

Company Registration No. SC045439 (Scotland)

**CAPITA IT SERVICES LIMITED**  
**ANNUAL REPORT AND UNAUDITED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**

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# **CAPITA IT SERVICES LIMITED**

## **COMPANY INFORMATION**

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<b>Directors</b>	S M Frewing Capita Corporate Director Limited
<b>Secretary</b>	Capita Group Secretary Limited
<b>Company number</b>	SC045439
<b>Registered office</b>	Pavilion Building Ellismuir Way Tannochside Park Uddingston Glasgow United Kingdom G71 5PW
<b>Banker</b>	Barclays Bank PLC 1 Churchill Place London E14 5HP

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# **CAPITA IT SERVICES LIMITED**

## **CONTENTS**

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	<b>Page</b>
Strategic report	1 - 4
Directors' report	5 - 6
Income statement	7
Balance sheet	8 - 9
Statement of changes in equity	10
Notes to the financial statements	11 - 35

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# CAPITA IT SERVICES LIMITED

## STRATEGIC REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2022

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The Directors present their Strategic report and financial statements for the year ended 31 December 2022.

#### Review of the business

Capita IT Services Limited ('the Company') is a wholly owned subsidiary (indirectly held) of Capita plc. Capita plc along with its subsidiaries are hereafter referred to as 'the Group'.

The principal activities of the Company continues to be that of designing, installing and managing networked computing and communication systems, and providing IT outsource solutions to both external customers and fellow Group companies. In line with the Group's wider restructuring and entity rationalisation programme, various businesses have been transferred out of the Company to other Group subsidiaries during the year. Refer note 22 for more information on business transfers which took place during the year. The Directors plan to liquidate the Company within twelve months from the approval of these financial statements and therefore have prepared the financial statements on the basis that the Company is no longer a going concern.

As shown in the Company's income statement on page 7, revenue has decreased from £36,305,000 in 2021 to £22,419,000 in 2022 largely due to business transfer that occurred during the year. Operating profit decreased from £2,616,000 in 2021 to £344,000 in 2022.

The balance sheet on pages 8 to 9 of the financial statements shows the Company's financial position at the year end. Net assets have increased from £77,372,000 in 2021 to £92,693,000 in 2022 due to the gain on business transfer that occurred during the year. Details of amounts owed to its parent Company and fellow subsidiary undertakings are shown in notes 11 and 13 to the financial statements.

Key financial performance indicators used by the Group are adjusted profit before tax, adjusted earnings per share, operating margins, free cash flows before business exits and gearing ratio. The Group 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 all the divisions of the Group 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.
- *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 our businesses which are discussed in the Group's annual report which doesn't part form part of this report.

# CAPITA IT SERVICES LIMITED

## STRATEGIC REPORT (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2022**

### Section 172 statement

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 across the Group through divisional management teams and a common governance framework. The following disclosure describes how the Directors have regard to the matters set out in section 172(1)(a) to (f) and forms the Directors' statement as required under section 414CZA of the Companies Act 2006.

Further details of the Group's approach to each stakeholder are provided in Capita plc's section 172 statement on pages 47 and 48 of Capita plc's 2022 Annual Report.

<b>Our People</b>	
Why they are important	They deliver our business strategy; they support the organisation to build a values-based culture; and they deliver our products and services ensuring client satisfaction.
What matters to them?	Flexible working, learning and development opportunities leading to career progression, fair pay and benefits as a reward for performance, two-way communication, and feedback.
How we engaged?	People surveys, regular all-employee communications, employee director participation in Board discussions, employee focus groups and network groups and workforce engagement on remuneration, leadership council, regular breakfast sessions with Executive committee for our colleagues.
Topics of Engagement	Creating an inclusive workplace, speak Up policy, health and wellbeing, Directors' remuneration, acting on survey feedback
Outcomes and actions	The 2022 employee survey showed improvement across all metrics. We are developing and delivering a range of action plans, including ensuring our leaders feel confidence in, and ownership of Capita's strategy, plans and successes, developing inclusive opportunities for internal career mobility. We developed a global career path framework which defines career levels, career job content, and reward framework and introduced mentoring schemes.
Risks to stakeholder relationship	Our ability to recruit due to the national and global labor market demand for resources, our ability to retain people, impacting our quality of service, our ability to evolve our culture and practices in line with our responsible business agenda.
Key Metrics	Employee Net Promoter Score, Employee Engagement Index and people survey completion level.

