

Company Registration No. 02299747 (England and Wales)

**CAPITA BUSINESS SERVICES LTD**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**

# CAPITA BUSINESS SERVICES LTD

## COMPANY INFORMATION

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<b>Directors</b>	C Free L Palmer M W Lansdown A D Murray G Bate-Williams C Ripoche Capita Corporate Director Limited	(Appointed 12 January 2022) (Appointed 13 May 2022) (Appointed 28 March 2023) (Appointed 13 April 2023) (Appointed 23 May 2023)
<b>Secretary</b>	Capita Group Secretary Limited	
<b>Company number</b>	02299747	
<b>Registered office</b>	65 Gresham Street London England EC2V 7NQ	
<b>Auditor</b>	KPMG LLP 15 Canada Square London E14 5GL	

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# CAPITA BUSINESS SERVICES LTD

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# CAPITA BUSINESS SERVICES LTD

## 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 Business Services Ltd ("the Company") is a wholly owned subsidiary (indirectly held) of Capita plc, which along with all its subsidiaries is hereafter referred as "the Group". The Company operates within the Experience, Portfolio and Public Service divisions of the Group.

The principal activity of the Company continued to be that of the provision of outsourcing services. These services consist principally of the following:

- taking complete responsibility under long term contracts for a range of integrated services comprising customer services, IT, business support and consultancy;
- providing administration and related services; and
- providing training and career change to the public and private sectors.

As shown in the Company's income statement on page 12, the Company's revenue has increased from £1,331.0m in 2021 to £1,347.7m in 2022, while operating profit has decreased from £81.4m in 2021 to £67.3m in 2022.

Revenue increased primarily due to additional contract value from the Company's public sector clients, most notably Smart DCC, Transport for London, Defence Fire and Rescue Project (DFRP). This was combined with the annualised benefit of the Royal Navy training contract and offset by a reduction in revenue from the British Army recruitment (RPP) contract. During 2022, the Group continued its reorganisation activity to align legal entities with the divisional structure, which resulted in the transfer of some trade and business out of the Company to other subsidiaries in the Group.

The Company anticipated modest revenue growth in 2022 and continued to focus on delivering a better quality service to our clients. Despite the increase in revenue, operating profit declined primarily due to the impact of the aforementioned reorganisation activity partially offset by the continued benefit from cost out initiatives and operational efficiencies.

The Company has received dividends from Capita Resourcing Limited (£42.7m), Tascor Services Limited (£29.8m), Capita (04472243) Limited (£7.0m) and Fera Science Limited (£1.1m) in 2022.

At 31 December 2022, investments in subsidiaries were impaired by £127.4m (2021: £107.6m) following an assessment of expected recoverable values. Refer to notes 5 and 7 for more information on investment income and impairment.

The balance sheet on pages 14 - 15 of the financial statements presents the Company's financial position at the year end. Net assets have increased from £792.5m as at 31 December 2021 to £803.8m as at 31 December 2022. Details of amounts owed by/to its parent company and fellow subsidiary companies are shown in note 18, 20 and 28 to the financial statements.

# CAPITA BUSINESS SERVICES LTD

## STRATEGIC REPORT (CONTINUED)

*FOR THE YEAR ENDED 31 DECEMBER 2022*

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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 manages its operations on a divisional basis and as a consequence, some of these indicators are monitored at a divisional level. The performance of the Experience, Portfolio and Public Service divisions of the Group are discussed in the Group's Annual Report which does not form part of this report.

The Directors have formed the judgement that it is appropriate to prepare the financial statements on the going concern basis. Therefore, the financial statements do not include any adjustments which would be required if the going concern basis of preparation is inappropriate. Further details of the going concern assessment are provided in section 1.1, pages 17-19 of the financial statements.

### **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 risks for the Company are:

- Living our purpose: Failure to live our purpose and to change stakeholder perception so that we are seen to live our purpose.
- Strategy: Failure to define and resource the right medium-term strategy.
- Innovation: Failure to innovate and develop new value propositions for clients and customers.
- People attraction & retention: Failure to attract, develop, engage and retain the right people for current and future client propositions.
- Culture: Failure to change the culture and practices of Capita in line with our purpose and strategy.
- Data protection: Failure to protect data, information and IT systems.
- Contracts: Failure to secure new and/or extend existing contracts and services.
- Delighting clients: Failure to delight clients and deliver contractual obligations.
- Internal control: Failure to develop and maintain a risk-based system of internal control.
- Geopolitical climate: Failure to plan for, influence and respond to potential changes in the geopolitical climate.
- Financial stability: Failure to maintain financial stability, viability and achieve financial targets.
- Wellbeing, health & safety: Failure of Capita to protect the wellbeing, safety and health of all Capita's employees, the people we work with and our service users.
- Climate change: Failure to adapt Capita and its services to the impacts of climate change.

As a subsidiary of Capita plc, the Company is subject to controls and risk governance techniques across all businesses. Details of the specific risk assessments and mitigating actions are outlined on page 57 of the Group's 2022 Annual Report.

### **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.

# CAPITA BUSINESS SERVICES LTD

## STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

<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.
<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 cocreation 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.

# CAPITA BUSINESS SERVICES LTD

## STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

<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
<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	

G Bate-Williams

**Director**

22 June 2023

# CAPITA BUSINESS SERVICES LTD

## 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 12.

No interim or final dividend was paid or proposed during the year (2021: £289.0m).

### Directors

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

A N Chapple	(Resigned 17 October 2022)
C Free	
A Start	(Resigned 19 May 2022)
L Palmer	
E H Brownell	(Resigned 31 March 2023)
M W Lansdown	(Appointed 12 January 2022)
A D Murray	(Appointed 13 May 2022)
M Billingham	(Appointed 17 October 2022 and resigned 31 March 2023)
G Bate-Williams	(Appointed 28 March 2023)
C Ripoché	(Appointed 13 April 2023)
Capita Corporate Director Limited	(Appointed 23 May 2023)

### Environment

The Company 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 2022 Annual report that 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.

### Political donations

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

### Employees

Details of number of employees and related costs can be found in note 27 to the financial statements.

### Disabled persons

It is the Company's policy to give full consideration to suitable applications for employment of disabled persons. Disabled employees are eligible to participate in all career development opportunities available to staff. Opportunities also exist for employees of the Company who become disabled to continue in their employment or to be retained in other positions within the Company.

### 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.

# CAPITA BUSINESS SERVICES LTD

## DIRECTORS' REPORT (CONTINUED)

*FOR THE YEAR ENDED 31 DECEMBER 2022*

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### **Business relationships**

Details regarding relationships with suppliers, clients and others, together with further cross-references, are provided in the section 172 statement on pages 3 and 4.

### **Post balance sheet date events**

Material post balance sheet events are disclosed in note 35.

### **Auditor**

KPMG LLP, have indicated its willingness to continue in office and 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 United Kingdom ("UK") accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

### **Statement of disclosure to auditor**

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the Company's auditor is 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.

# CAPITA BUSINESS SERVICES LTD

## DIRECTORS' REPORT (CONTINUED)

*FOR THE YEAR ENDED 31 DECEMBER 2022*

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### **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.

### **Corporate governance arrangements**

The Company forms part of the Capita plc Group. Capita plc shares have a premium listing on the main market of the London stock exchange and Capita plc is subject to the requirements of the UK Corporate Governance Code 2018 (the "Code") published by the Financial Reporting Council.

The Company did not apply a corporate governance code during the year as its governance arrangements form part of the wider Group's governance arrangements and are integrated into the management of the Group as a whole.

The Company's board of directors includes the executive officer of each division in the Group. These executive officers are also part of the Group's Executive Committee ("ExCo"), led by the Chief Executive Officer of Capita plc.

Information about ExCo members is available on the Capita plc's website

[www.capita.com/our-company/about-capita/executive-committee](http://www.capita.com/our-company/about-capita/executive-committee). Decisions made by the Capita plc board and its committees, or by the ExCo and its committees, are cascaded throughout the Group as applicable and the management of each division, led by its Executive Officer, is responsible for their implementation among unregulated businesses in their division. Boards of directors of regulated entities within the Group have authority to make decisions autonomously, with risk committee oversight at a Group level. Monthly performance reviews are conducted by the ExCo with divisional management. These enable a two-way conversation to take place about business strategy, developments and performance. The Directors of the Company remain responsible for all decisions affecting the operation of the Company's affairs.

