Company Registration No. 02183240 (England and Wales)

TRUSTMARQUE SOLUTIONS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

TRUSTMARQUE SOLUTIONS LIMITED

COMPANY INFORMATION

Directors	S M Frewing N S Dale S N Taylor on behalf of Capita Corporate Director Limited
Secretary	Capita Group Secretary Limited
Company number	02183240
Registered office	65 Gresham Street London United Kingdom EC2V 7NQ
Auditor	KPMG LLP 15 Canada Square London E14 5GL
Banker	Barclays Bank Global Corporates Level 11 1 Churchill Place London E14 5HP

TRUSTMARQUE SOLUTIONS LIMITED

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TRUSTMARQUE SOLUTIONS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

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

Review of the business

Trustmarque Solutions Limited ("the Company") is a wholly owned subsidiary (indirectly held) of Capita plc. Capita plc along with its subsidiaries are hereafter referred as "the Group". The Company operates within the Group's Technology Solutions division.

The principal activity of the Company is that of providing IT solutions and services. There have not been any significant changes in the Company's principal activities in the year under review. The Directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

As shown in the Company's Income statement on page 8, the Company's revenue for the year has increased from £43,873k in 2018 to £66,437k in 2019 owing to sales mix. The Company is reporting an operating profit of £6,869k in 2019 as against an operating profit of £6,034k in 2018. Restructuring activities and focus on more margin rich sales lines which the Company generates through its software, hardware, and services business, and markets where it primarily acts as an agent has resulted in a full year benefit in 2019.We expect the trend to continue in 2020 as the Company continues to execute on its strategic plan.

The balance sheet on pages 9 & 10 of the financial statements shows the Company's financial position at the year end. The net assets of the Company have increased from £5,223k in 2018 to £10,507k in 2019 . Details of amounts owed by/to its parent company and fellow subsidiary undertakings are shown in notes 13, 15 and 22 of the financial statements.

The Company adopted IFRS 16 during the year which sets out the principles for the recognition, measurement, presentation and disclosure of leases. The company has applied IFRS 16 using modified retrospective approach, the effect of which is explained in note no. 6, 10, 12, 18 & 26.

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

Principal risks and uncertainties

The Company is subject to various risks and uncertainties during the ordinary course of its business, many of which result from factors outside of its control. The Company's risk management framework provides reasonable (but cannot provide absolute) assurance that significant risks are identified and addressed. An active risk management process identifies, assesses, mitigates and reports on strategic, financial, operational and compliance risk.

The principal themes of risk for the Company are:

- Strategic: changes in economic and market conditions such as contract pricing and competition.
- Financial: significant failures in internal systems of control and lack of corporate stability. As a key subsidiary, the Company is reliant on the continued support and viability of Capita plc.
- Operational: including recruitment and retention of staff, maintenance of reputation and strong supplier and customer relationships, operational IT risk, and failures in information security controls.
- Compliance: non-compliance with laws and regulations. The Company must comply with an extensive range of requirements that govern and regulate its business.

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

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

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

Section 172 statement

The Company forms part of the Technology Solutions division of the Group and Capita plc's section 172 statement applies to both the Division and the Company to the extent it relates to the Company's activities. Common policies and practices are applied throughout the Group via divisional management teams and a common governance framework. The following disclosure describes how the Directors have had regard to the matters set out in section 172(1a) to (f) and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

Further details of the Group approach to each stakeholder are provided in Capita plc's section 172 statement which can be found on page 39 of Capita plc's Annual Report.

Stakeholder	Strategic issue	Engagement	Outcome	Principal decision*
Our people	Workforce engagement; organisational culture; employee net promoter score	People surveys; regular all-employee communications	Established managers' commitments; research into future of work	Application of standard Capita plc policies and procedures; refreshed purpose, values and behaviours
Clients and customers	Net promoter score; quality and sustainability	Client survey; regular meetings with key clients and customers	Receipt of regular detailed feedback summaries; application of standard Capita plc policies and procedures which includes the establishment of Group contract review committee to ensure delivery against contractual obligations	Collaboration with clients and customers on key contracts
Suppliers and partners	Payment practices	Capita plc holds regular meetings with Federation of Small Businesses; account management meetings with large suppliers	Application of Group payment policies including supplier charter; signatory to UK Prompt Payment Code (target 95% of supplier payments within 60 days)	
Society	Operating responsibly	Meetings, memberships and surveys of non-governmental organisations and charities	Group established responsible business strategy and responsible business committee; approval of third-party transaction guidelines; commitment to real living wage in 2020; enhanced family pay policies; Fair Tax Mark accreditation	Approval of new code of conduct

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

On behalf of the Board

S N Taylor on behalf of Capita Corporate Director Limited

Director

30 September 2020

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

Results and dividends

The results for the year are set out on page 8.