# CAPITA IT SERVICES LIMITED

## STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

### Section 172 statement (continued)

<b>Clients and Customers</b>	
Why they are important	They are recipients of Capita's services; and Capita's reputation depends on delighting them.
What matters to them?	High-quality service delivery; delivery of transformation projects within agreed timeframes; and responsible and sustainable business credentials.
How we engaged?	Client meetings and surveys, Regular meetings with government stakeholders and annual review with Cabinet Office, creation of Customer Advisory Boards and created a senior client partner programme giving an experienced, single point of contact for key clients and customers
Topics of Engagement	Current service delivery, Capita's digital transformation capabilities, possible future services, co-creation of client value propositions, Ongoing benefits of hybrid working on client services.
Outcomes and actions	Feedback provided to business units to address any issues raised, client value propositions team supporting divisions with co-creation ideas; direct customer and sector feedback; and senior client partner programme undertaking client-focused growth sprints to build understanding of client issues and ideas to help address them.
Risks to stakeholder relationship	Loss of business by not providing the services that our clients and customers want, damage to reputation by not delivering to their requirements of our clients and customers.
Key Metrics	Customer Net Promoter Score; specific feedback on client engagements.
<b>Supplier and Partners</b>	
Why they are important	They share our values and help us deliver our purpose; maintain high standards in our supply chain; and achieve social, economic and environmental benefits aligned to the Social Value Act.
What matters to them?	Payments made within agreed payment terms, clear and fair procurement process, building lasting commercial relationships, and working inclusively with all types of business.
How we engaged?	Supplier meetings throughout source to procure process, regular reviews with suppliers, supplier questionnaires and risk assessments.
Topics of Engagement	Supplier payments, sourcing requirements, supplier performance, responsible business, science-based targets SBTs and the Supplier Charter.
Outcomes and actions	Alignment of payments with agreed terms; supplier feedback on improvements to procurement process; improvement plans and innovation opportunities; and improved adherence to supplier charter, suppliers committing to SBTs.
Risks to stakeholder relationship	Environmental issues, commitment to tackling SBTs, supply chain resilience
Key Metrics	99% of supplier payments within agreed terms; SME spend allocation; and supplier diversity profile

# CAPITA IT SERVICES LIMITED

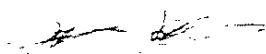
## STRATEGIC REPORT (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2022**

### Section 172 statement (continued)

<b>Society</b>	
Why they are important	Capita is a provider of key services to government impacting a large proportion of the population.
What matters to them?	Social mobility, youth skills and jobs; digital inclusion; diversity and inclusion; climate change; business ethics and accreditations and benchmarking; and cost of living crisis.
How we engaged?	Memberships of non-governmental organisations, charitable and community partnerships, external accreditations and benchmarking and working with clients, suppliers and the Cabinet Office.
Topics of Engagement	Youth employment, promoting digital inclusion, workplace inequalities, Diversity & inclusion and Climate change.
Outcomes and actions	Publication of net zero plan and verification during 2022 of Science Based Targets; continued commitment and accreditation as a real living wage employer; youth and employability programme; Capita's investment in WithYouWithMe, a workplace technology platform that finds employment for military veterans and other overlooked groups through delivering innovative aptitude testing and digital skills training; highly commended by the Employers Network for Equality & Inclusion for our approach to intersectionality; recognised as a 'Leading Light' by the UK Social Mobility awards; and joined the Cost-of-living Taskforce.
Risks to stakeholder relationship	Lack of understanding of the issues important to them and insufficient communication or involvement in shaping and influencing strategies and plans
Key Metrics	Net zero by 2035; community investment; workforce diversity and ethnicity data, including pay gaps.

On behalf of the board



S M Frewing  
Director

22 August 2023

# **CAPITA IT SERVICES LIMITED**

## **DIRECTORS' REPORT**

### ***FOR THE YEAR ENDED 31 DECEMBER 2022***

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The Directors present their Directors' report and financial statements for the year ended 31 December 2022.

#### **Results and dividends**

The results for the year are set out on page 7.

No dividend was paid or proposed during the year (2021: £nil).

#### **Directors**

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

S M Frewing  
Capita Corporate Director Limited

#### **Environment**

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.

#### **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.

#### **Political donations**

The Company made no political donations and incurred no political expenditure during the year (2021: £nil).



# CAPITA IT SERVICES LIMITED

## DIRECTORS' REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2022

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#### 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
- as explained in the note 1.1 of financial statements, the Directors do not believe the going concern basis to be appropriate and these financial statements are not prepared on that basis.

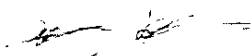
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies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

#### 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 M Frewing

Director

Pavilion Building  
Ellismuir Way  
Tannochside Park  
Uddingston  
Glasgow  
United Kingdom  
G71 5PW

22 August 2023

# CAPITA IT SERVICES LIMITED

## INCOME STATEMENT

**FOR THE YEAR ENDED 31 DECEMBER 2022**

		Unaudited 2022 £000	Unaudited 2021 £000
	Notes		
Revenue	3	22,419	36,305
Cost of sales		(19,522)	(31,160)
<b>Gross profit</b>		<b>2,897</b>	<b>5,145</b>
Administrative expenses		(2,553)	(2,775)
Other operating income		-	246
<b>Operating profit</b>	5	<b>344</b>	<b>2,616</b>
Net finance income/(cost)	7	2,994	(51)
Gain on business transfer	4	12,510	51,517
<b>Profit before tax</b>		<b>15,848</b>	<b>54,082</b>
Income tax (charge)/credit	8	(527)	125
<b>Total comprehensive income for the year</b>		<b>15,321</b>	<b>54,207</b>

The income statement has been prepared on the basis that the Company has ceased all its operations.

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

The notes and information on pages 11 to 35 form an integral part of these financial statements.

