0.9	—	0.9	1.3	—	1.3
Credit Funds	5.3	—	5.3	9.4	—	9.4
Asset Backed Securities	—	—	—	0.9	—	0.9
Hedge Funds	16.5	131.0	147.5	49.5	122.0	171.5
Absolute Return Funds	0.7	—	0.7	0.6	—	0.6
Diversified growth funds	3.9	—	3.9	5.4	—	5.4
Insurance Contracts	—	91.9	91.9	—	88.5	88.5
Cash	(70.8)	5.0	(65.8)	(198.5)	(3.7)	(202.2)
Other	—	1.2	1.2	2.4	3.5	5.9
	(39.3)	318.7	279.4	(124.4)	299.7	175.3
Total	799.7	830.5	1,630.2	737.0	707.5	1,444.5
Present value of scheme liabilities			(1,882.3)			(1,697.0)
Net liability			(252.1)			(252.5)

The total net liability that relates to other defined benefits schemes that is included in the table above is £10.3m (2019: £19.6m). Within this net liability, some schemes are in surplus which offsets this amount by £3.1m (2019: £4.1m).

These amounts do not include any directly owned financial instruments issued by the Group.

IFRIC 14

The Group has considered the impact of IFRIC 14 on the various schemes (in relation to either recognising a surplus or allowing for the impact of any funding commitments made) and has concluded, based on the interpretation of the rules for each of the schemes, that IFRIC 14 would not limit the surplus or increase the deficits shown at this balance sheet date.

Reconciliation of retirement benefits

Explanation of constituents of the consolidated income statement.

The cost of providing the pension scheme over the year is broken down as follows:

- Service cost is the cost to the Group of future benefits earned by contributing members over the current financial period.
- Past service cost represents the change in the present value of scheme liabilities in the current period in relation to prior years' service.
- Administration costs are those entailed by the pension schemes over the current period.
- Interest cost/(income) is made up of the interest cost on pension liabilities and assets over the current period based on the discount rate adopted at the start of the period.

Section 5: Employee benefits continued

5.2 Pensions continued

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit liability and its components:

	Defined benefit obligation		Fair value of plan assets		Group total Net defined liability	
	2020	2019	2020	2019	2020	2019
	£m	£m	£m	£m	£m	£m
At 1 January	1,697.0	1,430.5	(1,444.5)	(1,211.5)	252.5	219.0
Included in the consolidated income statement:						
Current service cost	6.2	7.0	—	—	6.2	7.0
Administration costs	3.7	3.9	—	—	3.7	3.9
Past service cost	0.1	0.3	—	—	0.1	0.3
Effect of settlements	(15.3)	—	18.4	—	3.1	—
Interest cost/(income)	30.1	40.2	(26.9)	(35.8)	3.2	4.4
Sub-total in consolidated income statement	24.8	51.4	(8.5)	(35.8)	16.3	15.6
Included in other comprehensive income:						
Actuarial loss/(gain) arising from:						
– demographic assumptions	(12.9)	6.3	—	—	(12.9)	6.3
– financial assumptions	256.3	212.8	—	—	256.3	212.8
– experience adjustments	(40.3)	24.2	—	—	(40.3)	24.2
– reclassification of schemes ¹	—	14.1	—	(11.6)	—	2.5
Return on plan assets excluding interest	—	—	(171.0)	(139.1)	(171.0)	(139.1)
Sub-total in other comprehensive income	203.1	257.4	(171.0)	(150.7)	32.1	106.7
Employer contributions	—	—	(49.0)	(88.8)	(49.0)	(88.8)
Contributions by employees	1.4	1.4	(1.4)	(1.4)	—	—
Benefits paid	(45.6)	(43.1)	45.6	43.1	—	—
Exchange movement	1.6	(0.6)	(1.4)	0.6	0.2	—
At 31 December	1,882.3	1,697.0	(1,630.2)	(1,444.5)	252.1	252.5

1. It is now possible to identify, on a consistent and reasonable basis, the share of assets and liabilities belonging to the Group in respect of its participation in the non-associated multi-employer scheme. The scheme was brought on to the defined benefit balance sheet at 1 January 2019 (net liability at that date of £2.5m). Previously it was accounted for on a defined contribution basis.

The defined benefit obligation comprises £1,882.3m (2019: £1,697.0m) arising from schemes that are wholly or partly funded.

Of the total pension cost of £16.3m (2019: £15.6m), £9.4m (2019: £7.3m) was included in cost of sales, £3.7m (2019: £3.9m) was included in administrative expenses, and £3.2m in finance costs (2019: £4.4m).

Breakdown of liabilities for the CPLAS

Information about the defined benefit obligation for the CPLAS:

	Proportion of overall liability %		Duration (years)	
	2020	2020	2019	2019
Active members	5	22.4	6	23.9
Deferred members	64	24.2	62	23.3
Pensioners	31	13.7	32	13.4
Total	100	20.9	100	20.2

Section 5: Employee benefits continued

5.2 Pensions continued

Financial and demographic assumptions

	All schemes	
	2020 %	2019 %
Main assumptions¹:		
Rate of price inflation – RPI/CPI	2.90/2.15	3.00/2.00
Rate of salary increase	2.90	3.00
Rate of increase of pensions in payment ² :		
– RPI inflation capped at 5% per annum	2.85	2.95
– RPI inflation capped at 2.5% per annum	2.10	2.10
– CPI inflation capped at 5% per annum	2.20	2.05
Discount rate	1.30	2.05
Expected take up maximum available tax free cash	85.00	85.00

1. Only the discount rate is relevant to the Admitted Body Scheme. Different assumptions apply to non-UK schemes, for example: the discount rate for the Irish Schemes are 0.75% per annum and for the Swiss schemes it is 0.15% per annum in 2020.

2. There are other levels of pension increase which apply to particular periods of membership.

The average future life expectancy from age 65 (in years) for mortality tables used to determine scheme liabilities for the various different schemes at 31 December 2020 and 31 December 2019 are as follows:

	Member currently aged 65 (current life expectancy)				Member currently aged 45 (life expectancy at 65)			
	Male		Female		Male		Female	
	2020	2019	2020	2019	2020	2019	2020	2019
Capita Scheme ¹	22.5	22.7	24.3	24.2	22.4	23.1	25.3	25.2
Other Schemes ²	21.5 to 22.8	22.7 to 24.2	23.3 to 24.9	24.2 to 24.8	22.4 to 24.6	23.1 to 25.9	24.5 to 26.6	25.2 to 26.2

1. The assumptions used for the Capita scheme are tailored for each member. The assumptions adopted make allowance for an increase in the longevity in the future. The rate for members currently aged 65 is derived from the pensioner membership and the rate for members reaching age 65 in 20 years' time is derived from non-pensioner membership.

2. This does not apply to the Admitted Body Scheme or the allocated section of a Local Government Pension Scheme.

5.3 Employee benefit expense

AP Accounting policies

Government grants

Government grants are not recognised until there is a reasonable assurance that they Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in the income statement on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in the income statement in the period in which they become receivable.

	Notes	2020 £m	2019 £m
Wages and salaries		1,511.7	1,626.8
Social security costs		154.6	170.7
Pension costs	5.2	122.1	119.4
Share-based payments	5.1	6.4	3.0
		1,794.8	1,919.9

During the year, the Group furloughed employees unable to work as a result of the Covid-19 pandemic, and applied to the Coronavirus Job Retention Scheme (CJRS) operated by the UK Government. Amounts received under CJRS are treated as a government grant and deducted from the relevant cost in the consolidated income statement. During the year, the Group received £21.3m under CJRS. These amounts are included within the relevant cost headings in the table above.

The aggregate amount of directors' remuneration (salary, bonus and benefits) is shown on page 102 of the directors' remuneration report.

- The aggregate amount of gains made by directors on exercise of share options was £49,569 (2019: £nil) (refer to note 6.1).
- The remuneration of the highest paid director was £1,112,325 (2019: £789,678).
- Payments have been made to a defined contribution pension scheme on behalf of four directors (2019: four directors). For the highest paid director, pension contributions of £36,250 (2019: £36,250) were made.

The average number of employees during the year was made up as follows:	2020 Number	2019 Number
Sales	1,661	2,162
Administration	3,962	5,801
Operations	52,702	55,322
	58,325	63,285

The average number of employees above reflects continuing operations and excludes employees relating to discontinued operations.

Section 6: Other supporting notes

This section includes disclosures of those items that are not explained elsewhere in the financial statements.