### **Strategic report**

In accordance with s414c(11) of the Companies Act, the Company has set out certain information in its Strategic report that is otherwise required to be disclosed in the Directors' report. This includes information regarding results and activities and a description of the principle risks and uncertainties facing the Company.

On behalf of the Board

G Bate-Williams  
**Director**

22 June 2023

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAPITA BUSINESS SERVICES LTD**

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### **Opinion**

We have audited the financial statements of Capita Business Services Limited ("the Company") for the year ended 31 December 2022 which comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 ; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

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

### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern from the date of approval of the financial statements to 31 August 2024 ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

The risk that we considered most likely to adversely affect the Company's available financial resources over this period was the extent to which the Company is reliant on its ultimate parent undertaking, Capita plc ("the Group"), which is driven by the following factors:

- The Company's participation in the Group's notional cash pooling arrangements;
- The significant level of intercompany receivables from fellow Group undertakings;
- The level of administrative support services received from the Group;
- The Company receives revenue from other Group entities or key contracts that may be terminated in the event of default by the Group; and
- The Company forms part of a group of subsidiary companies owned directly or indirectly by Capita plc, each of which guarantee the obligations under certain funding arrangements of Capita plc.

We considered whether these risks could plausibly affect the liquidity in the going concern period.

Our procedures including assessing the financial position of Capita plc to determine there was a risk that it would not be able to provide support to the Company. The most recent Capita plc financial statements have concluded that it was appropriate to adopt the going concern basis with no material uncertainty identified. Therefore, although the Company has inter-dependencies with the Group as 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 continue in operation and discharge its liabilities as they fall due over the going concern period.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAPITA BUSINESS SERVICES LTD (CONTINUED)**

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### **Going concern (continued)**

We considered whether the going concern disclosure in note 1.1 to the financial statements gives a full and accurate description of the director's assessment of going concern, including the identified risks and dependencies.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1.1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

### **Fraud and breaches of laws and regulations – ability to detect**

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, internal audit and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board Meeting minutes.
- Considering the remuneration incentive schemes and performance targets for management and directors including the short-term incentive plan and long-term incentive plan for management remuneration.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards and taking into account possible pressures to meet profit and revenue targets, we perform procedures to address the risk of management override of controls and risk of fraudulent revenue recognition. In particular, the risk that management may be in a position to make inappropriate accounting entries for long-term contracts, and the risk of bias in accounting estimates and judgements such as contract modifications and terminations.

We also identified a fraud risk related to inappropriate capitalisation, recognition or expensing of contract fulfilment costs in response to meet profit targets.

We performed procedures including:

- Identifying journal entries and other adjustments to test, based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts.
- Selecting samples from additions to contract fulfilment assets during the year, which we agreed back to supporting calculations and source documentation to assess whether the capitalisation was appropriate.
- Reviewing management's contract profitability forecasts for contracts with significant contract fulfilment assets and challenging the key assumptions in order to assess whether any impairment should be recorded against the carrying value of the contract fulfilment assets.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAPITA BUSINESS SERVICES LTD (CONTINUED)**

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### **Fraud and breaches of laws and regulations – ability to detect (continued)**

#### *Identifying and responding to risks of material misstatement related to compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: data protection laws, anti-bribery, employment law, and certain aspects of company legislation recognising the nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

#### *Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

### **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.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF CAPITA BUSINESS SERVICES LTD (CONTINUED)**

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**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 6, 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](http://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.

**Malcolm Footer (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square

London

E14 5GL

22 June 2023

## CAPITA BUSINESS SERVICES LTD

### INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

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		2022	2021
	Notes	£m	£m
Revenue	3	1,347.7	1,331.0
Cost of sales		(1,078.4)	(1,049.5)
<b>Gross profit</b>		<b>269.3</b>	<b>281.5</b>
Administrative expenses		(202.0)	(200.1)
<b>Operating profit</b>	4	<b>67.3</b>	<b>81.4</b>
Investment income	5	80.6	354.2
Other income	6	18.3	134.6
Impairment	7	(145.6)	(109.0)
Net finance costs	8	(0.7)	(15.8)
<b>Profit before tax</b>		<b>19.9</b>	<b>445.4</b>
Income tax credit/(charge)	9	0.5	(72.9)
<b>Total profit for the year</b>		<b>20.4</b>	<b>372.5</b>

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

The notes and information on pages 17 to 70 form an integral part of these financial statements.

## CAPITA BUSINESS SERVICES LTD

### STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

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	Notes	2022 £m	2021 £m
Profit for the year		20.4	372.5
		<u>          </u>	<u>          </u>
Other comprehensive (expense)/income; Items that will not be reclassified subsequently to the income statement			
Actuarial (loss)/gain on defined benefit pension schemes	26	(10.7)	106.3
Income tax effect	9	2.0	(20.2)
		<u>          </u>	<u>          </u>
Other comprehensive (expense)/income for the year, net of tax		(8.7)	86.1
		<u>          </u>	<u>          </u>
<b>Total comprehensive income for the year</b>		<b>11.7</b>	<b>458.6</b>
		<u>          </u>	<u>          </u>

The notes and information on pages 17 to 70 form an integral part of these financial statements.

# CAPITA BUSINESS SERVICES LTD

## BALANCE SHEET

AS AT 31 DECEMBER 2022

	Notes	2022 £m	2021 £m
<b>Non-current assets</b>			
Property, plant and equipment	10	31.8	52.4
Intangible assets	11	50.8	76.0
Right-of-use assets	12	187.9	208.8
Investments in subsidiaries	13	162.1	279.1
Investment in associates	14	-	1.9
Contract fulfilment assets	15	226.0	239.3
Financial assets	16	72.3	88.1
Trade and other receivables	18	3.5	5.9
Deferred tax	9	69.2	54.8
Employee benefits	26	39.3	7.2
		<b>842.9</b>	<b>1,013.5</b>
<b>Current assets</b>			
Financial assets	16	7.2	7.6
Inventories	17	1.8	1.9
Trade and other receivables	18	979.1	909.8
Cash and cash equivalents	19	28.0	1.7
		<b>1,016.1</b>	<b>921.0</b>
<b>Total assets</b>		<b>1,859.0</b>	<b>1,934.5</b>
<b>Current liabilities</b>			
Trade and other payables	20	256.9	234.3
Deferred income	21	367.1	366.7
Lease liabilities	22	35.3	38.5
Financial liabilities	23	0.5	5.9
Provisions	25	20.5	43.8
Income tax payable		39.5	44.2
		<b>719.8</b>	<b>733.4</b>
<b>Non-current liabilities</b>			
Trade and other payables	20	-	1.2
Deferred income	21	51.0	90.8
Lease liabilities	22	284.4	316.1
Financial liabilities	23	-	0.5
		<b>335.4</b>	<b>408.6</b>
<b>Total liabilities</b>		<b>1,055.2</b>	<b>1,142.0</b>
<b>Net assets</b>		<b>803.8</b>	<b>792.5</b>

## CAPITA BUSINESS SERVICES LTD

### BALANCE SHEET (CONTINUED)

AS AT 31 DECEMBER 2022

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	Notes	2022 £m	2021 £m
<b>Capital and reserves</b>			
Issued share capital	24	0.0	0.0
Share premium	24	60.0	60.0
Capital redemption reserve		0.7	0.7
Retained earnings		743.1	731.8
<b>Total equity</b>		<b>803.8</b>	<b>792.5</b>

The notes and information on pages 17 to 70 form an integral part of these financial statements.

Approved by Board and authorised for issue on 22 June 2023

**G Bate-Williams**  
**Director**

Company Registration No. 02299747

## CAPITA BUSINESS SERVICES LTD

### STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital	Share premium	Retained earnings	Capital redemption reserve	Total equity
	£m	£m	£m	£m	£m
<b>At 1 January 2021</b>	-	60.0	562.2	0.7	622.9
Profit for the year	-	-	372.5	-	372.5
Other comprehensive income	-	-	86.1	-	86.1
Total comprehensive income for the year	-	-	458.6	-	458.6
Equity dividends paid	-	-	(289.0)	-	(289.0)
Contribution in respect of share based payment charge	-	-	0.2	-	0.2
Settlement of share based payment charged by intercompany	-	-	(0.2)	-	(0.2)
<b>At 31 December 2021</b>	-	60.0	731.8	0.7	792.5
Impact of changes in accounting standards-Amendments to IAS 37 (Refer note 1.4)	-	-	(0.4)	-	(0.4)
<b>At 1 January 2022 on adoption of IAS 37</b>	-	60.0	731.4	0.7	792.1
Profit for the year	-	-	20.4	-	20.4
Other comprehensive expense	-	-	(8.7)	-	(8.7)
Total comprehensive income for the year	-	-	11.7	-	11.7
Contribution in respect of share based payment charge	-	-	1.1	-	1.1
Settlement of share based payment charged by intercompany	-	-	(1.1)	-	(1.1)
<b>At 31 December 2022</b>	-	60.0	743.1	0.7	803.8

The notes and information on pages 17 to 70 form an integral part of these financial statements.