# CAPITA IT SERVICES LIMITED

## BALANCE SHEET

AS AT 31 DECEMBER 2022

		Unaudited 2022 £000	Unaudited 2021 £000
	Notes		
<b>Non-current assets</b>			
Property, plant and equipment	9	-	106
Intangible assets	10	-	678
Trade and other receivables	11	-	128
Deferred tax	8	-	2,497
		-	<b>3,409</b>
<b>Current assets</b>			
Trade and other receivables	11	92,932	92,227
Deferred tax	8	2,689	2,497
Cash	12	485	-
		<b>96,106</b>	<b>92,227</b>
<b>Total assets</b>		<b>96,106</b>	<b>95,636</b>
<b>Current liabilities</b>			
Trade and other payables	13	1,549	9,063
Deferred income	14	-	2,570
Financial liabilities	15	-	4,035
Provisions	16	-	762
Lease liabilities	17	344	116
Provisions	16	376	-
Income tax payable		1,144	1,374
		<b>3,413</b>	<b>17,920</b>
<b>Non-current liabilities</b>			
Lease liabilities	17	-	344
		-	<b>344</b>
<b>Total liabilities</b>		<b>3,413</b>	<b>18,264</b>
<b>Net assets</b>		<b>92,693</b>	<b>77,372</b>

# **CAPITA IT SERVICES LIMITED**

## **BALANCE SHEET (CONTINUED)**

**AS AT 31 DECEMBER 2022**

		<b>Unaudited 2022 £000</b>	<b>Unaudited 2021 £000</b>
<b>Capital and reserves</b>	<b>Notes</b>		
Issued share capital	<b>18</b>	110	110
Retained earnings		92,583	77,262
<b>Total equity</b>		<b>92,693</b>	<b>77,372</b>

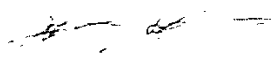
For the year ended 31 December 2022, the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

Members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006.

The Directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and for the preparation of accounts.

The notes and information on pages 11 to 35 form an integral part of these financial statements.

Approved by Board and authorised for issue on 22 August 2023.

  
**S M Frewing**  
**Director**  
Company Registration No. SC045439

# CAPITA IT SERVICES LIMITED

## STATEMENT OF CHANGES IN EQUITY

**FOR THE YEAR ENDED 31 DECEMBER 2022**

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	Share capital £000	Retained earnings £000	Total equity £000
<b>At 1 January 2021 - unaudited</b>	<b>110</b>	<b>23,055</b>	<b>23,165</b>
Total comprehensive income for the year - unaudited	-	54,207	54,207
Contribution in respect of share based payment charge	-	32	32
Settlement of share based payment charged by intercompany	-	(32)	(32)
	<hr/>	<hr/>	<hr/>
<b>At 31 December 2021 - unaudited</b>	<b>110</b>	<b>77,262</b>	<b>77,372</b>
Total comprehensive income for the year- unaudited	-	15,321	15,321
	<hr/>	<hr/>	<hr/>
<b>At 31 December 2022- unaudited</b>	<b>110</b>	<b>92,583</b>	<b>92,693</b>
	<hr/>	<hr/>	<hr/>

### Share capital

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

### Retained earnings

Net profits kept to accumulate in the Company after dividends are paid and retained in the business as working capital.

The notes and information on pages 11 to 35 form an integral part of these financial statements.

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2022

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#### 1 Accounting policies

##### 1.1 Basis of preparation

Capita IT Services Limited is a company incorporated and domiciled in the United Kingdom.

In determining the appropriate basis of preparation for the annual report and financial statements for the year ended 31 December 2022, the Company's Directors ("the Directors") are required to consider whether the Company can continue in operational existence for the foreseeable future, being a period of at least 12 months following the approval of these accounts.

The principal activity of the Company ceased when the business was transferred to other group entities during 2022. The Directors have therefore prepared the financial statements on the basis that the Company is no longer a going concern. The financial statements have been prepared on a breakup basis as at 31 December 2022.

As a consequence, the Directors have considered the adjustments required to prepare the financial statement on a breakup basis. The expected realisable and settlement values for current assets and liabilities are not considered to be materially different from their carrying value at the balance sheet date. Therefore, the Directors have considered that no further adjustments are required as a result of preparing the financial statements on a breakup basis.

##### 1.2 Compliance with accounting standards

The Company has applied FRS101 – *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 accounting standards in conformity with the requirements of 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 accounting standards in conformity with the requirements of the Companies Act 2006 and with UK-adopted International Financial Reporting Standards (IFRSs) and the Disclosure and Transparency Rules of the UK's Financial Conduct Authority. These are available to the public and may be obtained from Capita plc's website on <https://www.capita.com/investors>.

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

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

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

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

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2022

#### 1 Accounting policies

(Continued)

##### 1.3 Changes in accounting policies

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
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1-Jan-22
Annual Improvements to IFRS Standards 2018–2020	1-Jan-22
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1-Jan-22
Reference to the Conceptual Framework (Amendments to IFRS 3)	1-Jan-22

##### 1.4 Revenue recognition

Revenue is earned within the United Kingdom.