In this section you will find disclosures about:

- 6.1 Related-party transactions
- 6.2 Contingent liabilities
- 6.3 Post balance sheet events

AP Denotes accounting policies

6.1 Related-party transactions

Compensation of key management personnel

	2020 £m	2019 £m
Short-term employment benefits	6.9	9.3
Pension	—	0.2
Share-based payments	3.5	2.6
	10.4	12.1

Gains on share options exercised in the year by Capita plc executive directors were £49,569 (2019: £nil) and by key management personnel £38,050 (2019: £104,960), totalling £87,619 (2019: £104,960).

During the year, the Group rendered administrative services to Smart DCC Limited (DCC), a wholly-owned subsidiary which is not consolidated (refer to note 4.7). The Group received £113.1m (2019: £83.4m) of revenue for these services. The services are procured by DCC on an arm's length basis under the DCC licence. The services are subject to review by Ofgem to ensure that all costs are economically and efficiently incurred by DCC.

Capita Pension and Life Assurance Scheme is a related party of the Group. Transactions with the Scheme are disclosed in note 5.2 – Pensions.

6.2 Contingent liabilities

Contingent liabilities represent potential future cash outflows which are either not probable or cannot be measured reliably.

The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £55.8m (2019: £58.1m).

In September 2020, the Group settled a liability relating to past services received under supplier software licence agreements which had previously been disclosed as a contingent liability. The settlement includes a commitment to future purchases of £79m of which £6m is over the period to 31 December 2021 and £73m (payable in US dollars), is over the period to 30 June 2024. The Group has forecasts that support the requirement for such products and services. These products are important in supporting the delivery of future performance obligations and digital solutions for our customers and will benefit the Group.

The Group is in discussions with a number of its life insurance clients, the outcomes and timings of which are uncertain but could result in the continuation of contracts with amended terms or the termination of contracts. If an operation is terminated, the Group may incur associated costs, accelerate the recognition of deferred income or the impairment of contract assets. As the outcome of these discussions is uncertain, the Group has not made any provision for a future outflow of funds that might result from the eventual outcome of the discussions.

As outlined in note 3.6, a provision was recognised for an onerous contract in Customer Management. The contract has a clause such that the customer can continue to extend the contract indefinitely. Accordingly, judgement is required in assessing the remaining length of the contract to determine the provision. Management considered previous discussions with the client regarding their intentions and experiences on other contracts, and concluded the best estimate of the remaining contract term is the current contractually committed period to 2023. However, the contract may end earlier or be extended for longer, resulting in a material release or increase in the provision in future accounting periods.

The Group completed the disposal of its Capita Asset Services businesses, including Capita Financial Managers Limited, to the Link Group on 3 November 2017. Capita plc, as part of the sale of the Capita Asset Services businesses, provided an indemnity against certain legacy claims.

The Group's entities are parties to legal actions and claims which arise in the normal course of business. The Group needs to apply judgement in determining the merit of litigation against it and the chances of a claim successfully being made. It needs to determine the likelihood of an outflow of economic benefits occurring and whether there is a need to disclose a contingent liability or whether a provision might be required due to the probability assessment.

At any time there are a number of claims or notifications that need to be assessed across the Group. The disparate nature of the Group's entities heightens the risk that not all potential claims are known at any point in time. Under the transformation plan, the central support functions including commercial and legal are being strengthened and a Chief General Counsel has been appointed. This enhances the processes to assess the likelihood of historical claims arising.

Section 6: Other supporting notes (continued)

6.3 Post balance sheet events

The following events occurred after 31 December 2020, and before the approval of these consolidated financial statements, but have not resulted in adjustment to the 2020 financial results:

Disposal of Education Software Solutions (ESS)

The disposal of the ESS business to Tiger UK Bidco Limited, a newly formed company established by funds advised by Montagu Private Equity (Montagu), completed on 1 February 2021.

Cash proceeds of £298.5m were received, with net assets disposed of £51.8m, and estimated disposal costs of £28.9m (of which £20.6m were recognised at 31 December 2020). Consequently, we expect to record a total gain on disposal of approximately £217.8m.

Montagu has also agreed to invest in ParentPay (Holdings) Limited (ParentPay), a provider of education technology. Following successful completion of both investments, ESS will become part of ParentPay Group. An additional sum of £45m will subsequently be payable to Capita once Montagu's agreed investment in ParentPay has achieved regulatory approval.

Royal Navy training contract

Capita signed a contract to provide training services to the Royal Navy and Royal Marines in January 2021. Capita will transform and modernise the Royal Navy's shore-based training across 16 sites in the UK as the lead partner in a consortium which includes Raytheon UK, Elbit Systems UK, Fujitsu and several smaller British suppliers. The contract will be worth an estimated £1.0bn for Capita over 12 years, with opportunities to deliver further training according to the Royal Navy's requirements. This is an addition of £0.9bn to the Group's order book in 2021.

Put option expiry

The Group has a 51% interest in AXELOS Limited. There was a put option in place whereby the Group could be required to acquire the 49% non-controlling interest. This option expired without being exercised on 28 February 2021, and the related liability was derecognised.

Section 7: Company financial statements

This section presents the company only financial statements for Capita plc (the Company). In this section, you will find the following:

- 7.1 Company balance sheet
- 7.2 Company statement of changes in equity
- 7.3 Notes to the Company financial statements

AP Denotes accounting policies

J Denotes significant accounting judgements, estimates and assumptions

7.1 Company balance sheet

	Notes	2020 £m	2019 £m
Non-current assets			
Intangible assets	7.3.2	89.1	91.9
Tangible assets	7.3.3	14.7	39.0
Investments	7.3.4	683.3	568.9
Financial assets	7.3.5	35.4	67.0
Deferred tax assets	7.3.6	10.0	6.8
Prepayments and accrued income		1.8	2.2
		834.3	775.8
Current assets			
Financial assets	7.3.5	28.3	21.5
Amounts owed by subsidiary undertakings		2,946.9	2,598.8
Trade and other receivables	7.3.7	2.5	10.0
Prepayment and accrued income		6.1	8.5
Income tax receivable		64.1	63.6
Cash		1.6	2.6
		3,049.5	2,705.0
Total assets		3,883.8	3,480.8
Current liabilities			
Amounts owed to subsidiary undertakings		2,003.9	1,588.9
Trade and other payables	7.3.8	13.6	20.7
Accruals and deferred income		11.6	26.8
Overdrafts		131.9	24.3
Financial liabilities	7.3.5	3.4	1.7
Provisions	7.3.9	17.3	15.2
		2,181.7	1,677.6
Non-current liabilities			
Trade and other payables	7.3.8	0.3	—
Borrowings	7.3.10	214.8	202.9
Financial liabilities	7.3.5	4.1	5.3
		219.2	208.2
Total liabilities		2,400.9	1,885.8
Net assets		1,482.9	1,595.0
Capital and reserves			
Issued share capital	7.3.11	34.5	34.5
Employee benefit trust and treasury shares	7.3.11	(11.2)	(11.2)
Share premium	7.3.11	1,143.3	1,143.3
Capital redemption reserve		1.8	1.8
Merger reserve		44.6	44.6
Cash flow hedging reserve		(4.6)	—
Retained earnings		274.5	382.0
Total equity		1,482.9	1,595.0

The Company's loss after taxation was £113.9m (2019: £211.9m loss).

The accompanying notes form part of the financial statements.

The accounts were approved by the Board of directors on 16 March 2021 and signed on its behalf by:

Jon Lewis
Chief Executive Officer

Gordon Boyd
Chief Financial Officer (interim)

Company registered number: 02081330

Section 7: Company financial statements continued

7.2 Company statement of changes in equity

	Share capital £m	Employee benefit trust and treasury shares £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Cash flow hedging reserve £m	Retained earnings £m	Total £m
At 1 January 2019	34.5	(11.2)	1,143.3	1.8	44.6	0.8	591.8	1,805.6
Loss for the year	—	—	—	—	—	—	(211.9)	(211.9)
Other comprehensive expense	—	—	—	—	—	(0.8)	—	(0.8)
Total comprehensive expense for the year	—	—	—	—	—	(0.8)	(211.9)	(212.7)
Share based payment	—	—	—	—	—	—	2.8	2.8
Shares purchased	—	—	—	—	—	—	(0.7)	(0.7)
At 1 January 2020	34.5	(11.2)	1,143.3	1.8	44.6	—	382.0	1,595.0
Loss for the year	—	—	—	—	—	—	(113.9)	(113.9)
Other comprehensive expense	—	—	—	—	—	(4.6)	—	(4.6)
Total comprehensive expense for the year	—	—	—	—	—	(4.6)	(113.9)	(118.5)
Share based payment	—	—	—	—	—	—	6.4	6.4
At 31 December 2020	34.5	(11.2)	1,143.3	1.8	44.6	(4.6)	274.5	1,482.9

1. Capita is currently undergoing a multi-year transformation and therefore did not declare a dividend in 2020 or 2019.

Share capital – The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising 2 1/15p ordinary shares.