#### Share capital

The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising 13,269 ordinary shares.

#### Share premium

The amount paid to the Company by shareholders, in cash or other consideration, over and above the nominal value of the shares issued to them less issuance costs.

#### Capital redemption reserve

The Company can redeem shares by repaying the market value to the shareholder, whereupon the shares are cancelled. Redemption must be from distributable profits. The capital redemption reserve represents the nominal value of the shares redeemed.

#### Retained earnings

Net profits accumulated in the Company after dividends are paid.

# CAPITA BUSINESS SERVICES LTD

## 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 Business Services Ltd is a company incorporated and domiciled in the UK.

The financial statements are prepared under the historical cost basis except where stated otherwise and in accordance with applicable accounting standards. The financial statements are presented in British pounds sterling and all values are rounded to the nearest tenth of a million (£m) except where otherwise indicated.

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 financial statements. 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, sensitivities, and mitigations as set out below.

Accounting standards require that 'the foreseeable future' for going concern assessment covers a period of at least twelve months from the date of approval of these financial statements, although those standards do not specify how far beyond twelve months the Directors should consider. In its going concern assessment, the Directors have considered the period from the date of approval of these financial statements to 31 August 2024 ('the going concern period') and which aligns to the period considered by the Directors of the ultimate parent company, Capita plc.

#### Board assessment

The financial forecasts used for the going concern assessment are derived from financial projections for 2023-2024 for the Company which have been subject to review and challenge by management and the Directors. The Directors have approved the projections.

#### Inter-dependency with Capita plc ('the Group')

The Director's assessment of going concern has considered the extent to which the Company's ability to remain a going concern is inter-dependent with that of the Group. The Company has dependency with the Group in respect of the following:

- provision of certain services, such as 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 £6.3m was held at 31 May 2023. In the event of the cash being required elsewhere in the Group, the Company may not be able to access its cash balance within the pooling arrangement;
- recovery of receivables of £861.8m from fellow Group companies as of 31 May 2023. If these receivables are not able to be recovered when forecast by the Company, then the Company may have difficulty in continuing to trade;
- additional funding that may be required if the Company suffers potential future losses;
- revenue from other Group entities and key contracts that may be terminated in the event of a default by the Group;
- revenue earned by its subsidiaries from other Group entities and key contracts that may be terminated in the event of a default by the Group;
- the Company forms part of a group of subsidiary companies owned directly or indirectly by Capita plc each of which guarantee the obligations under certain funding arrangements of Capita plc and Capita Holdings Limited (refer to note 1.2).

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 1 Accounting policies

(Continued)

#### 1.1 Basis of preparation (continued)

Given the inter-dependency the Company has with the Group, the Directors have considered the financial position of the ultimate parent company as disclosed in its most recent consolidated financial statements, being for the year ended 31 December 2022.

##### *Ultimate parent company – 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, sensitivities, and mitigations when preparing the Group's consolidated financial statements at 31 December 2022. These consolidated financial statements were approved by the Board on 2 March 2023 and are available on the Group's website ([www.capita.com/investors](http://www.capita.com/investors)). Below is a summary of the position at 2 March 2023:

*Accounting standards require that 'the foreseeable future' for going concern assessment covers a period of at least twelve months from the date of approval of these financial statements, although those standards do not specify how far beyond twelve months a Board should consider. In its going concern assessment, the Board has considered the period from the date of approval of these financial statements to 31 August 2024 ('the going concern period') and which aligns with the expiry of the revolving credit facility (RCF).*

*Given the track record of the Group extending the RCF in prior years, including in 2022, and the committed bridge facility executed in February 2023, the Board is confident that the RCF will be extended or refinanced and be of a sufficient quantum well ahead of its expiry in August 2024.*

*The base case financial forecasts used in the going concern assessment are derived from the 2023-2024 business plans as approved by the Board in January 2023.*

*The base case financial forecasts demonstrate liquidity headroom and compliance with all debt covenant measures throughout the going concern period to 31 August 2024. The base case projections used for going concern assessment purposes reflect business disposals completed up to the date of approval of these financial statements but do not reflect the benefit of any further disposals that are in the pipeline. The liquidity headroom assessment in the base case projections reflects the Group's existing committed financing facilities and debt redemptions and does not reflect any potential future refinancing, other than in respect of the current RCF as noted above.*

*In considering severe but plausible downside scenarios, the Board has taken account of the potential adverse financial impacts resulting from the following risks:*

- revenue growth falling materially short of plan;
- operating profit margin expansion not being achieved;
- additional inflationary cost impacts which cannot be passed on to customers;
- unforeseen operational issues leading to contract losses and cash outflows;
- increased interest rates;
- reduction in deferred cash consideration in respect of completed disposals;
- non-availability of the Group's non-recourse receivables financing facility; and
- unexpected financial costs and penalties linked to incidents such as data breaches and/or cyber-attacks.

*The likelihood of simultaneous crystallisation of the above risks is considered by the directors to be relatively low. Nevertheless, in the event that simultaneous crystallisation were to occur, the Group would need to take action to mitigate the risk of insufficient liquidity and covenant headroom. In its assessment of going concern, the Board has considered the mitigations, under the direct control of the Group, that could be implemented including reductions in capital investment, substantially reducing (or removing in full) bonus and incentive payments and significantly reducing discretionary spend. Taking these mitigations into account, the Group's financial forecasts, in a severe but plausible downside scenario, demonstrate sufficient liquidity headroom and compliance with all debt covenant measures throughout the going concern period to 31 August 2024.*

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 1 Accounting policies (Continued)

#### 1.1 Basis of preparation (continued)

##### *Adoption of going concern basis by the Group:*

*Reflecting the Board's confidence in the benefits expected from the completion of the transformation programme and ability to obtain further RCF financing beyond its existing committed funding facilities coupled with its ability to implement appropriate mitigations should the severe but plausible downside materialise the Group continues to adopt the going concern basis in preparing these financial statements. The Board has concluded that the Group and Parent Company will be able to continue in operation and meet their liabilities as they fall due over the period to 31 August 2024.*

The directors have also made enquiries with the directors of the ultimate parent undertaking to understand the current performance of the Group, and to confirm that they are not aware of any events or circumstances since 2 March 2023 that would change their conclusion in regard to the going concern basis for the Group and ultimate parent undertaking.

##### **Conclusion**

Although the Company has inter-dependencies with the Group as 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 continue in operation and discharge its liabilities as they fall due over the period to 31 August 2024 (the "going concern period"). Consequently, the annual report and financial statements have been prepared on the going concern basis.

#### 1.2 Guarantor group

The Company forms part of a group of subsidiary companies owned directly or indirectly by Capita plc each of which guarantee the obligations under certain funding arrangements of Capita plc and Capita Holdings Limited. These funding arrangements are: Capita plc's principal bank credit facilities, Euro fixed rate bearer bonds issued by Capita plc, and US private placement loan notes issued by Capita Holdings Limited. These arrangements are subject to ongoing compliance with covenants that include the Group's maximum ratio of adjusted net debt to adjusted EBITDA and minimum interest cover. The covenant threshold tests are required to be carried out twice a year and the Group was in compliance with all debt covenants.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 1 Accounting policies

(Continued)

#### 1.3 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 company, 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;
- Disclosures in respect of the compensation of key management personnel; and
- Disclosures as required by IFRS 16 Leases.

Since 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, indefinite life intangible assets and investment in subsidiaries;
- 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 7 Financial Instrument Disclosures and certain disclosure exemptions as permitted by IFRS 13 Fair value measurement.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

### 1 Accounting policies (Continued)

#### 1.4 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

#### Onerous contracts – cost of fulfilling a contract (amendments to IAS 37)

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Company cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services, which include both incremental costs (e.g. the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g. depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The Company has adopted the amendment which resulted in a change in accounting policy for performing an onerous contracts assessment. Previously, the Company included only incremental costs to fulfil a contract when determining whether that contract was onerous. The revised policy requires inclusion of both incremental costs and an allocation of other direct costs.