The Company operates a number of diverse businesses and therefore it uses a variety of methods for revenue recognition based on the principles set out in IFRS 15. Many of the contracts entered are long term and complex in nature given the breadth of solutions the Group offers.

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 all contracts, the Company determines if the arrangement with a customer creates enforceable rights and obligations. This assessment results in certain Master Service Agreements ('MSA's') 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 Company enters into contracts which contain extension periods, where either the customer or both parties can choose to extend the contract or there is an automatic annual renewal, and/or termination clauses that could impact the actual duration of the contract. Judgement is applied to assess the impact that these clauses have when determining the appropriate contract term. The term of the contract impacts both the period over which revenue from performance obligations may be recognised and the period over which contract fulfilment assets and capitalised costs to obtain a contract are expensed.

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.

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2022

#### 1 Accounting policies

(Continued)

##### 1.4 Revenue recognition (continued)

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

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

Once the total transaction price is determined, the Company allocates this to the identified performance obligations in proportion to their relative stand-alone selling prices and recognises revenue when (or as) those performance obligations are satisfied. The Company infrequently sells standard products with observable standalone prices due to the specialised services required by customers and therefore the Company applies judgement to determine an appropriate standalone selling price. More frequently, the Company sells a customer bespoke solution, and in these cases the Company typically uses the expected cost-plus margin or a contractually stated price approach to estimate the standalone selling price of each performance obligation.

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

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

When using the output method, the Company recognises revenue on the basis of direct measurements of the value to the customer of the goods and services transferred to date relative to the remaining goods and services under the contract. Where the output method is used, for long term service contracts where the series guidance is applied (see below for further details), the Company often uses a method of time elapsed which requires minimal estimation. Certain long-term contracts use output methods based upon estimation of number of users, level of service activity or fees collected.

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

The Company disaggregates revenue from contracts with customers by contract type, as management believe this best depicts how the nature, amount, timing and uncertainty of the Company's revenue and cash flows are affected by economic factors. Categories are: 'long-term contractual – greater than two years'; and 'short-term contractual – less than two years'. Years based from service commencement date.



# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2022

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#### 1 Accounting policies

(Continued)

##### 1.4 Revenue recognition (continued)

###### *Long term contractual- greater than 2 years*

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

The nature of contracts or performance obligations categorised within this revenue type is diverse and includes (i) long term outsourced service arrangements in the public and private sectors.

The Company considers that the services provided meet the definition of a series of distinct goods and services as they are (i) substantially the same and (ii) have the same pattern of transfer (as the series constitutes services provided in distinct time increments (e.g., daily, monthly, quarterly or annual services)) and therefore treats the series as one performance obligation. Even if the underlying activities performed by the Company to satisfy a promise vary significantly throughout the day and from day to day, that fact, by itself, does not mean the distinct goods or services are not substantially the same. For the majority of long term service contracts with customers in this category, the Company recognises revenue using the output method as it best reflects the nature in which the Company is transferring control of the goods or services to the customer.

###### *Short term contractual- less than 2 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 Company has assessed that maintenance and support (i.e. 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 as the nature of the promise is for the Company to 'stand ready' to perform maintenance and support when required by the customer. Each day of standing ready is then distinct from each following day and is transferred in the same pattern 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.

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2022

#### 1 Accounting policies

(Continued)

##### 1.4 Revenue recognition (continued)

###### *Contract modifications*

The Company's contracts are often amended for changes in contract specifications and requirements. Contract modifications exist when the amendment either creates new or changes the existing enforceable rights and obligations. The effect of a contract modification on the transaction price and the Company's measure of progress for the performance obligation to which it relates, is recognised as an adjustment to revenue in one of the following ways:

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

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

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

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

###### *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.

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2022

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#### 1 Accounting policies

(Continued)

##### 1.4 Revenue recognition (continued)

###### *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

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

When determining the appropriate accounting treatment for such costs, the Company firstly considers any other applicable standards. If those other standards preclude capitalisation of a particular cost, then an asset is not recognised under IFRS 15.

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# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2022**

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### 1 Accounting policies

(Continued)

#### 1.4 Revenue recognition (continued)

##### *Contract fulfilment assets*

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.

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

The Company utilises contract fulfilment assets and capitalised costs to obtain a contract to cost of sales over the expected contract period using a systematic basis that mirrors the pattern in which the Company transfers control of the service to the customer. The utilisation charge is included within cost of sales. Judgement is applied to determine this period, for example whether this expected period would be the contract term or a longer period such as the estimated life of the customer relationship for a particular contract if, say, renewals are expected.

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

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2022

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#### 1 Accounting policies

(Continued)

##### 1.4 Revenue recognition (continued)

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

Where the relevant contracts or specific performance obligations are demonstrating marginal profitability or other indicators of impairment, judgement is required in ascertaining whether or not the future economic benefits from these contracts are sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract.

The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract-specific KPIs that could trigger variable consideration, or service credits.

Where a contract is anticipated to make a loss, these judgements are also relevant in determining whether or not an onerous contract provision is required and how this is to be measured.

##### *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

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. 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.

##### 1.6 Intangible assets

Other intangibles are valued at cost less amortisation.