Employee benefit trust and treasury shares – Shares that have been bought back by the Company which are available for retirement or resale; shares held in the employee benefit trust have no voting rights and no entitlement to a dividend.

Share premium – The amount paid to the Company by shareholders, in cash or other consideration, over and above the nominal value of shares issued to them less issuance costs.

Capital redemption reserve – The Company can redeem shares by repaying the market value to the shareholder, whereupon the shares are cancelled. Redemption must be from distributable profits. The Capital redemption reserve represents the nominal value of the shares redeemed.

Merger reserve – The merger reserve arose from the adoption of the exemption under section 131 of the Companies Act not to set up a share premium account in respect shares issued for the acquisition of entities. The amounts attributed to the shares issued for these acquisitions that exceeded their nominal value was transferred to the merger reserve.

Cash flow hedging reserves – This reserve records the portion of the gain or loss on a hedging instrument in a cash flow that is determined to be an effective hedge.

Retained deficit – Net (losses)/profits accumulated in the Company after dividends are paid.

The accompanying notes are an integral part of the financial statements.

Section 7: Company financial statements continued

7.3 Notes to the Company financial statements

7.3.1 Accounting policies

AP Accounting policies

Basis of preparation

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

The financial statements have been prepared in accordance with Financial Reporting Standard 101 – Reduced Disclosure Framework (FRS 101) as issued by the Financial Reporting Council. The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions.

The financial statements have been prepared on the historical cost basis and on the going concern basis, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are the same as those set out in Sections 1 to 6 of the consolidated financial statements, except as noted below.

(a) Investments

Fixed asset investments are shown at cost, less provisions for impairment. The carrying values of fixed asset investments are reviewed for impairment if events or changes in circumstances indicate the carrying values may not be recoverable.

J Significant accounting judgements, estimates and assumptions

The Company determines whether investments are impaired based on impairment indicators. This involves estimation of the enterprise value of the investee which is determined based on the greater of discounted future cash flows at a suitable discount rate or through the recoverable value of investments held by the investee Company.

(b) Pension schemes

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 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 subsidiary undertaking, which pays the Group liability centrally. Any unpaid contributions at the year-end have been accrued in the accounts of that company.

The Company also has employees who are members of a defined benefit scheme operated by the Group – the Capita Pension & Life Assurance Scheme (the ‘Capita DB Scheme’).

As there is no contractual arrangement or stated Group policy for charging the net defined benefit cost of the Capita DB Scheme to participating entities, the net defined benefit cost is recognised fully by the principal employer, which is Capita Business Services Limited, a 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 purpose of that valuation is to design a funding plan to ensure that the pension scheme has sufficient assets available to meet future benefit payments, based on assumptions agreed between the Trustee Board and the Group. The 31 March 2017 actuarial valuation showed a funding deficit of £185.0m (31 March 2014: £1.4m). This equates to a funding level of 86.1% (31 March 2014: 99.8%). Following the last full valuation carried out at 31 March 2017, the principal employer agreed to make additional contributions to the Capita DB Scheme totalling £176.0m over the period from November 2018 to the start of 2021 to address the deficit.

During 2020, the principal employer and the Trustee Board agreed to defer a deficit payment of £31.7m due in 2020 to 2021 (which was subsequently paid in February 2021). In addition, following the merger of WAEPS in the Capita DB Scheme, deficit contributions due to WAEPS were paid into the Capita DB Scheme (£0.7m in 2020).

As part of the Funding Agreement put in place between the Trustee Board and the principal employer, additional monthly contributions of £4.16m were triggered from July 2020 until the 31 March 2020 valuation is finalised (expected Q2 2021). The Trustee Board and the principal employer have agreed that these contributions would be paid into an escrow account (instead of the scheme), with the escrow account being released to the scheme in 2021. The next full actuarial valuation is being carried out with an effective date of 31 March 2020 and as part of that valuation the contribution requirements will be reviewed, and if necessary, amended.

Note 5.2 of the Group’s consolidated financial statements sets out more detail.

Section 7: Company financial statements continued

7.3.1 Accounting policies continued

(c) Share-based payments

Subsidiary undertakings of the Company reimburse the Company through the intercompany account for charges attributable to their employees participating in the Company's share schemes.

(d) Amounts owed by/to subsidiary undertakings

The amounts owed by and to subsidiary undertakings are repayable on demand along with any accrued interest.

7.3.2 Intangible assets

	Capitalised software development £m	Other intangibles £m	Total £m
Cost			
At 1 January 2020	82.2	29.3	111.5
Additions	5.0	—	5.0
Retirement	—	(0.1)	(0.1)
At 31 December 2020	87.2	29.2	116.4
Amortisation			
At 1 January 2020	13.8	5.8	19.6
Charge for year	5.5	2.3	7.8
Retirement	—	(0.1)	(0.1)
At 31 December 2020	19.3	8.0	27.3
Net book value:			
At 1 January 2020	68.4	23.5	91.9
At 31 December 2020	67.9	21.2	89.1

Other intangibles relates to software purchased from third parties. Refer to note 3.3 to the Group's consolidated financial statements for further information on the Group's finance transformation program.

7.3.3 Tangible assets

	Computer equipment £m	Short-term leasehold improvements £m	Equipment right-of-use asset £m	Total £m
Cost				
At 1 January 2020	23.1	21.0	0.4	44.5
Additions	1.0	5.6	—	6.6
Disposals	(1.0)	(1.3)	—	(2.3)
Intragroup transfer	(2.4)	(23.4)	—	(25.8)
Asset retirements	(0.6)	(0.2)	—	(0.8)
At 31 December 2020	20.1	1.7	0.4	22.2
Depreciation				
At 1 January 2020	3.9	1.5	0.1	5.5
Charge for year	4.4	1.1	0.1	5.6
Impairment	0.6	1.0	—	1.6
Disposals	(0.9)	(1.2)	—	(2.1)
Intragroup transfer	(0.4)	(1.9)	—	(2.3)
Asset retirements	(0.6)	(0.2)	—	(0.8)
At 31 December 2020	7.0	0.3	0.2	7.5
Net book value:				
At 1 January 2020	19.2	19.5	0.3	39.0
At 31 December 2020	13.1	1.4	0.2	14.7

Section 7: Company financial statements continued

7.3.4 Investments

	Shares in subsidiary undertakings £m
Net book value	
At 1 January 2020	568.9
Additions ¹	114.9
Impairment ²	(0.5)
At 31 December 2020	683.3

1. During the year ended 31 December 2020, Capita plc invested £86.0m in Capita Employee Benefits Limited and £28.9m in Capita Financial Services Holdings Limited.

2. During the year ended 31 December 2020, Capita plc impaired its investment in Capita Gwent Consultancy Limited by £0.5m.

Direct investments	Registered office	Proportion of nominal value of issued shares held by the Company
Capita Employee Benefits Limited ²	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Legal Services Limited ²	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Financial Services Holdings Limited ¹	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Group Insurance PCC Limited ²	Dorey Court, Admiral Park, St. Peter Port, Guernsey, GY1 4AT, Guernsey	100%
Capita Gwent Consultancy Limited ²	1 More London Place, London, SE1 2AF	100%
Capita Holdings Limited ¹	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita International Limited ²	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Life & Pensions Regulated Services Limited ²	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita International Retirement Benefit Scheme Trustees Limited ²	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Ireland Limited ²	2nd Floor, Block 5, Irish Life Centre, Abbey Street Lower, Dublin 1, D01P767	100%
Capita Life & Pensions Services Limited ²	65 Gresham Street, London, England, EC2V 7NQ	100%

1. Investing holding company.

2. Outsourcing services company.

Certain subsidiaries of the Group have opted to take advantage of a statutory exemption from having an audit in respect of their individual statutory accounts. Strict criteria must be met for this exemption to be taken and has been agreed to by the directors of those subsidiary entities. Listed in note 7.3.16 to the Company financial statements are subsidiaries controlled and consolidated by the Group, where the directors have taken advantage of the exemption from having an audit of the entities' individual financial statements for the year ended 31 December 2020 in accordance with Section 479A of The Companies Act 2006.

In order to facilitate the adoption of this exemption, Capita plc, the parent company of the subsidiaries concerned, undertakes to provide a guarantee under Section 479C of the Companies Act 2006 in respect of those subsidiaries.

Details of all indirect subsidiaries, as required under Section 409 of the Companies Act 2006, are reported in note 7.3.16 to the Company financial statements.