In accordance with the transitional provisions, the Company applies the amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application) and has not restated its comparative information.

The adoption of the amended standard has resulted in a reduction in retained earnings at 1 January 2022 of £0.4m on account of an increase of £0.4m in onerous contract provisions. The additional onerous contract provision recognised is tax deductible, however, no deferred tax asset has been recognised reflecting the probable level of future taxable profits that will be available against which the assets can be utilised at 1 January 2022. For further details, please refer to note 9.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 1 Accounting policies

(Continued)

#### 1.5 Revenue recognition

The Company generates revenue largely in the United Kingdom. The Company operates a diverse range of businesses and accordingly applies a variety of methods for revenue recognition, based on the principles set out in IFRS 15. The revenue and profits recognised in any period are based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

Revenue is recognised either when the performance obligation in the contract has been performed (so 'point in time' recognition) or '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 (MSAs) or Frameworks not meeting the definition of a contract under IFRS 15 and as such the individual call-off agreements, linked to the MSA, are treated as individual contracts.

The 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.

At a contract's inception the total transaction price is estimated, being the amount to which the Company expects to be entitled and has rights to under the 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 already 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 while) those performance obligations are satisfied.

The Company infrequently sells standard products with observable stand-alone prices due to the specialised services required by customers, consequently the Company applies judgement to determine an appropriate standalone selling price. More frequently, the Company sells customers bespoke solutions, and in these cases the Company typically uses the expected cost-plus margin or a contractually stated price approach to estimate the stand-alone 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.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 1 Accounting policies

(Continued)

#### 1.5 Revenue recognition (continued)

For each performance obligation to be recognised over time, the Company applies a revenue recognition method that faithfully depicts the Company's performance in transferring control of the goods or services to the customer. This decision requires assessment of the real nature of the goods or services that the Company has promised to transfer to the customer. The Company 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, in particular for long-term service contracts where the series guidance is applied, the Company often uses a method of time elapsed which requires minimal estimation. Certain long-term contracts use output methods based upon estimations of: user numbers; service activity levels; or fees collected.

When transfer of control is most closely aligned to the Company's efforts in delivering the service, the input method is used to measure progress and revenue is recognised in direct proportion to costs incurred. This is a faithful depiction of the transfer of services because costs (or other inputs) most accurately reflect the incremental benefits received by the customer from efforts to date.

If performance obligations in a contract do not meet the over time criteria, the Company recognises revenue at a point in time when the service or good is delivered.

#### *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 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).

In respect of 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 because the types of modifications will vary contract by contract and may result in different accounting outcomes.

Judgement is applied in relation to the accounting for such modifications where the final terms or legal contracts have not been agreed prior to the period end because management need to determine if a modification has been approved and if it either creates new or changes existing, enforceable rights and obligations of the parties. Depending upon the outcome of such negotiations, the timing and amount of revenue recognised may be different in the relevant accounting periods. Modification and amendments to contracts are undertaken through an agreed formal process. For example, if a change in scope has been approved but the corresponding change in price is still being negotiated, management uses its 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. For example, if pricing is subject to indexation based on an external metric (such as CPI or RPI) then the revenue related to the indexation will only be recognised once the relevant indexation is confirmed. Future indexation will not be recognised because it is not highly probable that a significant reversal of an indexation adjustment will not occur.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 1 Accounting policies

(Continued)

#### 1.5 Revenue recognition (continued)

##### *Contract fulfilment costs*

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

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

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

The Company has determined that, where the relevant specific criteria are met, the costs for (i) process mapping and design; (ii) system development; and (iii) project management; are likely to qualify to be capitalised as contract fulfilment assets.

The incremental costs of obtaining a contract with a customer are recognised as a contract fulfilment asset if the 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.

The Company has determined that the following costs may be capitalised as contract fulfilment assets: (i) legal fees to draft a contract after the Company has been selected as preferred supplier; and (ii) sales commissions directly related to winning a specific contract.

Costs incurred prior to selection as preferred supplier are not capitalised but expensed as incurred

##### *Utilisation*

The utilisation charge is included within cost of sales. The Company utilises contract fulfilment assets over the expected contract period using a systematic basis that mirrors the pattern in which the Company transfers control of the goods and service to the customer.

##### *Derecognition*

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

##### *Impairment*

At each reporting date, the Company determines whether or not the contract fulfilment assets are impaired by comparing the carrying amount of the asset with 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.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 1 Accounting policies

(Continued)

#### 1.5 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 because more than one party is involved in providing the goods and services to the customer. The Company is 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 or not 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 basis, recognising only the commission or fee earned as revenue.

##### *Licences*

Software licences delivered by the Company can either be right to access ('active') or right to use ('passive') licences, which determines the timing of revenue recognition. The assessment of whether a licence is active, or passive involves judgement.

The key determinant of an active license is whether or not the Company is required to undertake continuing activities that significantly affect the licensed intellectual property (or the customer has a reasonable expectation that it will do so) and the customer is, therefore, exposed to positive (or negative) impacts resulting from those changes. Where the Company is responsible for any maintenance, continuing support, updates and upgrades and accordingly the sale of the initial software is not distinct. All other licences which have significant stand-alone functionality are treated as passive licences.

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 upgrades are considered fundamental to the ongoing use of the software by the customer, the upgrades are not considered distinct and not accounted for as a separate performance obligation.

For each contract that includes a separate licence performance obligation, the Company considers all the facts and circumstances in determining whether the licence revenue is recognised over time (active) or at a point-in-time (passive) from the go-live date of the licence.

##### *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/or services being provided. This can include performance-based payments or progress payments as well as regular monthly or quarterly payments for ongoing service delivery. Payments for transactional goods and services may be at delivery date, in arrears or part payment in advance. The long-term service contracts tend to have higher cash flows early on in the contract to cover transformational activities.

Where payments received are greater than the revenue recognised up to the reporting date, the Company recognises a deferred income contract liability for this difference. Where payments received less than the revenue recognised up to the reporting date, the Company recognises an accrued contract income asset for this difference.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 1 Accounting policies

(Continued)

#### 1.5 Revenue recognition (continued)

At each reporting date, the Company assesses whether there is any indication that accrued contract income assets may be impaired by considering whether or not any revenue reversal could occur. 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.

##### *Contract types*

The Company disaggregates revenue from contracts with customers by contract type, because 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; short-term contractual – less than two years; and transactional. The years being measured from the service commencement date.

##### *Long-term contractual – greater than two years*

The Company provides a range of services in the majority of its reportable segments under contracts with a duration of more than two years. The nature of contracts or performance obligations within this revenue type includes:

- (i) long-term outsourced service arrangements in the public and private sectors; and
- (ii) active software license arrangements.

The majority of long-term contractual contracts form part of a series of distinct goods and services because they are substantially the same service; and have the same pattern of transfer since the series constitutes services provided in distinct time increments (e.g., daily, monthly, quarterly or annually services) and therefore treats the series as one performance obligation.

##### *Short-term contractual – less than two years*

The nature of contracts or performance obligations within this revenue type 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 because 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 distinct from each subsequent 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 or services and acceptance by the customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria.

The nature of contracts or performance obligations within this revenue type includes:

- (i) provision of IT hardware goods;
- (ii) passive software license agreements;
- (iii) commission received as agent from the sale of third-party software; and
- (iv) fees received in relation to delivery of professional services.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 1 Accounting policies (Continued)

#### 1.6 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.

#### 1.7 Intangible assets

Intangible assets are valued at cost less accumulated amortisation. Amortisation is calculated to write off the cost in equal annual instalments over their estimated useful life, which is typically 3 to 15 years. In the case of capitalised software development costs, research expenditure is written off to the income statement 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.

#### 1.8 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:

Freehold buildings	50 years
Leasehold improvements	shorter of lease term or 5 years
Furniture, fittings and equipment	2 - 5 years
Computer equipment	2 - 5 years

#### 1.9 Inventories

Inventories are stated at the lower of cost and net realisable value.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 1 Accounting policies

(Continued)

#### 1.10 Leasing

The Company leases various assets, comprising land and buildings, equipment and motor vehicles.

The determination whether an arrangement is, or contains, a lease is based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. 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 income statement. Amendment to lease terms resulting in a change in payments or the length of the lease results in an adjustment to the right-of-use asset and liability. Right-of-use assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be fully recoverable. Right-of-use assets exclude leases with low values and terms of 12 months or less.