No interim or final dividend was declared or paid during the year (2018: £nil).

Directors

The following Directors have held office during the year and up to the date of signature of financial statements :

S M Frewing
N S Dale
S N Taylor on behalf of Capita Corporate Director Limited

Political donations

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

Disabled persons

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

Employee Involvement

The Company participates in the Group's policies and practices to keep employees informed on matters relevant to them as employees through regular meetings, newsletters, email, notices and intranet communications. These communication initiatives enable employees to share information within and between business units and employees are encouraged, through an open door policy, to discuss with management matters of interest to the employee and subjects affecting day to day operations of the Company. The Group's share incentive plan is designed to promote employee share ownership and to give employees the opportunity to participate in the future success of the Group.

Environment matters

Capita plc recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Group's activities. The Company operates in accordance with Group policies, which are described in the Group's annual report which does not form part of this report. Initiatives designed to minimise the Company's impact on the environment include safe disposal of waste, recycling and reducing energy consumption.

Auditor

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

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the Financial statements

The Directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Statement of disclosure to auditor

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the Company's auditor is unaware. Having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps he/she might reasonably be expected to take as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Qualifying third party indemnity provisions

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

On behalf of the Board

S N Taylor on behalf of Capita Corporate Director Limited

Director

30 September 2020

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TRUSTMARQUE SOLUTIONS LIMITED

Opinion

We have audited the financial statements of Trustmarque Solutions Limited ("the company") for the year ended 31 December 2019 which comprise the Income Statement, Balance Sheet, and Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework;* and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

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

Our opinion is not modified in respect of this matter.

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

RMartin

Ross Martin (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
30 September 2020

TRUSTMARQUE SOLUTIONS LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £000	2018 £000
Revenue	3	66,437	43,873
Cost of sales		(52,383)	(30,838)
Gross profit		**14,054**	**13,035**
Administrative expenses		(7,194)	(7,001)
Other operating income		9	-
Operating profit	4	**6,869**	**6,034**
Net finance cost	5	(5)	(1)
Profit before tax		**6,864**	**6,033**
Income tax (charge)/credit	7	(1,533)	1,893
Total comprehensive income for the year		**5,331**	**7,926**

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

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

The notes on page 12 to 39 form an integral part of financial statements.

TRUSTMARQUE SOLUTIONS LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	2019 £000	2018 £000
Non-current assets			
Property, plant and equipment	**8**	1,590	2,082
Intangible assets	**9**	1,035	496
Right of use assets	**10**	129	-
Finance lease receivable	**12**	136	-
Trade and other receivables	**13**	24	38
Deferred tax	**7**	2,322	1,278
		5,236	**3,894**
Current assets			
Finance lease receivable	**12**	132	-
Trade and other receivables	**13**	71,744	67,122
Income tax receivable		-	948
Cash	**14**	526	-
		72,402	**68,070**
Total assets		**77,638**	**71,964**
Current liabilities			
Trade and other payables	**15**	49,821	58,567
Deferred income	**16**	3,849	5,408
Financial liabilities	**17**	8,987	1,246
Lease liabilities	**18**	289	-
Provisions	**19**	1,021	1,520
Income tax payable		3,020	-
		66,987	**66,741**
Non-current liabilities			
Lease liability	**18**	144	-
Total liabilities		**67,131**	**66,741**
Net assets		**10,507**	**5,223**

TRUSTMARQUE SOLUTIONS LIMITED

BALANCE SHEET (CONTINUED)

AS AT 31 DECEMBER 2019

	Notes	2019 £000	2018 £000
Capital and reserves			
Issued share capital	**20**	67	67
Share premium		9,200	9,200
Retained earnings/(deficit)		1,240	(4,044)
Total equity		**10,507**	**5,223**

The notes on pages 12 to 39 form and integral part of financial statements.