Amortisation is calculated to write-off the cost in equal instalments over its useful life of between 3 and 5 years.

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2022

#### 1 Accounting policies

(Continued)

##### 1.7 Property, plant and equipment

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

Fixtures, fittings & equipment	4 - 5 years
Computer equipment	3 years

##### 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 are expensed to the consolidated income statement.

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

At the inception of the lease, the Company 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.

The Company 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 Company 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 Company 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 Company 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 Company 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 Company 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.

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2022

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#### 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 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 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 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.

##### 1.10 Provisions

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

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2022

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#### 1 Accounting policies

(Continued)

##### 1.11 Pensions

Prior to the transfer of the Company's assets and liabilities during the year, the Company participated in a defined contribution pension scheme where contributions were charged to the profit and loss account. The scheme is funded and contributions were paid to separately administered funds. The assets of the scheme were held separately from the Company. The Company remitted monthly pension contributions to Capita Business Services Ltd, a fellow subsidiary undertaking, which paid the Group liability centrally. Any unpaid contributions at the year-end have been accrued in the accounts of Capita Business Services Ltd.

In addition, the Company participated in a number of defined benefit pension schemes which required contributions to be made to separate trustee-administered funds.

Where the Company participated in public sector defined benefit pension schemes, this was for a finite period (participation ceased during the year) and there were contractual protections in place to limit the financial risks to the Company of the membership of these schemes by its employees and as such the pension costs are reported on a defined contribution basis recognising a cost equal to its contribution payable during the period (See note 19).

The Company also participated in the Capita Pension & Life Assurance Scheme (the "Capita DB Scheme"). The Capita DB Scheme provides benefits on a defined benefit basis funded from assets held in a separate trustee administered fund. A full actuarial valuation of the Capita DB Scheme is carried out every three years by an independent qualified actuary for the Trustee of the Capita DB Scheme, with the last full valuation carried out as at 31 March 2020. The next full actuarial valuation is due to be carried out with an effective date of 31 March 2023.

During the year, the Company ceased to employ any active members in the Capita DB Scheme which triggered a cessation event. As such a Section 75 debt (which is a statutory debt due from a participating employer to the trustees of a multi-employer defined benefit pension scheme which is in deficit) became due. However, the Trustee of the Capita DB Scheme agreed that the pension liabilities attributable to the Company would be transferred to Capita Business Services Ltd (the Principal Employer of the Capita DB Scheme), which removed the Section 75 debt due from the Company. This Flexible Apportionment Arrangement was agreed in principle during 2022 and finalised in 2023. As a result of the arrangement, the Company is no longer a formal participating employer in the Capita DB Scheme.

As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the Capita DB Scheme to participating entities, the net defined benefit cost of the Capita DB Scheme is recognised fully by the Principal Employer (Capita Business Services Ltd). During the period the Company participated in the Capita DB Scheme it recognised a cost equal to its contribution payable.



# **CAPITA IT SERVICES LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### ***FOR THE YEAR ENDED 31 DECEMBER 2022***

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#### **1 Accounting policies**

**(Continued)**

##### **1.12 Share-based payments**

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

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

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

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

In accordance with IFRS 2, share option awards of the ultimate parent company's equity instruments in respect of settling grants to employees of the Company are disclosed as a charge to the profit and loss account and a credit to equity. The Company's policy is to reimburse its ultimate parent company through the intercompany 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.

##### **1.13 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. The results of overseas operations are translated at average rates of exchange. All differences are taken to the income statement.

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2022

#### 1 Accounting policies

(Continued)

##### 1.14 Financial instruments

###### Investments and other financial assets

###### (i) Classification

The Company classifies its financial assets in the following measurement categories:

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

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

For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

###### (ii) 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.

###### (iii) 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.

###### Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

###### (iv) Impairment

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

###### Trade and other receivables

The trade and other receivables have been measured and presented at their expected realisable values.

###### Trade and other payables

The trade and other payables have been measured and presented at their expected settlement values.

###### Cash

Cash in the balance sheet comprise cash at bank and in hand. Bank overdrafts are shown within current financial liabilities.

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

### 1 Accounting policies

(Continued)

#### 1.15 Impairment of non-financial assets

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

#### 1.16 Common control transactions

Where a business is transferred from one legal entity to another legal entity within the Capita Group under a Business Transfer Agreement ("BTA"), this is treated as a business combination under common control, and would therefore fall outside of the scope of IFRS 3 Business Combinations. As such, an accounting policy choice has been made for how common control transactions are dealt with across the Group, as follows:

- Where a BTA is undertaken at net book value (with consideration paid equal to the net book value of the assets and liabilities transferred on the BTA date), the relevant assets and liabilities of the transferring business are recognised in the transferee at their previous carrying values as in the transferor's stand-alone entity accounts;
- Where the consideration paid is greater than the net book value of the assets and liabilities transferred, this excess is recognised as a gain on disposal for the transferor, and by the recognition of entity level goodwill in the transferee, which would be linked to the acquired business.

### 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 year. 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 as follows:

- The measurement of revenue and resulting profit recognition - due to the size and complexity of some of the Company's contracts, requires judgements to be applied, including the measurement and timing of revenue recognition and the recognition of assets and liabilities, including an assessment of onerous contract, that result from the performance of the contract.