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

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 Company. 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 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 BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 1 Accounting policies (Continued)

#### 1.10 Leasing (continued)

##### The Company as a lessor

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 all of the risks and rewards of ownership in relation to the underlying asset. If this is the case, then the lease is a finance lease. If not, then it is an operating lease.

The Company acts as an intermediate lessor of property assets and equipment. When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses whether the sub-lease is a finance or operating lease in the context of the right-of-use asset arising from the head lease, not with reference to the underlying asset.

In instances where the Company is the intermediate lessor and the sub-lease is classified as a finance lease, the Company recognises a net investment in sub-leases for amounts recoverable from the sub-lessees while derecognising the respective portion of the gross right-of-use asset. The gross lease liability is retained on the balance sheet. The net investment in sub-leases is classified as current or non-current finance assets in the balance sheet according to whether or not the amounts will be recovered within 12 months of the balance sheet date.

Finance income recognised in respect of net investment in sub-leases is presented within net finance costs in the income statement. The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term. The Company accounts for finance leases as a finance lease receivables, using incremental borrowing rate where the interest rate implicit in sub-lease is not easily determinable.

#### 1.11 Investments

The Company has investments in subsidiaries and associates.

Investment in subsidiaries and associates are initially recorded at cost. Subsequently they are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

At each reporting period, the Company assesses whether there are indicators to reverse the previously recognised impairment loss. The reversals of impairment are only recognised where there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 1 Accounting policies

(Continued)

#### 1.12 Pensions

##### **Defined contribution pension schemes**

The Company participates in a number of defined contribution pension schemes and for these schemes the Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the income statement as the related service is provided and as they fall due.

##### **Defined benefit pension schemes**

The Company also operates a defined benefit pension scheme and participates in other defined benefit pension schemes, all of which require contributions to be made to separate trustee-administered funds.

Where the Company participates in funded and unfunded public sector defined benefit pension schemes, and there are contractual protections in place allowing actuarial and investment risk to be passed on to the end customer through recoveries for contributions paid (as explained further in note 26), the costs are reported on a defined contribution basis recognising a cost equal to the contributions payable during the period. No amounts are recognised on the Company's balance sheet.

For the defined benefit pension scheme the Company operates (the Capita Pension & Life Assurance Scheme), the cost of providing benefits under the scheme is determined separately using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the defined benefit obligation) and is based on actuarial advice. Past service costs are recognised immediately in the income statement.

When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are re-measured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

Re-measurements of the net defined benefit asset/liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income and recorded in retained earnings and will not be reclassified to the income statement. The Company generally determines the net interest expense/income on the net defined benefit asset/liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the then net defined benefit asset/liability, taking into account any changes in the net defined benefit asset/liability during the period as a result of contributions and benefit payments. However, due consideration is made to events which require the net interest expense/income on the net defined benefit asset/liability to be re-measured over the course of the period.

Current and past service costs are charged to operating profit while the net interest cost is included within net finance costs. The liability on the balance sheet in respect of the defined benefit pension scheme the Company operates comprises the total for the scheme of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. The policy to determine fair value of plan assets is covered in note 26. The Company will consider the impact of IFRIC 14 (in relation to either recognising a surplus or allowing for the impact of any funding commitments made) and will make an assessment, having regard to the rules of the pension schemes, on whether IFRIC 14 limits the surplus or increases the deficit shown at the balance sheet date. Please refer to note 26 for the Company's assessment.

The figures in note 26 relating to the defined benefit pension scheme the Company operates relates to the liabilities of the entire scheme and not solely liabilities relating to employees of the Company.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 1 Accounting policies

(Continued)

#### 1.13 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.

#### 1.14 Share-based payments

The fair value of the equity instrument granted is measured at grant date and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an option pricing model, only taking into account vesting conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest as a result of not meeting performance or service conditions. Where all service and performance vesting conditions have been met, the awards are treated as vesting, irrespective of whether or not the market condition is satisfied, as market conditions have been reflected in the fair value of the equity instruments.

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

Where the terms of an award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period adjusted for the incremental fair value of any modification ie the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the consolidated income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over the fair value being treated as an expense in the income statement.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 1 Accounting policies

(Continued)

#### 1.15 Group Accounts

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

#### 1.16 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. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. All foreign exchange gains/losses are recognised in the income statement.

#### 1.17 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 other comprehensive income (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.

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).

###### *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on the trade date (i.e. 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 to the income statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 1 Accounting policies

(Continued)

#### 1.17 Financial instruments (continued)

##### *Debt instruments*

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the income statement and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the income statement.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the income statement and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses), and impairment expenses are presented as a separate line item in the income statement.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in the income statement and presented net within other gains/(losses) in the period to which it arises.

##### *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 the income statement following the derecognition of the investment. Dividends from such investments continue to be recognised in the income statement as other income when the Company'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 income statement 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.

##### *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.

##### *Trade and other receivables*

Trade receivables are initially recognised at cost (being the same as fair value) and subsequently at amortised cost less any provision for impairment, to ensure the amounts recognised represent their recoverable amount.

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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 1 Accounting policies

(Continued)

#### 1.17 Financial instruments (continued)

**Non-recourse trade receivables facilities:** Trade receivables that are sold without recourse are derecognised at the point of sale when the risks and rewards of the receivables have been fully transferred.

#### *Trade and other payables*

Trade and other payables are recognised initially at cost (being same as fair value). Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

#### *Cash and cash equivalents*

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Bank overdrafts are shown within current financial 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. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised, as well as through the amortisation process.

#### 1.18 Business Combinations

Subject to the transitional relief in IFRS 1, unincorporated business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Company.

For acquisitions on or after 1 January 2010, the Company measures goodwill at the acquisition date as:

- the fair value of the consideration (excluding contingent consideration) transferred; plus
- estimated amount of contingent consideration; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

#### 1.19 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.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 1 Accounting policies

(Continued)

#### 1.20 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.

#### 1.21 Guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

#### 1.22 Government grants

Government grants are not recognised until there is a reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in the income statement on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in the income statement in the period in which they become receivable.

#### 1.23 Current versus non-current classification

The Company presents assets and liabilities in the balance sheet based on whether they are current or non-current.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*FOR THE YEAR ENDED 31 DECEMBER 2022*

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### 1 Accounting policies

(Continued)

#### 1.24 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.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 2 Significant accounting judgements, estimates and assumptions

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

The 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 :

- **Revenue:** Due to the size and complexity of some of the Company's contracts, there are significant judgements to be applied, specifically in assessing: (i) the recoverability of contract fulfilment assets; and (ii) the completeness of the customer and onerous contract provisions. These judgements are dependent on assessing the contract's future profitability. It is possible that outcomes within the next financial year may be different from management's assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions. It should be noted that while management must make judgements in relation to applying the revenue recognition policy and recognition of related balance sheet items (trade receivables; deferred income; and accrued income) these are not considered significant judgements.
- **Contract fulfilment assets:** Judgement is applied by the Company when determining what costs qualify to be capitalised in particular when considering whether these costs are incremental and when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable.
- **The assessment of costs capitalised as intangible assets to generate future economic benefits:** Judgement is applied in assessing whether costs incurred, both internal and external, will generate future economic benefits. Significant judgements and estimates are applied in determining the carrying value of the assets, including assumptions made in respect of the status of the programme each asset relates to. Given the level of judgement and estimation involved in assessing future cash flows, it is reasonably possible that outcomes within the next financial year may be different from management's assumptions and require a material adjustment to the carrying value of intangible assets. The relative size of the Company's intangible assets, excluding goodwill, makes the judgements surrounding the estimated useful lives material to the Company's financial position and performance.
- **Impairment of investment in subsidiaries:** The Company determines whether investments in subsidiaries are impaired based on impairment indicators. If an indicator is identified, an impairment test is performed. This involves estimation of the enterprise value of the investee which is determined based on the greater of discounted future cash flows at a suitable discount rate or through the recoverable value of the investments held by the investee company.
- **Measurement and impairment of goodwill:** The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement. Allocation of the purchase price affects the results of the Company because finite lived intangible assets are amortised. The Company determines whether goodwill is impaired on an annual basis, or more frequently if required, and this requires an estimation of the recoverable amount of the CGUs to which the intangible assets are allocated utilising an estimation of future cash flows and choosing a suitable discount rate.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 2 Significant accounting judgements, estimates and assumptions

(Continued)

- **Deferred Taxation:** In determining the recognition of deferred tax (refer note 9), management assess the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets are recognised to the extent that taxable temporary differences exist, and it is considered probable that future taxable profits will be available against which the assets can be utilised before their expiry. The availability of future profits must be assessed against forecasts and other supporting evidence. This determination of future forecasts is based on management's judgement. It requires judgement regarding whether future profit forecasts are considered 'more likely than not' as supporting evidence for deferred tax asset recognition.
- **The measurement of defined benefit obligations:** The accounting cost of these benefits and the present value of pension liabilities involve judgements about uncertain events including such factors as the life expectancy of members, the salary progression of current employees, price inflation and the discount rate used to calculate the net present value of the future pension payments. The Company uses estimates for all of these factors in determining the pension costs and liabilities incorporated in the consolidated financial statements. The assumptions reflect historical experience and judgement regarding future expectations.