Approved by Board and authorised for issue on 30 September 2020

S N Taylor on behalf of Capita Corporate Director Limited
Director

Company Registration No. 02183240

TRUSTMARQUE SOLUTIONS LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Share premium	Retained (deficit)/ earnings	Total equity
	£000	£000	£000	£000
At 1 January 2018	67	-	(11,970)	(11,903)
Total comprehensive income for the year	-	-	7,926	7,926
Issue of share capital	-*	9,200	-	9,200
Contribution in respect of share based payment charge	-	-	2	2
Settlement of share based payment charged by intercompany	-	-	(2)	(2)
At 31 December 2018	**67**	**9,200**	**(4,044)**	**5,223**
Effect of change in accounting policy IFRS 16	-	-	(47)	(47)
As on 1 Jan 2019	**67**	**9,200**	**(4,091)**	**5,176**
Total comprehensive income for the year	-	-	5,331	5,331
At 31 December 2019	**67**	**9,200**	**1,240**	**10,507**

a) Share capital:
The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising 1,772,055 ordinary shares.

*During 2018,the Company issued 1 ordinary share to its holding company at a premium of £9,200k.

b) Retained (deficit)/earnings:
The balance relates to accumulated losses/profits of the Company. The Company adopted IFRS 16 using modified retrospective approach, the impact in retained earnings is £47k.

The notes on pages 12 to 39 form an integral part of these financial statements.

1 Accounting policies

1.1 Basis of preparation

Trustmarque Solutions Limited is a company incorporated and domiciled in the United Kingdom.

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

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

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

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

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

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

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

- provision of administrative support services and should the Group be unable to deliver these services, the Company would have difficulty in continuing to trade;
- participation in the Group's notional cash pooling arrangements, of which £5,670,338 was overdrawn at 31 August 2020. In the event of a default by the Group, the Company may not be able to access this facility; and
- recovery of receivables of £31,055,661 from fellow Group undertakings as of 31 August 2020. If these receivables are not able to be recovered when forecast by the Company, then the Company may have difficulty in continuing to trade.

1 Accounting policies **(Continued)**

1.1 Basis of preparation (continued)

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

Ultimate parent undertaking – Capita plc

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

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

Material uncertainty

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

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

Conclusion

Although the Company has a reliance on the Group detailed above, even in a severe but plausible downside for both the Company and the Group, the Directors are confident the Company will continue to have adequate financial resources to realise its assets and discharge its liabilities as they fall due over the period to 31 December 2021.

Consequently, the annual report and financial statements have been prepared on the going concern basis and do not include any adjustments which would be required if the going concern basis of preparation were to be deemed inappropriate.

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

1 Accounting policies **(Continued)**

1.2 Compliance with accounting standards

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

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

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

- A cash flow statement and related notes;
- Comparative period reconciliations for share capital, property, plant and equipment and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Certain disclosures regarding IFRS 15 Revenue from Contracts with Customers;
- Disclosures in respect of the compensation of key management personnel and
- Certain disclosures regarding IFRS 16 Leases.

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

- Certain disclosures required by IFRS 2 Share Based Payments in respect of Group settled share based payments;
- Certain disclosures required by IAS 36 Impairments of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company, in the current and prior periods including the comparative period reconciliation for goodwill; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

1 Accounting policies **(Continued)**

1.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of IFRS 16 Leases.

Initial adoption of IFRS 16 Leases

IFRS 16 (effective 1 January 2019) replaces IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Company applied IFRS 16 using the modified retrospective approach, under which the Company has measured the right-of-use assets at the value of lease liability. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported under IAS 17 and related interpretations. The updated policy on IFRS 16 is set out in note 1.8.

For a selection of material long-term leases, the Company has applied the modified retrospective method one approach, as if IFRS 16 had always been applied using the incremental borrowing rate at the date of initial application. Under this method, the difference between the right-of-use asset and lease liability was recorded in retained earnings.

IFRIC 23 Uncertainty over Income Tax Treatments

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

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

New amendments or interpretation	**Effective date**
Prepayment features with negative compensation (Amendments to IFRS 9)	1 January 2019
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1 January 2019
Plan amendment, curtailment or settlement (Amendments to IAS 19)	1 January 2019
Annual improvements to IFRS Standards 2015-2017 cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)	1 January 2019

1 Accounting policies **(Continued)**

1.4 Revenue recognition

Revenue is earned within the United Kingdom.

The Company operates in service sector rendering IT solutions and services and therefore uses 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.