### 3 Revenue

	Unaudited 2022 £000	Unaudited 2021 £000
Revenue from operating activities	22,421	36,305

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

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

4	Gain on business transfer	Unaudited 2022 £000	Unaudited 2021 £000
	Gain on business transfer	12,510	51,517

Gain on business transfer is on account of transfer of trade and associated assets and liabilities to other Group Subsidiary Undertakings. Refer note 22 for more details.

5	Operating profit	Notes	Unaudited 2022 £000	Unaudited 2021 £000
	Operating profit for the year is stated after (crediting)/charging:			
	Net foreign exchange (gains)/loss		(530)	102
	Depreciation of property, plant and equipment	9	39	103
	Impairment of property, plant and equipment	9	-	85
	Amortisation of intangible assets	10	3	10
	Short-term leases - plant and machinery		170	303
	Short-term leases - other assets		-	84

6	Leases under IFRS 16	Unaudited 2022 £000	Unaudited 2021 £000
	Expenses relating to short-term leases	170	387
	Interest expense on lease liabilities	16	21

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2022

7	Net finance income/(cost)	Unaudited 2022 £000	Unaudited 2021 £000
	Interest (expense)/income on bank overdraft and deposits	(14)	1
	Interest expense on lease liabilities	(16)	(21)
	Interest income from Group undertakings	3,024	11
	Other interest expense	-	(42)
		<u>2,994</u>	<u>(51)</u>

## 8 Income tax

The major components of income tax charge for the years ended 31 December 2022 and 2021 are:

	Unaudited 2022 £000	Unaudited 2021 £000
<b>Current tax</b>		
UK corporation tax	634	133
Adjustments in respect of prior periods	377	(21)
	<u>1,011</u>	<u>112</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(7)	(238)
Adjustment in respect of prior periods	(477)	1
	<u>(484)</u>	<u>(237)</u>
<b>Total tax charge/(credit) reported in the income statement</b>	<u>527</u>	<u>(125)</u>

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2022

#### 8 Income tax

(Continued)

The reconciliation between tax charge and the accounting profit multiplied by the UK corporation tax rate for the years ended 31 December 2022 and 2021 is as follows:

	Unaudited 2022 £000	Unaudited 2021 £000
<b>Profit before tax</b>	15,848	54,082
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	3,011	10,275
Adjustments in respect of current income tax of prior periods	377	(21)
Adjustments in respect of deferred income tax of prior periods	(477)	1
Expenses not deductible for tax purposes	-	8
Non taxable income	(2,377)	(9,789)
Impact of changes in statutory tax rates	(7)	(599)
<b>Total tax adjustments</b>	<b>(2,484)</b>	<b>(10,400)</b>
<b>Total tax charge/(credit) reported in the income statement</b>	<b>527</b>	<b>(125)</b>

	Balance sheet		Income statement	
	Unaudited 2022 £000	Unaudited 2021 £000	Unaudited 2022 £000	Unaudited 2021 £000
<b>Deferred tax assets</b>				
Decelerated capital allowances	2,683	2,485	490	(237)
Other short term timing differences	6	12	(6)	-
<b>Net deferred tax assets</b>	<b>2,689</b>	<b>2,497</b>		
<b>Deferred tax credit/(charge)</b>			<b>484</b>	<b>(237)</b>

A change to the main UK corporation tax rate was substantively enacted on 24 May 2021. The rate applicable from 1 April 2023 increases from 19% to 25%. The deferred tax asset at 31 December 2022 has been calculated based on this rate.

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

### 9 Property, plant and equipment

	Fixtures, fittings & equipment £000	Computer Equipment £000	Total £000
<b>Cost</b>			
At 1 January 2022 - unaudited	359	57	416
Intragroup transfer	-	(43)	(43)
Business transfer	(359)	-	(359)
Asset retirement	-	(14)	(14)
	<hr/>	<hr/>	<hr/>
<b>At 31 December 2022- unaudited</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>			
At 1 January 2022 - unaudited	287	23	310
Intragroup transfer	-	(12)	(12)
Business transfer	(323)	-	(323)
Charge for the year	36	3	39
Asset retirement	-	(14)	(14)
	<hr/>	<hr/>	<hr/>
<b>At 31 December 2022- unaudited</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
<b>At 31 December 2021 - unaudited</b>	<b>72</b>	<b>34</b>	<b>106</b>
	<hr/>	<hr/>	<hr/>
<b>At 31 December 2022- unaudited</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<hr/>	<hr/>	<hr/>

### 10 Intangible assets

	Software £000	Goodwill £000	Total £000
<b>Cost</b>			
At 1 January 2022- unaudited	29	2,287	2,316
Business transfer	-	(2,287)	(2,287)
Asset retirement	(29)	-	(29)
	<hr/>	<hr/>	<hr/>
<b>At 31 December 2022- unaudited</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<hr/>	<hr/>	<hr/>
<b>Amortisation</b>			
At 1 January 2022 - unaudited	26	1,612	1,638
Charge for the year	3	-	3
Business transfer	-	(1,612)	(1,612)
Asset retirement	(29)	-	(29)
	<hr/>	<hr/>	<hr/>
<b>At 31 December 2022- unaudited</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
<b>At 31 December 2021 -unaudited</b>	<b>3</b>	<b>675</b>	<b>678</b>
	<hr/>	<hr/>	<hr/>
<b>At 31 December 2022- unaudited</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<hr/>	<hr/>	<hr/>