The discount rate is derived from the yields available on high quality corporate bonds of appropriate term and currency as at the balance sheet date. Over the year these yields have increased by about 2.8% pa, resulting in the discount rate as at 31 December 2022 being 4.75% pa (31 December 2021: 1.90% pa).

The Company continued to set RPI inflation in accordance with the market break-even expectations less an inflation risk premium. The inflation risk premium has remained at 0.25% pa. For CPI, the Company retained the assumed difference between RPI and CPI at an average of 0.65% pa.

Short-term inflation expectations continued to rise due to the global economic recovery from the initial phase of Covid-19, combined with supply constraints in certain sectors such as energy. Current inflation levels exceed 10% pa. This will have an impact on pension increases that are linked to inflation and this impact, where applicable, has been reflected in the disclosures. It should be noted that a material proportion of pension increases are capped (at different levels, but the main cap is 5% pa) with some caps applying annually and others applying over a period of years.

The impact of Covid-19 on the effects of future life expectancy continues to be uncertain. The pandemic is likely to have an impact on the setting of appropriate life expectancy assumptions and models for future improvements will need to consider whether the experiences in 2020 and 2021 are a short-term phenomenon, and if the pandemic will influence future mortality in other ways. For example, the pressure on health services may mean that progress against other causes of death such as cancer is slower than previously expected, meaning an assumption of a lower rate of mortality improvements might be appropriate. Alternatively, the surviving population may be in better health than those dying from Covid-19, meaning that it might be expected that the remaining members live slightly longer. It is still too early to draw conclusions as to what impact Covid-19 might have on future life expectancy; however, some allowance has been reflected for actual mortality experienced in 2020 and 2021 by making a refinement in an initial adjustment parameter used in the future mortality improvement assumptions from 0.5% to 0.25% (which makes an allowance for a decrease in initial rates of longevity improvement stemming from Covid-19) and which results in the life expectancy reducing by around 0.1 years (around 0.4% of liabilities).

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

### 3 Revenue

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

### 4 Operating profit

	Notes	2022 £m	2021 £m
<b>Operating profit for the year is stated after (crediting)/charging:</b>			
Net foreign exchange gain		(1.2)	(0.3)
Depreciation of property, plant and equipment	10	14.3	20.1
Depreciation of right-of-use-assets	12	34.1	40.5
Loss on disposal of property, plant and equipment and intangible assets		1.6	0.1
Amortisation of intangible assets	11	8.4	19.1
Contract fulfilment asset utilisation, impairment and derecognition	15	66.7	54.8
Restructuring costs		-	18.1
		<u>          </u>	<u>          </u>

Audit fees are borne by the ultimate parent company, Capita plc. The audit fee for the current period was £0.2m (2021: £0.2m). 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 consolidated financial statements of the ultimate parent company, which it is required to prepare in accordance with the Companies Act 2006.

### 5 Investment income

	2022 £m	2021 £m
Income from shares in Group companies	80.6	354.2
	<u>80.6</u>	<u>354.2</u>

The Company has received dividends from Capita Resourcing Limited (£42.7m), Tascor Services Limited (£29.8m), Capita (04472243) Limited (£7.0m) and Fera Science Limited of (£1.1m) in 2022.

### 6 Other income

	2022 £m	2021 £m
Net profit on sale of investments	-	106.3
Revaluation gain on investments measured at FVPL	3.7	2.2
Gain on business disposal	-	5.3
Rental income	14.6	20.8
	<u>18.3</u>	<u>134.6</u>

## CAPITA BUSINESS SERVICES LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

7	Impairment	2022	2021
		£m	£m
	Investments in subsidiaries & associates (refer notes 13 & 14)	128.6	110.7
	Reversal of impairment loss of investments (refer note 13)	(2.5)	(19.8)
	Property, plant & equipment and intangible assets (refer notes 10 & 11)	19.5	18.1
		<u>145.6</u>	<u>109.0</u>
		<u><u>145.6</u></u>	<u><u>109.0</u></u>
8	Net finance costs	2022	2021
		£m	£m
	Interest expense on finance lease liabilities	17.9	19.0
	Interest income on finance lease assets	(4.3)	(4.6)
	Interest income from Group companies	(9.7)	(0.5)
	Interest expense on bank overdrafts and loans	0.4	0.4
	Net interest (income)/cost on defined pension schemes	(3.6)	1.5
		<u>0.7</u>	<u>15.8</u>
		<u><u>0.7</u></u>	<u><u>15.8</u></u>
9	Income tax		
	The major components of income tax expense for the years ended 31 December 2022 and 2021 are:		
		2022	2021
		£m	£m
	<b>Current tax</b>		
	UK corporation tax	12.6	42.5
	Adjustments in respect of prior periods	0.9	8.3
		<u>13.5</u>	<u>50.8</u>
	<b>Deferred tax</b>		
	Origination and reversal of temporary differences	(14.5)	29.6
	Adjustment in respect of prior periods	0.5	(7.5)
		<u>(14.0)</u>	<u>22.1</u>
	<b>Total tax (credit)/charge reported in the income statement</b>	<u><u>(0.5)</u></u>	<u><u>72.9</u></u>

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

9	Income tax	(Continued)	
	<b>Statement of comprehensive income</b>	<b>2022</b>	<b>2021</b>
		<b>£m</b>	<b>£m</b>
	<b>Tax movement in relation to actuarial gains on defined benefit plans</b>		
	<b>Current income tax</b>		
	Current income tax charge	(7.2)	(11.5)
	<b>Deferred income tax</b>		
	Origination and reversal of temporary differences	5.2	31.7
	<b>Total tax (credit)/charge reported in other comprehensive income</b>	<b>(2.0)</b>	<b>20.2</b>
	The reconciliation between tax charge and the accounting loss multiplied by the UK Corporation tax rate for the years ended 31 December 2022 and 2021 is as follows:		
		<b>2022</b>	<b>2021</b>
		<b>£m</b>	<b>£m</b>
	<b>Profit before tax</b>	19.9	445.4
	Profit before taxation multiplied by standard rate of corporation tax in the UK of 19.00% (2021: 19.00%)	3.8	84.6
	Adjustments in respect of current income tax of prior periods	0.9	8.3
	Adjustments in respect of deferred tax of prior periods	0.5	(7.5)
	Expenses not deductible for tax purposes	28.8	18.5
	Non-taxable income	(16.1)	(66.2)
	Deferred tax (recognised)/not recognised	(22.2)	55.9
	Chargeable gains	-	4.9
	Impact of changes in statutory tax rates	3.8	(25.6)
	<b>Total tax adjustments</b>	<b>(4.3)</b>	<b>(11.7)</b>
	<b>Total tax (credit)/charge reported in the income statement</b>	<b>(0.5)</b>	<b>72.9</b>
		<b>Balance sheet</b>	<b>Income statement</b>
		<b>2022</b>	<b>2021</b>
		<b>£m</b>	<b>£m</b>
	<b>Deferred tax assets</b>		
	Decelerated capital allowances	40.0	27.9
	Tax losses	18.5	0.3
	Pension schemes	3.5	16.7
	Contract fulfilment assets	(0.4)	(0.9)
	Other timing differences	7.6	10.8
	<b>Net deferred tax asset</b>	<b>69.2</b>	<b>54.8</b>
	<b>Deferred tax expense to income statement</b>		<b>(14.0)</b>
	Other comprehensive income		5.2
	<b>Total deferred tax movement in the period</b>		<b>(8.8)</b>

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

### 9 Income tax (Continued)

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.