Section 7: Company financial statements continued

7.3.5 Financial instruments

	Financial assets 2020 £m	Financial liabilities 2020 £m	Financial assets 2019 £m	Financial liabilities 2019 £m
Cash flow hedges	0.1	2.8	3.4	0.5
Non-designated foreign exchange forwards and swaps	2.9	1.7	3.2	2.6
Lease liabilities	—	0.3	—	0.3
Interest rate swaps	0.5	—	1.0	—
Cross-currency interest rate swaps	60.2	2.7	80.9	3.6
	63.7	7.5	88.5	7.0
Analysed as:				
Current	28.3	3.4	21.5	1.7
Non-current	35.4	4.1	67.0	5.3
	63.7	7.5	88.5	7.0

7.3.6 Deferred tax

	2020 £m	2019 £m
Deferred tax included in the balance sheet is as follows:		
Accelerated capital allowances	4.4	2.6
Losses	5.5	4.2
Other short term timing differences	0.1	—
	10.0	6.8

7.3.7 Trade and other receivables

	2020 £m	2019 £m
Trade receivables	0.1	0.2
Other debtors	0.4	1.0
Other taxes and social security	2.0	8.8
	2.5	10.0

7.3.8 Trade and other payables

	Current		Non-current	
	2020 £m	2019 £m	2020 £m	2019 £m
Trade creditors	12.8	18.4	—	—
Other creditors	0.8	2.3	0.3	—
	13.6	20.7	0.3	—

7.3.9 Provisions

	2020 £m	2019 £m
At 1 January	15.2	28.4
Provisions provided for in the year	5.9	0.1
Provisions released in the year	(3.4)	(11.2)
Utilisation	(0.4)	(2.1)
At 31 December	17.3	15.2

The majority of the provisions relate to the claims and litigations provisions of £10.9m and business exit provisions of £5.7m. Further detail on these provisions can be found in note 3.6 to the Group's consolidated financial statements.

Section 7: Company financial statements continued

7.3.10 Borrowings

	2020 £m	2019 £m
Private placement loan notes	214.8	202.9
Repayments fall due as follows:		
In more than 2 years but not more than 5 years	161.2	152.6
In more than 5 years	53.6	50.3
Total borrowings	214.8	202.9

The Company issued guaranteed unsecured private placement loan notes as follows:

	Interest rate (%)	Denomination	EUR (m)	Maturity
Fixed rate bearer notes	2.125	EUR	166.1	10 November 2022
Fixed rate bearer notes	2.875	EUR	60.0	10 November 2027
Schuldschein loan	2.125	EUR	16.0	10 November 2022
Total of euro denominated private placement loan notes			242.1	

The Company has a committed revolving credit facility (RCF) of £452.0m which expires on 31 August 2022 and is extendable for a further year to 31 August 2023 with the consent of the lenders by 31 August 2021. In addition to the RCF, the Company has committed backstop liquidity facilities of £150.0m. These facilities terminated on 1 February 2021 with receipt of proceeds from the disposal of the Education Software Solutions business.

All committed facilities were undrawn at 31 December 2020 (combined size £602.0m), and also at 31 December 2019 (£414.0m).

Further detail on these facilities can be found in note 4.2 to the Group's consolidated financial statements.

7.3.11 Share capital

Disclosures about the share capital, share premium, employee benefit trust and treasury shares of the Company have been included in note 4.6 to the Group's consolidated financial statements.

7.3.12 Contingent liabilities

The Company has provided, through the normal course of its business, performance bonds and bank guarantees of £55.8m (2019: £58.1m).

7.3.13 Related-party transactions

In the following, amounts for purchases and sales are for transactions invoiced during the year inclusive of Value Added Tax where applicable. All transactions are undertaken at normal market prices.

During the year, the Company sold goods/services in the normal course of business to Urban Vision Partnership Limited for £nil (2019: £0.1m). The Company purchased goods/services in the normal course of business for £nil (2019: £nil). At the balance sheet date, the net amount receivable from Urban Vision Partnership Limited was £nil (2019: £nil).

During the year, the Company sold goods/services in the normal course of business to Entrust Support Services Limited for £0.9m (2019: £0.3m). The Company purchased goods/services in the normal course of business for £0.1m (2019: £nil). At the balance sheet date, the net amount receivable from Entrust Support Services Limited was £nil (2019: £nil).

During the year, the Company sold goods/services in the normal course of business to AXELOS Limited for £0.9m (2019: £0.3m). The Company purchased goods/services in the normal course of business for £0.3m (2019: £0.3m). At the balance sheet date, the net amount receivable from AXELOS Limited was £nil (2019: £0.1m).

During the year, the Company sold goods/services in the normal course of business to Capita Glamorgan Consultancy Limited for £0.1m (2019: £0.1m). The Company purchased goods/services in the normal course of business for £nil (2019: £nil). At the balance sheet date, the net amount receivable from Capita Glamorgan Consultancy Limited was £nil (2019: £nil).

During the year, the Company sold goods/services in the normal course of business to Fera Science Limited for £0.3m (2019: £0.3m). The Company purchased goods/services in the normal course of business for £nil (2019: £nil). At the balance sheet date, the net amount receivable from Fera Science Limited was £0.1m (2019: £nil).

7.3.14 Pension costs

The Company operates defined benefit and defined contribution schemes. The pension charge for these schemes for the year was £1.8m (2019: £1.4m).

7.3.15 Share-based payments

The Company operates several share-based payment plans and details of the schemes are disclosed in note 5.1 of the Group's consolidated financial statements.

The Group recognised an expense for share-based payments in respect of employee services received during the year to 31 December 2020 of £6.4m (2019: £3.0m), all of which arises from equity-settled share-based payment transactions. The total Company expense, after recharging subsidiary undertakings, charged to the income statement in respect of share-based payments was £3.5m (2019: £2.1m).

Section 7: Company financial statements continued

7.3.16 Related undertakings

The stated address relates to the place of incorporation of the entity, which is the same as its tax residence in all cases other than Capita Group Insurance PCC Limited which is incorporated in Guernsey, but which is tax resident in the UK.

Unless otherwise indicated, all shareholdings are owned indirectly by the company and represent 100% of the issued share capital of the subsidiary. Dormant companies are marked (D).