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

### 11 Trade and other receivables

	Unaudited 2022 £000	Unaudited 2021 £000
<b>Current</b>		
Trade receivables	41	1,662
Accrued income	-	48
Prepayments	-	2,285
Contract fulfilment assets	-	715
Other taxes and social security	-	622
Amounts due from parent and fellow subsidiary undertaking	92,891	86,895
	<u>92,932</u>	<u>92,227</u>

	Unaudited 2022 £000	Unaudited 2021 £000
<b>Non-current</b>		
Prepayments	-	128
	<u>-</u>	<u>128</u>

### 12 Cash

	Unaudited 2022 £000	Unaudited 2021 £000
Cash at bank and in hand	485	-
	<u>485</u>	<u>-</u>

### 13 Trade and other payables

	Unaudited 2022 £000	Unaudited 2021 £000
Trade creditors	513	4,035
Other creditors	-	4
Other taxes and social security	7	-
Accruals	414	1,097
Amounts due to parent and fellow subsidiary undertaking	615	3,927
	<u>1,549</u>	<u>9,063</u>



# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

### 14 Deferred income

Current	Unaudited 2022 £000	Unaudited 2021 £000
Deferred income	-	2,570
	<u>-</u>	<u>2,570</u>

### 15 Financial liabilities

	Unaudited 2022 £000	Unaudited 2021 £000
Bank overdrafts	-	4,035
	<u>-</u>	<u>4,035</u>

### 16 Provisions

	Restructuring £000	Others £000	Total £000
Current			
At 1 January 2022	501	261	762
Released in the year	-	(261)	(261)
Utilisation	(125)	-	(125)
At 31 December 2022- unaudited	<u>376</u>	<u>-</u>	<u>376</u>

The other provision represents provision for license costs.

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

17	Lease liabilities	Unaudited 2022 £000	Unaudited 2021 £000
	Current	344	460
		<u>344</u>	<u>460</u>

	Unaudited 2022 £000	Unaudited 2021 £000
<b>Maturity analysis - contractual undiscounted cash flows</b>		
Less than one year	132	132
One to two years	132	132
More than two years	99	232
<b>Total undiscounted lease liabilities at 31 December</b>	<u>363</u>	<u>496</u>

18	Issued share capital	Unaudited 2022 Numbers ('000)	Unaudited 2021 Numbers ('000)	Unaudited 2022 £000	Unaudited 2021 £000
	<b>Allotted, called up and fully paid</b>				
	Ordinary of £1 each				
	At 1 January	110	110	110	110
	<b>At 31 December</b>	<u>110</u>	<u>110</u>	<u>110</u>	<u>110</u>

### Share capital

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

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2022

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#### 19 Employee benefits

Prior to the transfer of assets and liabilities during the year, the Company participated in both defined benefit and defined contribution pension schemes.

The pension charge for the defined contribution pension schemes for the year is £187,000 (2021 Re-presented\*: £447,000).

\*The pension charged excludes pension contributions paid by the Company on behalf of employees via a salary sacrifice arrangement. The 2021 comparative figure has also been re presented to reflect this.

The Company had employees who were members of public sector defined benefit pension schemes where participation ceased during the year. Participation in these schemes were for a finite period and there were contractual protections 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 allows 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 payable to the schemes at the cessation of the contract (where applicable), such that the Company's net exposure to actuarial and investment risk is immaterial. Therefore, the costs in relation to all of the above schemes are reported on a defined contribution basis recognising a cost equal to its contribution payable during the period. No amounts are recognised on the Company's balance sheet.

The pension charge for these public sector defined benefit pension schemes is included in the above pension charge for the defined contribution pension schemes.

#### The Capita Pension and Life Assurance Scheme (the "Capita DB Scheme")

The Company had employees who are members of the Capita Pension and Life Assurance Scheme (the "Capita DB Scheme"), a defined benefit pension scheme. The Company had employees who continued to accrue benefits in the Capita DB Scheme during the year.

The Capita DB Scheme is a non-segregated scheme with 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.

During the year, the Company ceased to employ any active members in the Capita DB Scheme which triggered a cessation event. As such a Section 75 debt (which is a statutory debt due from a participating employer to the trustees of a multi-employer defined benefit pension scheme which is in deficit) became due. However, the Trustee of the Capita DB Scheme agreed that the pension liabilities attributable to the Company would be transferred to Capita Business Services Ltd (the Principal Employer of the Capita DB Scheme), which removed the Section 75 debt due from the Company. This Flexible Apportionment Arrangement was agreed in principle during 2022 and finalised in 2023. As a result of the arrangement, the Company is no longer a formal participating employer in the Capita DB Scheme.

The pension charge for the Company in relation to the Capita DB Scheme for the period in which it participated during the year was £51,000 (2021: £62,000).