The Company has gross unrecognised fixed asset timing differences of £46.5m (2021: £63.6m), gross unrecognised trading losses of £77.2m (2021:£158.8m), gross unrecognised capital losses of £6.9m (2021: £6.9m) and other gross unrecognised timing differences of £9.8m (2021: £nil) in the statutory accounts due to the uncertainty of future use.

### 10 Property, plant and equipment

	Freehold buildings	Leasehold improvements	Furniture, fittings and equipment	Computer equipment	Total
	£m	£m	£m	£m	£m
<b>Cost</b>					
At 1 January 2022	12.1	33.2	6.2	52.9	104.4
Additions	-	4.7	-	1.1	5.8
Intragroup transfer	-	(3.3)	(1.1)	(20.0)	(24.4)
Disposals	(2.9)	(3.0)	(0.3)	(0.3)	(6.5)
Asset retirement	-	(0.5)	(1.1)	(16.6)	(18.2)
Reclass to intangibles	-	-	-	(0.6)	(0.6)
<b>At 31 December 2022</b>	<b>9.2</b>	<b>31.1</b>	<b>3.7</b>	<b>16.5</b>	<b>60.5</b>
<b>Accumulated depreciation and impairment</b>					
At 1 January 2022	7.6	12.1	3.8	28.5	52.0
Impairment	1.0	0.4	-	-	1.4
Intragroup transfer	-	(3.2)	(0.6)	(12.0)	(15.8)
Disposals	(2.9)	(1.9)	(0.2)	-	(5.0)
Charge for the year	0.3	4.4	0.7	8.9	14.3
Asset retirement	-	(0.5)	(1.1)	(16.6)	(18.2)
<b>At 31 December 2022</b>	<b>6.0</b>	<b>11.3</b>	<b>2.6</b>	<b>8.8</b>	<b>28.7</b>
<b>Net book value</b>					
<b>At 31 December 2021</b>	<b>4.5</b>	<b>21.1</b>	<b>2.4</b>	<b>24.4</b>	<b>52.4</b>
<b>At 31 December 2022</b>	<b>3.2</b>	<b>19.8</b>	<b>1.1</b>	<b>7.7</b>	<b>31.8</b>

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

11 Intangible assets	Software and licences £m	Goodwill £m	Total £m
<b>Cost</b>			
At 1 January 2022	63.8	89.7	153.5
Additions	5.6	-	5.6
Disposals	(1.1)	-	(1.1)
Asset retirement	(4.8)	-	(4.8)
Derecognition	-	(72.6)	(72.6)
Intragroup transfer	(23.1)	12.6	(10.5)
Reclass from Property, plant and equipment	0.6	-	0.6
	<u>41.0</u>	<u>29.7</u>	<u>70.7</u>
<b>Accumulated amortisation and impairment</b>			
At 1 January 2022	22.4	55.1	77.5
Amortisation	8.4	-	8.4
Disposals	(1.0)	-	(1.0)
Impairment	0.5	17.6	18.1
Asset retirement	(4.8)	-	(4.8)
Derecognition	-	(72.6)	(72.6)
Intragroup transfer	(8.2)	2.5	(5.7)
	<u>17.3</u>	<u>2.6</u>	<u>19.9</u>
<b>Net book value</b>			
	<u>41.4</u>	<u>34.6</u>	<u>76.0</u>
<b>At 31 December 2021</b>	<u>41.4</u>	<u>34.6</u>	<u>76.0</u>
	<u>23.7</u>	<u>27.1</u>	<u>50.8</u>
<b>At 31 December 2022</b>	<u>23.7</u>	<u>27.1</u>	<u>50.8</u>

In undertaking the annual impairment review, the Directors considered both internal and external sources of information, and any observable indications that may suggest that the carrying value of goodwill may be impaired. The Company's impairment test compares the carrying value of each CGU with its recoverable amount. The recoverable amount of a CGU is the higher of fair value less cost of disposal, and its value in use, where value in use would typically be the expected cash flows to be generated from operating the businesses into perpetuity.

Over the course of 2022, as part of the Group's on-going legal entity reorganisation exercise a number of businesses were transferred between companies within the Group, including into and out of the Company (see Note 33). This exercise included a detailed review of the Company's goodwill balances, in particular focusing on historical balances associated with recent disposals, and businesses that have been transferred elsewhere in the Group. At 31 December 2022, this resulted in a goodwill impairment of £17.6m being recognised by the Company.

As at 31 December 2022, the estimated recoverable amount of each remaining Group of CGUs exceeded its respective carrying value. The key inputs to the calculations are described below, including changes in market conditions.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

### 11 Intangible assets

(Continued)

The cash flow projections prepared for the impairment test are derived from the 2023-2025 business plans (BP) approved by the Board. Global economic uncertainties continue to lead to increased judgement being applied, particularly in forecasting future financial performance. The long-term growth rate is based on economic growth forecasts by recognised bodies and this has been applied to forecast cash flows for years four and five (2026 and 2027) and for the terminal period. The 2022 long-term growth rate is 2.2% (2021: 1.7%). Management estimates discount rates using pre-tax rates of comparator companies, which reflect the latest market assumptions for the risk-free rate, the equity risk premium and the net cost of debt, and which are all based on publicly available external sources.

Goodwill that has been fully impaired either in the current year or prior year as a result of disposals or business transfer under common control transactions has been derecognised. Accordingly, £72.6m of cost and associated accumulated impairment and amortisation has been derecognised during the year. There is no impact on net assets, total profit or retained earnings as a result of this adjustment.

The amortisation of intangible assets is recognised in cost of sales (£5.4m) and administrative expenses (£3.0m) in the income statement.

### 12 Right-of-use assets

	Property £m	Equipment £m	Motor Vehicles £m	Total £m
<b>Net book value</b>				
At 1 January 2022	188.9	3.5	16.4	208.8
Additions	7.4	-	2.4	9.8
Depreciation charged during the year	(25.3)	(2.7)	(6.1)	(34.1)
Other movements*	5.4	0.2	(2.2)	3.4
<b>At 31 December 2022</b>	<b>176.4</b>	<b>1.0</b>	<b>10.5</b>	<b>187.9</b>

\*Other movements include amendments to existing leases, impairment losses, impairment reversals and terminations.

## CAPITA BUSINESS SERVICES LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

#### 13 Investment in subsidiaries

Cost	£m
At 1 January 2022	472.6
Additions (refer A below)	7.9
	<hr/>
<b>At 31 December 2022</b>	<b>480.5</b>
	<hr/>
Impairment	
At 1 January 2022	193.5
Charge for the year (refer B below)	127.4
Reversal of impairment loss (refer C below)	(2.5)
	<hr/>
<b>At 31 December 2022</b>	<b>318.4</b>
	<hr/>
Net book value	
<b>At 31 December 2021</b>	<b>279.1</b>
	<hr/> <hr/>
<b>At 31 December 2022</b>	<b>162.1</b>
	<hr/> <hr/>

A) On 1 July 2022, the Company acquired 100% stake in Electra-Net (UK) Limited from Electra-Net Group Limited at market value as a part of a Group restructuring.

B) The Company has performed an impairment test at the balance sheet date, comparing the carrying value of each subsidiary investment held by the Company with its recoverable amount. The recoverable amount of an investment is the higher of fair value less cost of disposal, and its value in use, where value in use would typically be the expected cash flows to be generated from operating the businesses into perpetuity.

The cash flow projections used for the impairment test, are derived from the 2023-2025 business plans approved by the Board. The enterprise value is then calculated based on the present value of estimated future cash flows discounted at the current market rate of return. The enterprise value of each investment has then been adjusted for cash and other debt like items, including working capital and long-term intercompany balances. The long-term growth rate is based on economic growth forecasts by recognised bodies and this has been applied to the forecast cash flows for the terminal period. The 2022 long-term growth rate is 2.2% (2021: 1.7%). For deriving value in use, management estimates discount rates using pre-tax rates that reflect the latest market assumptions for the risk-free rate, the equity risk premium and the net cost of debt, which are all based on publicly available external sources. The average pre-tax discount rate used for the impairment test is 11.80% (2021: 13.01%). No further risk adjustment has been made to discount rates applied to outer years for the purpose of the impairment test.

For certain subsidiary investments held by the Company relating to ongoing disposals in the Capita Portfolio division that are seen to be sufficiently advanced, forecast cash flows cover both operational cash flows up to the expected date of disposal, as well as the Group's best estimate of expected net proceeds at disposal. These have been derived from management's latest financial projections and reflect an assessment of the range of bids currently being considered by the Group, the status of these sale processes and the time horizon over which these transactions are expected to complete.