In determining the amount of revenue and profits to record, and related balance sheet items (such as contract fulfilment assets, capitalisation of costs to obtain a contract, trade receivables, accrued income and deferred income) to recognise in the period, management is required to form a number of key judgements and assumptions. This includes an assessment of the costs the Company incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised. These judgements are inherently subjective and may cover future events such as the achievement of contractual milestones, performance KPIs and planned cost savings. In addition, for certain contracts, key assumptions are made concerning contract extensions and amendments, as well as opportunities to use the contract developed systems and technologies on other similar projects.

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

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.

Transactional (Point in time) contracts

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

The nature 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 delivery of professional services.

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

1 Accounting policies **(Continued)**

1.4 Revenue recognition (continued)

Principal versus agent

The Company has arrangements with some of its customers whereby it needs to determine if it acts as a principal or an agent as more than one party is involved in providing the goods and services to the customer. The Company acts as a principal if it controls a promised good or service before transferring that good or service to the customer. The Company 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 Company has in establishing the price for the specified good or service, whether the Company has inventory risk and whether the Company is primarily responsible for fulfilling the promise to deliver the service or good.

This assessment of control requires judgement in particular in relation to certain service contracts. An example, is the provision of certain recruitment and learning services where the Company 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 Company is acting as a principal, revenue is recorded on a gross basis. Where the Company is acting as an agent, revenue is recorded at a net amount reflecting the margin earned.

Licences

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

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

The Company considers for each contract that includes a separate licence performance obligation all the facts and circumstances in determining whether the licence revenue is recognised over time or at a point in time from the go live date of the licence.

Contract related assets and liabilities

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

Property, plant and equipment
Intangible assets
Contract fulfilment assets
Contract assets derived from costs to obtain a contract
Trade receivables
Accrued income
Deferred income

1 Accounting policies **(Continued)**

1.4 Revenue recognition (continued)

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

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

Contract fulfilment assets

If those other standards preclude capitalisation of a particular cost, then an asset is not recognised under IFRS 15.
If other standards are not applicable to contract fulfilment costs, the Company applies the following criteria which, if met, result in capitalisation:
(i) the costs directly relate to a contract or to a specifically identifiable anticipated contract; (ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) the costs are expected to be recovered.

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

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

Capitalisation of costs to obtain a contract

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

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

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

1 Accounting policies **(Continued)**

1.4 Revenue recognition (continued)

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

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

Deferred and accrued income

The Company's customer contracts include a diverse range of payment schedules dependent upon the nature and type of goods and services being provided. The Company often agrees payment schedules at the inception of long term contracts under which it receives payments throughout the term of the contracts. These payment schedules may 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.

Where payments made are greater than the revenue recognised at the period end date, the Company recognises a deferred income contract liability for this difference. Where payments made are less than the revenue recognised at the period end date, the Company recognises an accrued income contract asset for this difference.

1.5 Goodwill

Goodwill is stated at cost less accumulated impairment losses. It is not amortised but is tested annually for impairment which is in accordance with FRS 101.A2.8. This is not in accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit for the period and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the financial statements of this departure.

1.6 Other Intangibles

Intangibles are valued at cost less accumulated amortisation. Intangible assets comprise computer software. Such assets are defined as having finite useful lives and the costs are amortised on a straight line basis over their estimated useful lives of 3 years. Intangible assets are stated at cost less amortisation and are reviewed for impairment whenever there is an indication that the carrying value may be impaired.

In the case of capitalised software development costs, research expenditure is written off to the statement of profit and loss in the period in which it is incurred. Development expenditure is written off in the same way unless and until the Company is satisfied as to the technical, commercial and financial viability of individual projects. In these cases, the development expenditure is capitalised and amortised over the period during which the Company is expected to benefit.

1 Accounting policies **(Continued)**

1.7 Property, plant and equipment

Property, plant and equipment other than freehold land are stated at cost less depreciation. Freehold land is not depreciated. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Leasehold land and buildings	Over the period of lease
Furniture, fittings and equipment	5 years
Computer equipment	3 years

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstance indicate that the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

1 Accounting policies **(Continued)**

1.8 Leases

The Company leases land and buildings. The determination whether an arrangement is, or contains, a lease is based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The following sets out the Company's lease accounting policy for all leases with the exception of leases with low value and term of 12 months or less which we have taken the exemption in the standard. These are expensed to the income statement. At the inception of the lease, the Company recognises a right-of-use asset and a lease liability. A lease liability is capitalised in the balance sheet at cost, which comprises the present value of minimum lease payments determined at the inception of the lease. A right-of-use asset of equivalent value is also recognised. Right-of-use assets are depreciated using the straight-line method over the shorter of estimated life or the lease term. Depreciation is included within the line item administrative expenses in the income statement.