Company name	Share class	Company name	Share class
3C DIALOG Saalfeld GmbH ²⁴	€25,000.00 Ordinary	Capita Corporate Director Limited ⁶ (D)	£1.00 Ordinary
Acutest Limited ⁶ (D)	£1.00 Ordinary	Capita CTI (USA) LLC ¹⁰	US\$1.00 Ordinary
Akinika Debt Recovery Limited ⁷	£1.00 Ordinary	Capita Customer Management Limited ⁶	£1.00 Ordinary
Akinika Limited ⁷	£1.00 Ordinary	Capita Customer Services (Germany) GmbH ²⁵	€1.00 Ordinary
Akinika UK Limited ⁷	£1.00 Ordinary	Capita Customer Services AG ²⁶	CHF1.00 Ordinary
AMT Group Limited ⁴	€1.00 Ordinary	Capita Customer Solutions (UK) Limited ⁶	£1.00 Ordinary
AMT-Sybex (I) Limited (in liquidation) ²⁰	€1.00 Ordinary	Capita Customer Solutions Limited ⁴²	€1.00 Ordinary
AMT-Sybex (Managed Services) Limited (in liquidation) ²⁰	€1.00 Ordinary	Capita Cyprus Holdings Limited ⁴⁰	£1.00 Ordinary
AMT-Sybex (Research) Limited (in liquidation) ²⁰	€1.00 Ordinary	Capita Cyprus Limited (Under Strike off) ⁴⁰	€1.00 Euro
AMT-Sybex (Software) Limited ⁴	€1.00 Ordinary	Capita Dubai Limited ⁶	£1.00 Ordinary
AMT-Sybex Group Limited ⁴	€0.0012 Ordinary	Capita Employee Benefits (Consulting) Limited ⁶	£1.00 Ordinary
AMT-Sybex Limited ⁶	£1.00 Ordinary	Capita Employee Benefits Holdings Limited ⁶	£1.00 Ordinary
Artificial Labs Ltd ¹⁴ ●	£0.00 Ordinary A	Capita Employee Benefits Limited ⁶ *	£1.00 Ordinary
Atlas Master Trust Trustee Limited ⁶	£1.00 Ordinary	Capita Energie Services GmbH ³¹ ▶	€1.00 Ordinary
Axelos Limited ⁶ ▼	£0.01 Ordinary B	Capita ESS Limited ⁶	£1.00 Ordinary
Barrachd Limited ³	£1.00 Ordinary	Capita ESS Holdings Limited ⁶	£1.00 Ordinary
BCS Design Ltd ⁶	£1.00 Ordinary	CAPITA 12935355 LIMITED ⁶ (D)	£1.00 Ordinary
Beovax Computer Services Limited (In liquidation) ¹	£1.00 Ordinary	Capita Financial Services Holdings Limited ⁶ *	£1.00 Ordinary
Booking Services International Limited ⁶	£1.00 Ordinary	Capita Gas Registration and Ancillary Services Limited ⁶	£1.00 Ordinary
Brentside Communications Limited ⁶ (D)	£1.00 Ordinary	Capita Glamorgan Consultancy Limited ⁶ ▼	£0.01 Ordinary A
Brightwave Enterprises Limited ⁶	£1.00 Ordinary	Capita GMPS Trustees Limited ⁶ (D)	£1.00 Ordinary
Brightwave Holdings Limited ⁶	£1.00 Ordinary	Capita Grosvenor Limited ⁶ (D)	£1.00 Ordinary
Brightwave Limited ⁶	£1.00 Ordinary	Capita Group Insurance PCC Limited ¹⁹ *	£1.00 CG1 £1.00 CIC2 £1.00 Ordinary
BSI Group Limited ⁶	£1.00 Ordinary	Capita Group Limited ⁶ (D)	£1.00 Ordinary
Call Centre Technology Limited (in liquidation) ¹	£1.00 Ordinary	Capita Group Secretary Limited ⁶ (D)	£1.00 Ordinary
Call Vision Technologies Ltd ⁶ (D)	£1.00 Ordinary	Capita Gwent Consultancy Limited ¹ (in liquidation) * ▼	£0.01 Preference A
Capita (6588350) Limited ⁶	£1.00 Ordinary	Capita HCH Limited ⁶	£1.00 Ordinary
Capita (Banstead 2011) Limited (in liquidation) ¹	£1.00 Ordinary	Capita Health and Wellbeing Limited ⁶	£1.00 Ordinary
Capita (D1) Limited ⁶ (D)	£1.00 Ordinary	Capita Health Holdings Limited ⁶	£1.00 Ordinary
Capita (Dubai FZ) Limited (in liquidation) ²⁸	US\$1,000.00 Ordinary	Capita Holdings Limited ⁶ *	£1.00 Ordinary
Capita (Polska) Spółka z ograniczoną odpowiedzialnością ¹⁶	PLZ50.00 Ordinary	Capita IB Solutions (Ireland) Limited ⁴	€1.00 Ordinary
Capita (Real Estate & Infrastructure) Limited ⁶ (D)	£1.00 Ordinary	Capita IB Solutions (UK) Limited (in liquidation) ¹	£1.00 Ordinary
Capita (South Africa) (Pty) Limited ¹¹	ZAR1.00 Ordinary	Capita IB Solutions (HK) Limited ³⁴	HKD1.00 Ordinary A HKD1.00 Ordinary B
Capita (USA) Holdings Inc. ¹⁰	US\$1.00 Ordinary	Capita India Private Limited ³³	INR10.00 Ordinary
Capita Aurora Limited (in liquidation) ¹	£1.00 Ordinary	Capita Insurance Services Group Limited ⁶	£1.00 Ordinary
Capita Birmingham Limited ⁶	£1.00 Ordinary	Capita Insurance Services Holdings Limited ⁶	£1.00 Ordinary
Capita Building Standards Limited (in liquidation) ¹	£1.00 Ordinary	Capita Insurance Services Limited ⁶	£1.00 Ordinary
Capita Business Services Ltd ⁶	£1.00 Ordinary	Capita International Limited ⁶ *	£1.00 Ordinary
Capita Business Support Services Ireland Limited ⁴	€1.00 Ordinary	Capita International Retirement Benefit Scheme Trustees Limited ⁶ * (D)	£1.00 Ordinary
Capita Commercial Insurance Services Limited ⁶	£1.00 Ordinary	Capita Ireland Limited ⁴ * (D)	€1.00 Ordinary

Section 7: Company financial statements continued

7.3.16 Related undertakings continued

Company name	Share class	Company name	Share class
Capita IT and Consulting India Private Limited (in liquidation) ³³	INR10.00 Ordinary	CAS Services US Inc ¹⁸	US\$1.00 Ordinary
Capita IT Services (BSF) Holdings Limited (in liquidation) ¹	£1.00 Ordinary	CCSD Services Limited ⁶	£1.00 Ordinary
Capita IT Services (BSF) Limited ⁶	£1.00 Ordinary	CHKS Limited ⁶	£1.00 Ordinary
Capita IT Services Holdings Limited ⁶	£1.00 Ordinary	Clinical Solutions Acquisition Limited ⁶ (D)	£1.00 Ordinary
Capita IT Services Limited ³²	£1.00 Ordinary	Clinical Solutions Finance Limited ⁶	£1.00 Ordinary
Capita Justice & Secure Services Holdings Limited ⁶	£1.00 Ordinary	Clinical Solutions Group (International) LLC	N/A
Capita Land Limited ⁶ (D)	£1.00 Ordinary	Clinical Solutions Holdings Limited ⁶ (D)	£1.00 Ordinary
Capita Legal Services Limited ⁶ * (D)	£1.00 Ordinary	Clinical Solutions International Limited ⁶	£1.00 Ordinary
Capita Life & Pensions Regulated Services Limited ⁶ *	£1.00 Ordinary	Clinical Solutions IP Limited ⁶ (D)	£1.00 Ordinary
Capita Life & Pensions Services Limited ⁶ *	£1.00 Ordinary	CMGL Group Limited ⁶ (D)	£1.00 Ordinary
Capita Life and Pensions International Limited ⁶	£1.00 Ordinary	CMGL Holdings Limited ⁶ (D)	£1.00 Ordinary
Capita Life and Pensions Services (Ireland) Limited ³⁰	€1.27 Ordinary	Complete Imaging Limited (in liquidation) ¹	£1.00 Ordinary
Capita Life and Pensions Services (Isle of Man) Limited ¹⁷	£1.00 Ordinary	Computerland UK Limited ⁶	£1.00 Ordinary
Capita Managed IT Solutions Limited ²³	£1.00 Ordinary	Contact Associates Limited ⁶	£1.00 Ordinary
Capita Managing Agency Limited ⁶	£1.00 Ordinary	CPLAS Trustees Limited ⁶ (D)	£1.00 Ordinary
Capita McLaren Limited ³⁷	£1.00 Ordinary	Creating Careers Limited (in liquidation) ¹	£1.00 Ordinary
Capita Mortgage Administration Limited ⁶	£1.00 Ordinary	CS Clinical Solutions India Private Limited ³³	INR10.00 Ordinary
Capita Mortgage Software Solutions Limited ⁶	£1.00 Ordinary	Cymbio Limited ⁶	£1.00 Ordinary
Capita Norman + Dawbarn Limited ²⁷ □ (D)	NGN1.00 Ordinary	Daisy Udata Communications Limited ²⁹ ▲	£1.00 Ordinary B
Capita Offshore Services Private Limited (in liquidation) ³³ *	INR10.00 Ordinary	Debt Solutions (Holdings) Limited ⁷	£1.00 Ordinary
Capita Property and Infrastructure (Structures) Limited ⁶	£1.00 Ordinary	Dupree Holdings Limited (in liquidation) ²⁰	€1.00 Ordinary
Capita Property and Infrastructure Consultants LLC (in liquidation) ² ◆(D)	AED1,000.00 Ordinary	Dragonfly Technology Solutions Ltd ○ ⁵	£0.001 Ordinary
Capita Property and Infrastructure Holdings Limited ⁶	£1.00 Ordinary	DSTBTD LIMITED ⁴³ <	£0.001 Ordinary
Capita Property and Infrastructure International Holdings Limited ⁶	£1.00 Ordinary	E.B. Consultants Limited ⁶ (D)	£1.00 Ordinary
Capita Property and Infrastructure International Limited ⁶ (D)	£1.00 Ordinary	Electra-Net (UK) Limited ⁶	£1.00 Ordinary
Capita Property and Infrastructure Limited ⁶	£1.00 Ordinary	Electra-Net Group Limited ⁶ (D)	£1.00 Ordinary
Capita Resourcing Limited ⁶	£1.00 Ordinary	Electra-Net Holdings Limited ⁶ (D)	£1.00 Ordinary
Capita Retail Financial Services Limited ⁶	£1.00 Ordinary	Emercom Ltd ⁶ (D)	£1.00 Ordinary
Capita Scotland (Pension) Limited Partnership ³²	N/A	Entrust Education Services Limited (in liquidation) ¹	£1.00 Ordinary
Capita Scotland General Partner (Pension) Limited ³²	£1.00 Ordinary	Entrust Support Services Limited ³⁹ ▼	£1.00 Ordinary X
Capita Secure Information Solutions Limited ⁶	£1.00 Ordinary	Equita Limited ⁸	£1.00 Ordinary
Capita Services (Isle of Man) Limited (in liquidation) ¹⁷	£1.00 Ordinary	Equitable Holdings Limited ⁶ (D)	£1.00 Ordinary
Capita SIMS (India) Private Limited ³³	INR10.00 Ordinary	Eureka Assessoria Empresarial Ltda ¹³ ◇ (D)	BRL1.00 Ordinary
Capita (SSS) Limited ⁶ (D)	£1.00 Ordinary	Euristix (Holdings) Limited ⁶ (D)	£1.00 Ordinary
Capita Software (US) LLC ¹⁰	N/A	Euristix Limited ⁶	£1.00 Ordinary
Capita Southampton Limited ⁶	£1.00 Ordinary	Evolvi Rail Systems Limited ⁶	£1.00 Ordinary
Capita Süd GmbH ²⁵	€1.00 Ordinary	Expotel Hotel Reservations Limited (in liquidation) ¹	£1.00 Ordinary
Capita Symonds (Asia) Limited ⁶ (D)	£1.00 Ordinary	Fera Science Limited ⁶ ■	£1.00 Ordinary B
Capita Symonds India Private Limited ³³	INR10.00 Ordinary	Fire Service College Limited ⁶	£1.00 Ordinary
Capita Symonds Property and Infrastructure Consultants (KSA) (D)	N/A	FirstAssist Services Limited ⁶	£1.00 Ordinary
Capita Translation and Interpreting Limited ⁶	£1.00 Ordinary	Fish Financial Solutions Limited (in liquidation) ¹	£1.00 Ordinary
Capita Travel & Events Holdings Limited ⁶	£1.00 Ordinary	FPS Group of Companies Limited (in liquidation) ¹	£1.00 Ordinary
Capita Travel and Events Limited ⁶	£1.00 Ordinary	Full Circle Contact Centre Services (Proprietary) Limited ¹¹	ZAR0.01 Ordinary
Capita West GmbH ²⁵	€25,000.00 Ordinary	G L Hearn Limited ⁶	£1.00 Ordinary