A full actuarial valuation of the Capita DB Scheme is carried out every three years by an independent qualified actuary for the Trustee of the Capita DB Scheme, with the last full valuation carried out as at 31 March 2020. Amongst the main purposes of the valuation is to agree a contribution plan such that the pension scheme has sufficient assets available to meet future benefit payments, based on assumptions agreed between the Trustee of the Capita DB Scheme and the Principal Employer (Capita Business Services Ltd, a fellow subsidiary undertaking). The 31 March 2020 valuation showed a funding deficit of £182.2m (31 March 2017: £185m). This equates to a funding level of 89.0% (31 March 2017: 86.1%).

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2022

(Continued)

#### 19 Employee benefits

As a result of the full actuarial valuation, the Principal Employer and the Trustee of the Capita DB Scheme agreed a funding plan to eliminate the deficit – the Principal Employer has agreed to pay additional contributions totalling £124m between July 2021 and December 2023.

In addition, the Principal Employer has agreed to make additional, non-statutory, contributions of £15m each year in 2024, 2025 and 2026 to meet a secondary funding target. The aim of which is to target, by 2026, the position of having sufficient assets to invest in a portfolio of low risk assets that will generate income to pay members' benefits as they fall due.

Finally, the Principal Employer agreed an average employer contribution rate of 36.0% (excluding employee contributions made as part of a salary sacrifice arrangement) towards the expected cost of benefits accruing.

The next full actuarial valuation is due to be carried out with an effective date of 31 March 2023.

For the purpose of the consolidated accounts of Capita plc, an independent qualified actuary projected the results of the 31 March 2020 full actuarial valuation to 31 December 2022 taking account of the relevant accounting requirements.

The principal assumptions for the accounting valuation as at 31 December 2022 were as follows: rate of increase in RPI/CPI price inflation - 3.15% pa/2.50% pa (2021: 3.30% pa/2.65% pa); rate of salary increase - 3.15% pa (2021: 3.30% pa); rate of increase for pensions in payment (where RPI inflation capped at 5% pa applies) - 3.05% pa (2021: 3.20% pa); discount rate - 4.75% pa (2021: 1.90% pa).

The Capita DB Scheme assets at fair value as at 31 December 2022 totalled £1,126.3m (2021: £1,732.5m). The actuarially assessed value of Capita DB Scheme liabilities as at 31 December 2022 was £1,087.0m (2021: £1,725.3m) indicating that the Capita DB Scheme had a net asset of £39.3m (2021: net asset of £7.2m). These figures are quoted gross of deferred tax. The full disclosure is available in the consolidated accounts of Capita plc.

For the purpose of these accounts, the Company's interest in the Capita DB Scheme is reported on a defined contribution basis recognising a cost equal to its contributions payable during the period.

#### 20 Employees

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

	Unaudited 2022 Number	Unaudited 2021 Number
Operations	91	204
Sales	23	24
Administration	1	15
	<u>115</u>	<u>243</u>

# CAPITA IT SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2022

#### 20 Employees

(Continued)

Their aggregate remuneration comprised:

	Unaudited 2022 £000	Unaudited *Re-presented 2021 £000
<b>Employee costs</b>		
Wages and salaries	6,978	13,472
Social security costs	787	1,594
Pension costs	238	509
Shared based payments (charged by intercompany)	-	32
	<b>8,003</b>	<b>15,607</b>

\*The 2021 comparative figures have been re-presented to reflect the reclassification of employee contributions from pensions costs to wages and salaries. This has resulted in increase in wages and salaries by £507k and decrease in pension costs by the same amount. There is no impact on net assets, total profit or retained earnings as a result of this reclassification.

#### 21 Directors' remuneration

All directors are paid by other companies within the Capita Group. The Company has not paid any fees or other remuneration to the Group based Directors related to the directorship role they provided to the Company as a part of their Group-wide executive management role. The Company has estimated that allocation of the qualifying services that these Group based Directors provided to the Company is inconsequential.

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

#### 22 Common control transactions

The Group as a part of reorganisation, transferred the trade and assets of the Company to other subsidiaries in the Group. As these businesses were ultimately controlled by Capita plc, these are deemed business combinations under common control. Thus, an accounting policy choice was made which is explained in detailed in note 1.16. The assets and liabilities were transferred and the consideration was received through an intragroup loan. The following table shows the assets acquired and liabilities transferred and consideration received by the Company:

Transferred to	Date of transfer	Assets	Liabilities	Consideration	Unaudited £000 Gain
Electra-Net (UK) Limited	1 July 2022	987	(678)	12,518	12,209
Capita Business Services Ltd	1 November 2022	2,944	(2,030)	914	-
Capita Shared Services Limited	1 November 2022	1,967	(947)	1,321	301
Capita Customer Management Limited	1 December 2022	952	(952)	-	-

## **CAPITA IT SERVICES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

***FOR THE YEAR ENDED 31 DECEMBER 2022***

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**23 Controlling party**

The Company's immediate parent undertaking is Capita IT Services Holdings Limited, a company incorporated in England and Wales.

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

**24 Post balance sheet event**

There are no significant events occurring after the balance sheet date.