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

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

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

The lease payments comprise fixed payments, including in-substance fixed payments such as service charges and variable lease payments that depend on an index or a rate, initially measured using the minimum index or rate at inception date. The payments also include any lease incentives and any penalty payments for terminating the lease, if the lease term reflects the lessee exercising that option. Lease liability is adjusted for any prepayment. The lease term determined comprises the non-cancellable period of the lease contract. Periods covered by an option to extend the lease are included if the Company has reasonable certainty that the option will be exercised and periods covered by the option to terminate are included if it is reasonably certain that this will not be exercised.

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

For a selection of material long-term leases, the Company has applied the modified retrospective method one approach, as if IFRS 16 had always been applied using the incremental borrowing rate at the date of initial application. Under this method, the difference between the right-of-use asset and lease liability was recorded in retained earnings.

The Company as a lessor

The Company acts as an intermediate lessor of property assets. When the Company 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 Company makes an overall assessment of whether the lease transfers to the lessee substantially 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. When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. The Company recognises lessor payments under operating leases as income on a straight-line basis over the lease term. The Company accounts for finance leases as finance lease receivables, using the effective interest rate method.

1 Accounting policies **(Continued)**

1.9 Taxation

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill;
- except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

1 Accounting policies **(Continued)**

1.10 Share based payments

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

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

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

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

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

1.11 Group accounts

The financial statements present information about the Company as an individual undertaking and not about its Group. The Company has not prepared Group accounts as it is fully exempt from the requirement to do so by section 400 of the Companies Act 2006 as it is a subsidiary undertaking of Capita plc, a company incorporated in England and Wales, and is included in the consolidated accounts of that company. The Company has an investment in one of the Group's dormant entities.

1 Accounting policies **(Continued)**

1.12 Financial Instruments

Investments and other financial assets

Classification

The Company classifies its financial assets in the following measurement categories:
- those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- those to be measured at amortised cost.

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

Recognition and derecognition

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

Measurement

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

Impairment

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

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

Trade and other receivables

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

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of 3 months or less. Bank overdrafts are shown within current liabilities.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at their fair value less any directly attributable transaction costs. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement .

1 Accounting policies **(Continued)**

1.13 Pensions

The Company operates defined contribution pension schemes and contributions are charged to the Income Statement in the year in which they are due. These schemes are funded and the payment of contributions is made to separately administered trust funds. The assets of these schemes are held separately from the Company. The Company remits monthly pension contributions to Capita Business Services Limited, a fellow subsidiary undertaking, which pays the Group liability centrally. Any unpaid contributions at the year end have been accrued in the accounts of that Company.

1.14 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost. The Company provides, on a discounted basis, for the future rent expense and related cost of leasehold property (net of estimated sub-lease income) where the space is vacant or currently not planned to be used for ongoing operations.

1.15 Foreign exchange

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to Income Statement.

2 Significant accounting judgements, estimates and assumptions

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

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the provisions, revenue and profit recognition on certain contractual arrangements.The measurement of provisions reflects management's assessment of the probable outflow of economic benefits resulting from an existing obligation.

3 Revenue

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

	2019	**2018**
	£000	**£000**
Turnover (Invoiced revenue)	291,265	237,644
IFRS 15 adjustments relating to transactions on agent basis	(224,828)	(193,771)
Reported revenue	**66,437**	**43,873**

4 Operating profit

	2019	2018
	£000	£000
Operating profit for the year is stated after (crediting)/charging:		
Net foreign exchange gains	(201)	(9)
Depreciation of property, plant and equipment	1,369	1,312
Amortisation of intangible assets	14	14
Operating lease rentals - other assets	-	167
Operating lease rentals - plant and machinery	-	343
Short term lease rentals IFRS 16	305	-

Audit fees are borne by the ultimate parent undertaking, Capita plc. The audit fee for the current period was £2,884 (2018: £2,800). The Company has taken advantage of the exemption provided by regulations 6(2)(b) of The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 not to provide information in respect of fees for other (non-audit) services as this information is required to be given in the Company accounts of the ultimate parent undertaking, which it is required to prepare in accordance with the Companies Act 2006.