Section 7: Company financial statements continued

7.3.16 Related undertakings continued

Company name	Share class	Company name	Share class
G L Hearn Management Limited ⁶	£1.00 Ordinary	Sbj Professional Trustees Limited ⁶ (D)	£1.00 Ordinary
Gissings Trustees Limited ⁶ (D)	£1.00 Ordinary	SDP Regeneration Services 2 Limited ⁶	£1.00 Ordinary
Grosvenor Career Services Limited ⁶ (D)	£1.00 Ordinary	Security Watchdog Limited ⁶ (D)	£1.00 Ordinary
Health Analytics Ltd ⁶	£1.00 Ordinary	SIMS Limited ⁶	£1.00 Ordinary
International Travel Group Limited (in liquidation) ¹	£1.00 Ordinary	Smart DCC Limited ⁶	£1.00 Ordinary
John Crilley Limited (in liquidation) ¹	£1.00 Ordinary	Stirling Park LLP ⁴⁵	N/A
Knowledgepool Group Limited ⁶	£1.00 Ordinary	Symonds Travers Morgan (Malaysia) SDN. BHD ³⁶	RM1.00 Ordinary
Latemeetings.com Limited (in liquidation) ¹	£1.00 Ordinary	STL Technologies Limited (in liquidation) ¹	£1.00 Ordinary
Leadcall Limited (in liquidation) ¹	£1.00 Ordinary	Symonds Travers Morgan (Hong Kong) Limited ⁴⁶ (D)	HKD10.00 Ordinary
Level Financial Technology Limited ³⁵ 	£1.00 Ordinary	Synaptic Software Limited ⁶	£1.00 Ordinary
Liberty Printers (Ar And Rf Reddin) Limited ⁶	£1.00 Ordinary	Synetrix (Holdings) Limited (in liquidation) ¹	£1.00 Ordinary
Market Mortgage Limited ⁶ 	£0.001 Ordinary Capita Shares	Synetrix Limited (in liquidation) ¹	£1.00 Ordinary
Marrakech (Ireland) Limited (in liquidation) ²⁰	€1.00 Ordinary	Tascor E & D Services Limited ⁶	£1.00 Ordinary
Marrakech (U.K.) Limited ⁶	£1.00 Ordinary	Tascor Services Limited ⁶	£1.00 Ordinary
Marrakech Limited ⁴	€1.00 Ordinary	TELAG AG ²¹	CHF1,000.00 Ordinary
Medicals Direct International Limited (in liquidation) ¹	£1.00 Ordinary	Tempus Finance Limited (in liquidation) ¹	£1.00 Ordinary
Metacharge Limited ⁶	£1.00 Ordinary	The Fisher Training Group Limited (in liquidation) ¹	£1.00 Ordinary
Micro Librarian Systems Limited (in liquidation) ¹	£1.00 Ordinary	The G2G3 Group Ltd. ³²	£1.00 Ordinary
Munnypot Limited ³⁸ 	£0.01 Ordinary	The Write Research Company Limited (in liquidation) ¹	£1.00 Ordinary
NYS Corporate Ltd. ⁶	£1.00 Ordinary	Thirty Three Group Limited ⁶ (D)	£1.00 Ordinary
Octal Business Solutions Limited ⁶	£1.00 Ordinary	Thirty Three LLP ⁶	N/A
Opin Systems Limited (in liquidation) ¹²	£1.00 Ordinary	ThirtyThree APAC Limited ⁹	HKD1.00 Ordinary
Optilead Inc.(in liquidation) ¹⁰	US\$0.001 Common Stock	ThirtyThree USA Inc. ¹⁰	US\$1.00 Ordinary
Optilead Limited ⁶ (D)	£1.00 Ordinary	Trustmarque Solutions Limited ⁶	£1.00 Ordinary
Optima Legal Services Limited ²²	£1.00 Ordinary	Udata Infrastructure (UK) Limited ⁶	£1.00 Ordinary
PageOne Communications Limited ⁶	£1.00 Ordinary	Udata Infrastructure 2012 Limited ⁶ (D)	£1.00 Ordinary
Pardus Holdings Limited ¹⁵ 	£1.00 Ordinary	Urban Vision Partnership Limited ⁶ 	£1.00 Ordinary B
Pay360 Limited ⁶	£1.00 Ordinary	Ventura (India) Private Limited ⁴¹	INR10.00 Ordinary
Pervasive Limited ⁶	£1.00 Ordinary	Ventura (UK) India Limited ⁶	£1.00 Ordinary
Pervasive Networks Limited ⁶	£1.00 Ordinary	Venues Event Management Limited (in liquidation) ¹	£1.00 Ordinary
Rathcush Limited (in liquidation) ⁴	€1.00 Ordinary	Vilanova Management Limited ⁴	€1.00 Ordinary
RE (Regional Enterprise) Limited ⁶ 	£1.00 Ordinary A	Voice Marketing Limited ⁶	£1.00 Ordinary
Retain International (Holdings) Limited ⁶ (D)	£1.00 Ordinary	Wabowden Limited ⁴	€1.00 Ordinary
Retain International Limited ⁶ (D)	£1.00 Ordinary	Western Mortgage Services Limited ⁶	£1.00 Ordinary
Ross & Roberts Limited ⁸	£1.00 Ordinary	Westpoint Limited (in liquidation) ¹	£1.00 Ordinary
Sbj Benefit Consultants Limited ⁶ (D)	£1.00 Ordinary	Woolf Limited ⁶	£1.00 Ordinary

Section 7: Company financial statements continued

7.3.16 Related undertakings continued

Footnotes

- * Companies directly held by Capita plc.
- ~ Shareholdings owned indirectly by the company and represent 11.32 % of the issued share capital of subsidiary.
- > Shareholdings owned indirectly by the company and represent 16.16 % of the issued share capital of subsidiary.
- < Shareholdings owned indirectly by the company and represent 30.20% of the issued share capital of subsidiary.
- Shareholdings owned indirectly by the company and represent 22.72% of the issued share capital of subsidiary.
- Shareholdings owned indirectly by the company and represent 20.01% of the issued share capital of subsidiary.
- ‡ Shareholdings owned indirectly by the company and represent 49% of the issued share capital of subsidiary.
- ◊ Shareholdings owned indirectly by the company and represent 49.9% of the issued share capital of subsidiary.
- ▲ Shareholdings owned indirectly by the company and represent 50% of the issued share capital of subsidiary.
- Shareholdings owned indirectly by the company and represent 50.1% of the issued share capital of subsidiary.
- ▼ Shareholdings owned indirectly by the company and represent 51% of the issued share capital of subsidiary.
- Shareholdings owned indirectly by the company and represent 48.29% of the issued share capital of subsidiary.
- Shareholdings owned indirectly by the company and represent 75% of the issued share capital of subsidiary.
- Shareholdings owned indirectly by the company and represent 97.3% of the issued share capital of subsidiary.
- Shareholdings owned indirectly by the company and represent 35.90% of the issued share capital of subsidiary.