5 Net finance costs

	2019	2018
	£000	£000
Interest on lease receivables	(11)	-
Interest on lease liabilities	16	1
	5	**1**

6 Leases under IFRS 16

	2019	2018
	£000	£000
Interest expense on lease liabilities	16	-
Depreciation charged on right of use asset	115	
Interest on finance lease receivable	(11)	-
Expenses related to short -term leases	305	-

7 Income tax

The major components of income tax charge/(credit) for the years ended 31 December 2019 and 2018 are:

	2019	2018
	£000	£000
Current tax		
UK corporation tax	1,485	484
Adjustments in respect of prior periods	1,062	(2,215)
	2,547	**(1,731)**
Deferred tax		
Origination and reversal of temporary differences	(158)	511
Adjustments in respect of prior periods	(856)	(673)
	(1,014)	**(162)**
Total tax charge/(credit) reported in the income statement	**1,533**	**(1,893)**

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

	2019	2018
	£000	£000
Profit before taxation	**6,864**	**6,033**
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	**1,305**	**1,147**
Adjustments in respect of current income tax of prior periods	1,062	(2,215)
Adjustments in respect of deferred income tax of prior periods	(856)	(673)
Expenses not deductible for tax purposes	3	2
Non taxable income	-	(94)
Impact of changes in statutory tax rates	19	(60)
Total adjustments	**228**	**(3,040)**
Total tax charge/(credit) reported in the income statement	**1,533**	**(1,893)**

7 Income tax **(Continued)**

	Balance sheet		Income statement	
	2019	**2018**	**2019**	**2018**
	£000	**£000**	**£000**	**£000**
Deferred tax (asset)/liabilities				
Accelerated/(decelerated) capital allowances	(1,625)	(1,164)	(441)	(195)
Other short term timing differences	(206)	(1)	(195)	157
Contract fulfilment asset	-	-	-	(11)
Tax losses	(491)	(113)	(378)	(113)
Net deferred tax (asset)/liability	**(2,322)**	**(1,278)**		
Deferred income tax expense/(credit)			**(1,014)**	**(162)**
Deferred tax impact on account of:				
IFRS 16			(10)	
Transfer from other group companies			(20)	
Total deferred tax movement in the period			**(1,044)**	**-**

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset/(liability) as at 31 December 2019 has been calculated based on this rate. On the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020.

This will have a consequential effect on the company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax asset would have increased by £273k.

8 Property, plant and equipment

	Leasehold land and buildings	Furniture, fittings and equipments	Computer equipments	Total
	£000	**£000**	**£000**	**£000**
Cost				
At 1 January 2019	499	314	4,227	5,040
Additions	-	-	759	759
Intragroup transfer	-	-	3	3
Disposals	-	-	-	-
Asset retirement	(288)	(210)	(1,015)	(1,513)
At 31 December 2019	**211**	**104**	**3,974**	**4,289**
Depreciation and impairment				
At 1 January 2019	374	254	2,330	2,958
Depreciation	50	35	1,167	1,252
Intragroup transfer	-	-	2	2
Asset retirement	(288)	(210)	(1,015)	(1,513)
At 31 December 2019	**136**	**79**	**2,484**	**2,699**
Net book value				
At 31 December 2018	**125**	**60**	**1,897**	**2,082**
At 31 December 2019	**75**	**25**	**1,490**	**1,590**

9 Intangible fixed assets

	Purchased Software	Goodwill	Total
	£000	**£000**	**£000**
Cost			
At 1 January 2019	12	492	504
Additions*	553	-	553
Intragroup transfer**	101	-	101
Asset retirement	(3)	-	(3)
At 31 December 2019	**663**	**492**	**1,155**
Amortisation and impairment			
At 1 January 2019	8	-	8
Amortisation	14	-	14
Intragroup transfer*	70	-	70
Impairment*	31	-	31
Asset retirement	(3)	-	(3)
At 31 December 2019	**120**	**-**	**120**
Net book value			
At 31 December 2018	**4**	**492**	**496**
At 31 December 2019	**543**	**492**	**1,035**

*Additions represents Capital Work in Progress incurred towards development of computer software.

** Intragroup asset transfer refers to the software that was recorded in the Company's books on account of a Business Transfer . However, on further assessment it was determined that the part of the asset is no longer in use and hence the same is written off.

10 Right of Use Assets

Property	
Net Book Value	**2019**
	£000
At 1 January	-
Impact of IFRS 16 (Refer note 26)	99
Additions during the year	145
Depreciation charged during the year	(115)
At 31 December	**129**

11 Investment in subsidiaries

Details of the Company's direct subsidiaries at 31 December 2019 are as follows:

Company	Registered office	Country of registration or incorporation	Ordinary shares held (%)	Nature of business
Opin Systems Limited	Pavilion Building, Ellismuir Way, Tannochside Park, Uddingston, Glasgow, G71, 5PW	England & Wales	100.00	Dormant

12 Financial lease receivable

Current	2019 £000	2018 £000
Lease receivable	132	-
	132	**-**

	2019 £000	2018 £000
Non-current		
Lease receivable	136	-
	136	**-**

13 Trade and other receivables

Current	2019 £000	2018 £000
Trade receivables	35,313	34,858
Other receivables	15	192
Accrued income	2,847	2,926
Prepayments	2,009	3,136
Contract fulfilment assets	52	155
Amounts due from parent and fellow subsidiary undertaking	31,508	25,855
	71,744	**67,122**

13 Trade and other receivables **(Continued)**

Non-current	2019 £000	2018 £000
Other receivables	15	-
Prepayments	9	38
	24	**38**

14 Cash

	2019 £000	2018 £000
Cash at bank and in hand	526	-
	526	**-**

15 Trade and other payables

Current	2019 £000	2018 £000
Trade payables	42,836	44,177
Other payables	8	42
Other taxes and social security	4,070	7,834
Accruals	2,486	4,205
Amounts due to parent and fellow subsidiary undertaking	421	2,309
	49,821	**58,567**

16 Deferred income

	2019	2018
	£000	£000
Current		
Deferred income	3,849	5,408
	3,849	**5,408**

17 Financial liabilities

	2019	2018
	£000	£000
Current		
Overdrafts	8,987	1,246
	8,987	**1,246**

18 Lease liability

	2019	2018
	£000	£000
Current		
Lease liability	289	-
	289	-

	2019	2018
	£000	£000
Non Current		
Lease liability	144	-
	144	-

18 Lease liability **(Continued)**

In calculating the lease liability to be recognised on adoption, the Company used an incremental borrowing rate at 1 January 2019 of 3.31%.

	2019
	£000
Operating lease commitments at 31 December 2018 disclosed under IAS 17	680
Discounted using the incremental borrowing rate at 1 Jan 2019	(26)
Lease liabilities recognised as at 1 January 2019	654
of which	
Current	321
Non-Current	333

	2019
Maturity analysis - Contractual undiscounted cash flows	**£000**
Less than one year	298
One to two Years	144
More than two Years	-
Total undiscounted lease liabilities at 31 December	**442**

19 Provisions

Current	**Restructuring provision**	**Property provision**	**Others**	**Total**
	£000	**£000**	**£000**	**£000**
As at 1 January 2019	733	691	96	1,520
Provided in the year	-	145	567	712
Released during the year	(627)	-	-	(627)
IFRS 16 utilisation	(106)	-	-	(106)
Utilisation		(300)	(178)	(478)
As at 31 December 2019	**-**	**536**	**485**	**1,021**

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

Restructuring provision reflects the onerous nature of property lease provisions (net of any sub-letting opportunity) on a discounted basis, where due to the reduced requirement for space due to the redundancy programme there is additional surplus capacity. The provision, due to the tail of the property lease run-offs, is expected to unwind within 1 year.

Out of the 733k pertaining to restructuring provision, 106k was released on adoption of IFRS 16 and balance 627k was released through P&L during the year.

Other provision primarily consists of the provisions pertaining to software licenses . The provision amount is based on the estimation on the purchase of software licences to replace those that were at the end of life . The provision will be completely utilised in the next year.

20 Issued share capital

Ordinary share capital	**2019 Numbers ('000)**	**2018 Numbers ('000)**	**2019 £000**	**2018 £000**
Allotted, called up and fully paid				
67,222 Oridnary shares of £1 each	67	67	67	67
At 31 December 2019	**67**	**67**	**67**	**67**

Share capital
The nominal proceeds on issue of the Company's equity share capital, comprising £1 ordinary shares.