Registered office address

1. More London Place, London, SE1 2AF, United Kingdom
2. 1004 Bin Hamoodah Building, Khalifa St., PO Box 113 740, Abu Dhabi, United Arab Emirates
3. 145, Morrison Street, Edinburgh, EH3 8AG
4. 2nd Floor, Block 5, Irish Life Centre, Abbey Street Lower, Dublin 1, D01P767
5. 2 Biddulph Cottages Windmill Road, Kemble, Gloucestershire, GL7 6AQ, England
6. 65, Gresham Street, London, EC2V 7NQ, England
7. 33/34 Winckley Square, Preston, Lancashire, PR1 3EL
8. 42/44 Henry Street, Northampton, Northamptonshire, NN1 4BZ, United Kingdom
9. 803, Manning House, 38 Queen's Road Central, Hong Kong
10. 850 New Burton Road, Suite 201, Dover, DE, 19904, United States
11. 8th Floor, Union Castle Building, 55 St Georges Mall, Cape Town, 8001, South Africa
12. Atria One 144 Morrison Street, Edinburgh, EH3 8EX
13. Alameda dos Guaramomis, no 930, 1st Floor, Suite 01, Bairro, Moema, CEP 04076-011, Brazil
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15. C/O Pkf Littlejohn 2nd Floor, 1 Westferry Circus, Canary Wharf, London, E14 4HD, England
16. Centrum Biurowe Lubicz I, ul. Lubicz 23, Krakow, 31-503, Poland, Poland
17. Clinch's House, Lord Street, Douglas, IM99 1RZ, Isle Of Man
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21. Hardturmstrasse 101, Zürich, 8005, Switzerland
22. Hepworth House, Claypit Lane, Leeds, LS2 8AE, United Kingdom
23. Hillview House, 61 Church Road, Newtownabbey, Co Antrim, BT36 7LQ
24. Kelzstraße 21, Saalfeld, 07318, Germany
25. Kommandantenstraße 22, Berlin, 10969, Germany
26. Konstanzerstrasse 17, Tägerwilen, 8274, Switzerland
27. Landmark Virtual Offices, Africa Re Building - Plot 1679, Karimu Kotun Street, Lagos, Victoria Island, Nigeria
28. Level No. 3, Gate Village 7, Dubai International Finance Centre, Dubai, PO BOX 49983, United Arab Emirates
29. Lindred House, 20 Lindred Road, Brierfield, Nelson, Lancashire, BB9 5SR
30. Montague House, Adelaide Road, Dublin 2, DUBLIN 2, Ireland
31. Nassauer Ring 39-41, Krefeld, 47803, Germany
32. Pavilion Building, Ellismuir Way, Tannochside Park, Uddingston, Glasgow, G71 5PW, United Kingdom
33. Plant 06, Gate No. 2, Godrej and Boyce Complex, LBS Marg, Pirojshahnagar, Vikhroli (West), Mumbai, 400 079, India
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38. The Courtyard Shoreham Road, Upper Beeding, Steyning, West Sussex, BN44 3TN, England
39. The Riverway Centre, Riverway, Stafford, ST16 3TH, United Kingdom
40. Themistokli Dervi 3, Julia House, Nicosia, 1066, Cyprus
41. Upper Ground Level, Level 1, level 2, & level 3, Tower B1, Margapatta City SEZ, Margapatta City, Hadapsar, Pune, 4110113 India Maharashtra, 411013, India
42. Unit B, West Cork Technology Park, Clonakilty, Cork, Ireland
43. Wsm, Connect House 133-137 Alexandra Road Wimbledon London SW19 7JY
44. King Abdul Aziz Street, PO Box 7052, Dammam, Saudi Arabia
45. 24 Blythswood Square, Glasgow, G2 4BG, Scotland
46. 31/F, 148 Electric Road, North Point, Hong Kong

Section 7: Company financial statements continued

7.3.16 Related undertakings continued

Listed below are subsidiaries controlled and consolidated by the Group, where the directors have taken the exemption from having an audit of its financial statements for the year ended 31 December 2020. This exemption is taken in accordance with Companies Act Section 479A.

Company name	Company registration	Company name	Company registration
Booking Services International Limited	1833039	Clinical Solutions International Limited	4394761
Brightwave Enterprises Limited	7066783	Cymbio Limited	6462086
Brightwave Holdings Limited	7462788	Debt Solutions (Holdings) Limited	3673307
Brightwave Limited	4092349	Euristix Limited	5420948
BSI Group Limited	3005596	FirstAssist Services Limited	1404718
Capita Gas Registration and Ancillary Services Limited	5078781	Health Analytics Ltd	6947862
Capita HCH Limited	2384029	Marrakech (U.K.) Limited	3785263
Capita IT Services (BSF) Limited	1855936	NYS Corporate Ltd	1324425
Capita Mclarens Limited	SC021024	Octal Business Solutions Limited	5182624
Capita Property and Infrastructure (Structures) Limited	2082106	Pervasive Limited	5679204
Capita Property and Infrastructure International Holdings Limited	3860653	Pervasive Networks Limited	3429318
Capita Southampton Limited	10207906	SDP Regeneration Services 2 Limited	4626963
CCSD Services Limited	5399460	The G2G3 Group Ltd	SC199414
CHKS Limited	2442956	Thirty Three LLP	OC372712
Clinical Solutions Finance Limited	5337592	Woolf Limited	1564535

Section 8: Additional information

In this section

- 8.1 Shareholder information
- 8.2 Alternative performance measures

8.1 Shareholder information

In this section we have provided you with some key information to manage your shareholding in Capita plc.

Useful websites

Capita (www.capita.com/investors)

Our corporate site is our main external communication channel where we showcase our services, solutions and innovations from across the wider Company. It also contains an investor section, where institutional and private shareholders can access the latest announcements, financial and statutory information and reports.

Shareholder portal (www.capitashares.co.uk)

Capita's register of shareholders is maintained by Link Group. Our shareholder portal is a secure online site where you can manage your shareholding quickly and easily. You can manage many aspects, such as viewing your holding, updating contact details, managing dividend payments, requesting to receive shareholder communications by email and registering. To register you will need your investor code, which can be found on your share certificate or dividend confirmation.

e-communications

Help us communicate with you in a greener, more efficient and cost-effective way by switching from postal to email communications, which means that we will notify you by email each time new shareholder communications have been placed on the Capita website.

Registering for e-communications is very straightforward. Go to our shareholder portal www.capitashares.co.uk. Further information about our shareholder portal is below.

Managing your shareholding

We aim to communicate effectively with our shareholders, via our website www.capita.com/investors. Shareholders who have questions relating to the Group's business or wish to receive further hard copies of annual reports should contact Capita's investor relations team on +44 (0) 798 966 5484 or email: IRTeam@capita.com

If you have any queries about your shareholding or dividend payments please contact the Company's registrar, Link Group:

Link Group
10th Floor
Central Square
29 Wellington Street
Leeds LS1 4DL

Email: enquiries@linkgroup.co.uk
Tel: +44 (0) 371 664 0300 (Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom are charged at the applicable international rate.)

Lines are open 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.

Share dealing

A quick and easy share-dealing service is available for existing Capita UK shareholders to either sell or buy Capita plc shares online or by telephone.

For further information go to: <https://ww2.linkgroup.eu/share-deal> or telephone +44 (0) 371 664 0445 (UK call charge is: calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate). Lines are open 8.00am – 4.30pm, Monday to Friday excluding public holidays in England and Wales.

If you have only a small number of shares which are uneconomical to sell, you may wish to donate them to charity free of charge through ShareGift (Registered Charity 1052686). Find out more at www.sharegift.org.uk or by telephoning 020 7930 3737.