21 Employees

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

	2019 Number	**2018 Number**
Sales and operations	349	344
Administration	27	39
	376	**383**

21 Employees **(Continued)**

Their aggregate remuneration comprised:

Employee costs	**2019 £000**	**2018 £000**
Wages and salaries	21,265	19,985
Social security costs	2,712	2,502
Pension costs	1,478	1,239
Shared based payments (charged by intercompany)	-	2
	25,455	**23,728**

22 Related party transactions

Related party transactions

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

Nature of Transaction	Name of Company	Year	
Purchase of Goods/ Services			£'000
	Fera Science Limited	31 December,2019	565
		31 December,2018	69
	Axelos Limited	31 December,2019	44
		31 December,2018	-
	Entrust Support Services Limited	31 December,2019	13
		31 December,2018	-
	Total		
		31 December,2019	**622**
		31 December,2018	**69**
Sales of Goods			
	Fera Science Limited	31 December,2019	1,034
		31 December,2018	-
	Axelos Limited	31 December,2019	179
		31 December,2018	4
	Urban Vision Partnership Limited	31 December,2019	5
		31 December,2018	-
	Entrust Support Services Limited	31 December,2019	24
		31 December,2018	-
	Capita Southampton Limited	31 December,2019	77
		31 December,2018	-
	Total		
		31 December,2019	**1,319**
		31 December,2018	**4**

22 Related party transactions (Continued)

Closing balance of Related Parties

Nature of Transaction	Name of Company	Year	
Trade Receivables			£'000
	Fera Science Limited	31 December,2019	176
		31 December,2018	-
	Axelos Limited	31 December,2019	54
		31 December,2018	4
	Total		
		31 December,2019	**230**
		31 December,2018	**4**

23 Directors' remuneration

No Directors were paid by the Company. The Directors have not provided qualifying services to the Company and are paid by other companies within the Capita Group. Such remuneration has not been allocated to the Company.

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

24 Pensions

The pension charge for the defined contribution pension schemes for the year is £1,477,954 (2018: £1,238,687).

25 Controlling party

The Company's immediate parent undertaking is Capita Holdings Limited, a company incorporated in England and Wales. The Company's ultimate parent undertaking is Capita plc, a company incorporated in England and Wales. The accounts of Capita plc are available from the registered office at 65 Gresham Street, London,United Kingdom, EC2V 7NQ

26 Post balance sheet event

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

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

27 Reconciliation of opening balance as at 1 January 2019

The following is a reconciliation of the extract of the balance sheet line items from IAS 17 to IFRS 16 at 1 January 2019:

	Carrying amount - 31 December 2018	Impact on Adoption of IFRS 16	IFRS 16 carrying amount as at 1 January 2019
	£000	£000	£000
Assets			
Right-of-use assets (A)	-	99	99
Finance Lease receivable - non current (B)	-	268	268
Finance Lease receivable - current (B)	-	128	128
Prepayments (A)	3,136	(47)	3,089
Deferred tax asset (C)	1,278	10	1,288
Liabilities			
Lease liabilities -			
Current (D)	-	(323)	(323)
Non-current (D)	-	(332)	(332)
Trade and other payables	(58,567)	44	(58,523)
Provision	(1,520)	106	(1,414)
Retained deficit (E)	(4,044)	47	(4,091)

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

B Finance lease receivable: Financial assets have been impacted by recognition of finance lease receivables where the Group acts as an intermediate lessor and has classified the sub lease as a finance lease because the sub-lease is for a substantial amount of the remaining term of the head lease. The finance lease receivables have been classified between current and non-current.

C Deferred tax asset: Under IFRS 16, a lease liability was recognised on the balance sheet from 1 January 2019, which will be recognised through the income statement in subsequent periods. Right-of-use assets were also recognised on the balance sheet from 1 January 2019, which will be charged to the income statement in subsequent periods. Under IAS 12, the tax base of the net liability is the amount that will be deductible for tax purposes. A temporary difference is therefore created in relation to the net liability. The impact of these changes is recognised for tax purposes via a tax adjustment which spreads over the weighted average lease period at 1 January 2019. Under the principles of IAS 12, a net movement of £10k is reflected as a transitional adjustment, arising from an increase in deferred tax assets as a result of the transition to IFRS 16.

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

E Retained deficit: For a selection of material long-term leases, the Group applied the modified retrospective method one approach, where the right-of-use asset is calculated from the lease inception and depreciated - resulting in a charge to retained deficit representing the different between the right-of-use asset and the finance lease liability.