Company contact details

Registered office

Capita plc
65 Gresham Street
London EC2V 7NQ
Tel: 020 7799 1525
Registered in England and Wales with registration number: 02081330

Investor Relations

IRTeam@capita.com
Director of Investor Relations – Stuart Morgan

Company Secretariat

secretariat@capita.com
Group Company Secretary – Francesca Todd

Company advisers

Independent auditor

KPMG LLP

Corporate brokers

Barclays Bank plc
Goldman Sachs International Bank

Bankers

Barclays Bank plc
Citicorp North America, Inc
Deutsche Bank AG Filiale Luxemburg
Goldman Sachs International Bank
ING Bank NV, London Branch
Lloyds Bank plc
National Westminster Bank plc
Sumitomo Mitsui Banking Corporation, London Branch

Corporate communications

Powerscourt

Registrars

Link Group

8.2 Alternative performance measures

The Group presents various alternative performance measures (APMs) as the directors believe that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance, position and cash flows. This includes key performance indicators (KPIs) such as return on capital employed, interest cover and gearing ratios by which we monitor our performance.

	2020	2019	Source
Revenue – continuing operations			
Reported revenue	£3,324.8m	£3,678.6m	Line item in income statement
Deduct: business exit	(£143.6m)	(£177.6m)	Line item in note 2.2.1
1. Adjusted revenue	£3,181.2m	£3,501.0m	
Operating profit – continuing operations			
Reported operating (loss)/profit	(£32.0m)	£0.4m	Line item in income statement
Adjusting items in note 2.4	£143.0m	£254.1m	
2. Adjusted operating profit¹	£111.0m	£254.5m	
Adjusted operating profit margin	3.5 %	7.3 %	Adjusted operating profit/adjusted revenue

1. Adjusted operating profit excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular period under review and against which the Group's performance is assessed.

		2020	2019	Source
ROCE				
Adjusted operating profit ¹	a	£111.0m	£254.5m	Adjusted operating profit note 2.4
Adjusted tax rate ²	b	14.9 %	14.7 %	
Tax	c = a x b	£16.5m	£37.4m	Adjusted operating profit multiplied by tax rate
Adjusted operating profit after tax	d = a – c	£94.5m	£217.1m	Adjusted operating profit less tax
Share capital	e	£34.5m	£34.5m	Line information in balance sheet
Share premium	f	£1,143.3m	£1,143.3m	Line information in balance sheet
Employee benefit trust and treasury shares	g	(£11.2m)	(£11.2m)	Line information in balance sheet
Capital redemption reserve	h	£1.8m	£1.8m	Line information in balance sheet
Total net liabilities from financing activities	i	£1,217.5m	£1,475.3m	Line information in note 2.10.3
Total capital employed	j = e+f+g+h+i	£2,385.9m	£2,643.7m	Used as current year capital employed balance in average capital employed 'm'
Prior year capital employed	k	£2,643.7m	£2,919.1m	Used as prior period capital employed balance in average employed 'm'
Average capital employed	l = (j+k)/2	£2,514.8m	£2,781.4m	
3. ROCE	m = d/l	3.8 %	7.8 %	

1. Adjusted operating profit excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular period under review and against which the Group's performance is assessed.

2. The effective tax rate for 31 December 2020 has been calculated after excluding the one-off gains described in note 2.6 that resulted in a 20.9% overall effective tax benefit on adjusted profits for the period.

8.2 Alternative performance measures continued

	Post IFRS 16		Pre IFRS 16		
	2020	2019	2020	2019	
Headline gearing					
Adjusted profit before tax ¹	£65.2m	£197.7m	£71.6m	£211.6m	Line information in note 2.4
Add back: adjusted net finance costs	£46.6m	£56.2m	£22.7m	£30.5m	Line information in note 4.3
Add back: adjusted depreciation and impairment on property, plant and equipment	£52.7m	£55.7m	£52.7m	£55.7m	
Add back: depreciation on right of use assets	£88.2m	£99.2m	£—m	£—m	Line information in note 3.5
Add back: adjusted amortisation and impairment on intangibles	£41.1m	£30.0m	£41.1m	£30.0m	
Remove: Share of results in associates and investment gains	(£0.8m)	£0.6m	(£0.8m)	£0.6m	Line information in income statement
Adjusted EBITDA	a £293.0m	£439.4m	£187.3m	£328.4m	
Impact of ESS business exit on adjusted EBITDA	£53.0m	£53.4m	£52.8m	£53.2m	
Adjusted EBITDA including ESS exit	b £346.0m	£492.8m	£240.1m	£381.6m	
Headline net debt	£1,077.1m	£1,353.2m	£1,077.1m	£1,353.2m	Line information in note 4.1.1
Remove: IFRS 16 impact	£—m	£—m	£508.1m	£562.6m	
Net debt	c £1,077.1m	£1,353.2m	£569.0m	£790.6m	Net debt excluding the impact of IFRS 16
4. Headline net debt to adjusted EBITDA ratio including ESS business exit	c/b	3.1 x	2.7x	2.4 x	2.1x

1. Adjusted operating profit and adjusted profit before tax excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular period under review and against which the Group's performance is assessed. See note 2.4.

8.2 Alternative performance measures continued

		2020	2019	Source
Covenants³				
Adjusted operating profit ¹		£111.0m	£317.8m	Line information in note 2.4
Add: business exit – trading		£51.0m	(£16.7m)	Line information in note 2.8
Add: share of earnings in associates		(£0.8m)	(£0.6m)	
Deduct: non-controlling interest		(£12.6m)	(£18.1m)	Adjusted EBIT attributable to NCI
Add back: share-based payment charge		£6.4m	£3.0m	Line information in note 2.10.1
Add back: non-current service pension charge		£6.9m	£4.2m	Line information in note 5.2
Add back: amortisation on purchased intangibles		£42.3m	£31.1m	Line information in note 3.3
Adjusted EBITA	a1	£204.2m	£320.7m	
Less: IFRS 16 impact		(£17.5m)	(£11.7m)	
Adjusted EBITA (excluding IFRS 16)	a2	£186.7m	£309.0m	
Adjusted EBITA		£204.2m	£320.7m	Line item above
Deduct: business exit – trading sold		£2.5m	£—m	Trading (profit)/loss for businesses sold
Add back: adjusted depreciation and impairment on property, plant & equipment and right of use assets		£140.9m	£174.2m	See notes 2.10.1, 3.2, 3.5
Covenant calculation – adjusted EBITDA	b1	£347.6m	£494.9m	
Less: IFRS 16 impact		(£105.7m)	(£110.9m)	
Covenant calculation – adjusted EBITDA (excluding IFRS 16)	b2	£241.9m	£384.0m	
Adjusted interest charge		(£46.6m)	(£56.2m)	Line information in note 4.3
Interest cost attributable to pensions		£3.2m	£4.4m	Line information in note 4.3
Cash flow hedges recycled to the income statement		(£4.5m)	(£2.6m)	Line information in note 4.3
Borrowing costs	c1	(£47.9m)	(£54.4m)	
Less: IFRS 16 impact		£23.9m	£25.7m	
Borrowing costs (excluding IFRS 16)	c2	(£24.0m)	(£28.7m)	
5.1 Interest cover (US PP covenant)	a1/c2	8.5 x	11.2x	Adjusted EBITA/Borrowing costs with adjusted EBITDA including the impact of IFRS 16 and the borrowing costs excluding the impact of IFRS 16
5.2 Interest cover (other financing agreements)	a2/c2	7.8 x	10.8 x	Adjusted EBITA/Borrowing costs with both variables excluding IFRS 16
Net debt		£1,077.1m	£1,353.2m	Line information in note 2.10.3
Lease liabilities included within disposal group liabilities held for sale		(£4.6m)	£—m	Line information in note 4.4.1
Cash, net of overdrafts, included in disposal group assets and liabilities held for sale		£12.9m	£—m	Line information in note 4.5.4
Restricted cash ²		£34.5m	£42.1m	Cash that may not be applied against net debt for covenant calculation purposes
Less: IFRS 16 impact		(£503.5m)	(£562.6m)	
Adjusted net debt (excluding IFRS 16)	d1	£616.4m	£832.7m	
6.1 Adjusted net debt to post IFRS 16 adjusted EBITDA ratio (US PP covenant)	d1/b1	1.8 x	1.7x	Adjusted net debt/adjusted EBITDA with adjusted net debt excluding the impact of IFRS 16 and adjusted EBITDA including the impact of IFRS 16
6.2 Adjusted net debt to adjusted EBITDA ratio [KPI] (other financing agreements)	d1/b2	2.5 x	2.2 x	Adjusted net debt/adjusted EBITDA with both variables excluding IFRS 16

1. Adjusted operating profit excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular period under review and against which the Group's performance is assessed.

2. Restricted cash includes cash required to be held under FCA regulations, cash held in foreign bank accounts and cash represented by non-controlling interests and joint ventures.

3. To enable the user of the financial statements to understand the covenant information submitted to the Group's external lenders, the 31 December 2019 comparatives have not been restated.

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