In light of the ongoing disposal processes within the Capita Portfolio division, any impairments identified as part of the impairment test have been presented in aggregate where relevant in this note. An aggregated disclosure of the carrying value of investments and the impact of the aggregate impairment charge recognised is considered by management to provide meaningful information to the primary users of these financial statements.

At 31 December 2022, as a result of the Company's impairment test, investments in subsidiaries were impaired by £127.4m (2021: £107.6m).

## CAPITA BUSINESS SERVICES LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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#### 13 Investment in subsidiaries

(Continued)

C) As part of the review of carrying values outlined in note B above, the Company identified two instances where the recoverable amount has increased since the last assessment. Accordingly, previously recognised impairment charges have been reversed resulting in an increase in carrying value of investments in Capita Learning Limited (£1.7m) and Capita Birmingham Limited (£0.8m).

##### Sensitivity analysis

The impairment testing as described is reliant on the accuracy of management's forecasts and the assumptions that underlie them; and on the selection of the discount and growth rates to be applied. To gauge the sensitivity of the result to a change in anyone, or combination of the assumptions that underlie the model, a number of scenarios were developed to identify the range of reasonably possible alternatives and measure which investments are the most susceptible to an impairment should the assumptions used be varied. This sensitivity analysis is only applicable to those investments which have not already been fully impaired.

Sensitivity scenarios applied estimate the additional impairment required (with all other variables being equal) by: an increase in discount rate of 1%, or a decrease of 1% in the long-term growth rate (for the terminal period) for each of the investments; or by the severe but plausible downsides applied to the base-case projections for assessing going concern and viability, without mitigations; and from all scenarios together.

This sensitivity analysis covers investments where the associated business' value-in-use has been calculated based on operating the business into perpetuity (covering Capita Public Service, Capita Experience, Capita Portfolio where the disposal process is less advanced). No additional impairments have been identified under any of these sensitivity scenarios, including the combination sensitivity scenario.

For the businesses in the Capita Portfolio division where for impairment testing purposes the value-in-use has been determined based on the future cash flows of the subsidiaries from continuing use up to the estimated date of disposal, plus an estimate of the net sale proceeds, assumptions around the expected sale proceeds are seen to be the only key assumption impacting the impairment test.

While it is the Board's intention to complete these disposals in the short-term, where there are presently no signed agreements in place with any counterparty, there are a range of possible outcomes that could occur, and the actual net proceeds received could be materially higher or lower than those assumed in the impairment assessment. Given the dependence on commercial negotiations it is not possible to quantify a reasonably possible change in this key assumption. The expected sales proceeds are based on the Board's best estimate, based on the knowledge existing at the time of estimation.

Management continues to monitor closely the performance of all investments in subsidiaries and consider the impact of any changes to the key assumptions.

## CAPITA BUSINESS SERVICES LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

#### 13 Investment in subsidiaries

(Continued)

Details of the Company's direct investments at 31 December 2022 are as follows:

Company	Country of registration or incorporation	Ordinary shares held (%)	Registered address
<b>Active</b>			
Capita HCH Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Capita Justice & Secure Services Holdings Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Capita Resourcing Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Capita Southampton Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Capita Birmingham Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Capita ESS Holdings Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Capita Learning Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Fera Science Limited	United Kingdom	75	65 Gresham Street, London, England, EC2V 7NQ
Fire Service College Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Daisy Updata Communications Limited	United Kingdom	50	Lindred House, 20 Lindred Road, Brierfield, Nelson, BB9 5SR
Electra-Net (UK) Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
RE (Regional Enterprise) Limited	United Kingdom	51	65 Gresham Street, London, England, EC2V 7NQ
Urban Vision Partnership Limited	United Kingdom	50.1	65 Gresham Street, London, England, EC2V 7NQ

## CAPITA BUSINESS SERVICES LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

#### 13 Investment in subsidiaries (Continued)

Company	Country of registration or incorporation	Ordinary shares held (%)	Registered address
Smart DCC Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Synaptic Software Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Tascor E&D Services Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Tascor Services Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Entrust Support Services Limited	United Kingdom	51	The Riverway Centre, Riverway, Stafford, ST16 3TH, United Kingdom
Capita Business Support Services Ireland Limited	Ireland	100	Harcourt Centre, Harcourt Street, Dublin, Dublin 2, Ireland
Capita Scotland General Partner (Pension) Limited	United Kingdom	100	Pavilion Building Ellismuir Way, Tannochside Park, Uddingston, Glasgow, United Kingdom, G71 5PW
Capita Scotland (Pension) Limited Partnership	United Kingdom	100	Pavilion Building Ellismuir Way, Tannochside Park, Uddingston, Glasgow, G71 5PW
<b>Dormant</b>			
Capita Corporate Director Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Capita GMPS Trustees Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Capita Group Secretary Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
CPLAS Trustees Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Grosvenor Career Services Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
<b>In liquidation</b>			
Capita (02549055) Limited*	United Kingdom	100	1 More London Place, London, SE1 2AF
Capita (04472243) Limited	United Kingdom	100	1 More London Place, London, SE1 2AF
Capita Grosvenor Limited	United Kingdom	100	1 More London Place, London, SE1 2AF
Capita Group Limited	United Kingdom	100	1 More London Place, London, SE1 2AF
SDP Regeneration Services 2 Limited	United Kingdom	100	1 More London Place, London, SE1 2AF
CCSD Services Limited	United Kingdom	100	1 More London Place, London, SE1 2AF
FirstAssist Services Limited	United Kingdom	100	1 More London Place, London, SE1 2AF
Capita Gas Registration and Ancillary Services Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Capita Insurance Services Group Limited	United Kingdom	100	1 More London Place, London, SE1 2AF

\*Subsequently dissolved on 5 January 2023

## CAPITA BUSINESS SERVICES LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

#### 13 Investment in subsidiaries

(Continued)

Details of all indirect investments as required by section 409 of the Companies Act 2016 are as follows:

Company	Country of registration or incorporation	Ordinary shares held (%)	Registered address
<b>Active</b>			
Capita Secure Information Solutions Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
PageOne Communications Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Capita IB Solutions Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Capita Retain Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Capita Workforce Management Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Thirty Three LLP	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Capita IB Solutions (HK) Limited	Hong Kong	100	803 Manning House, 48 Queen's Road Central, Hong Kong
Capita IB Solutions (Ireland) Limited	Ireland	100	Harcourt Centre, Harcourt Street, Dublin, Dublin 2, Ireland
<b>Dormant</b>			
Thirty Three Group Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Retain International (Holdings) Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Retain International Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
Brentside Communications Limited	United Kingdom	100	65 Gresham Street, London, England, EC2V 7NQ
<b>In liquidation</b>			
Call Vision Technologies Ltd	United Kingdom	100	1 More London Place, London, SE1 2AF
Emercom Ltd	United Kingdom	100	1 More London Place, London, SE1 2AF
Barrachd Limited	United Kingdom	100	Atria One, 144 Morrison Street, Edinburgh, EH3 8EX
Security Watchdog Limited	United Kingdom	100	1 More London Place, London, SE1 2AF
Capita McLaren Limited	United Kingdom	100	Atria One, 144 Morrison Street, Edinburgh, EH3 8EX
The G2G3 Group Ltd.	United Kingdom	100	Atria One, 144 Morrison Street, Edinburgh, EH3 8EX
Liberty Printers (AR and RF Reddin) Limited	United Kingdom	100	1 More London Place, London, SE1 2AF

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

### 14 Investment in associates

	<b>£m</b>
At 1 January 2022	1.9
Impairment	(1.2)
Intragroup transfer	(0.7)
	<hr/>
<b>At 31 December 2022</b>	<b>-</b>
	<hr/> <hr/>

During the year, the Company impaired its investments in Market Mortgage Limited by £0.9m and investments in Level Financial Technology Limited by £0.3m. Further, on 1 May 2022, the Company transferred its investment in Market Mortgage Limited and Level Financial Technology Limited to Capita Customer Management Limited.

### 15 Contract fulfilment assets

	<b>£m</b>
<b>Cost</b>	
<b>At 1 January 2021</b>	<b>195.9</b>
Additions	98.2
Utilised during the year	(57.8)
Intragroup transfer	3.6
Impairment	(0.6)
	<hr/>
<b>At 31 December 2021</b>	<b>239.3</b>
Additions	45.5
Utilised during the year	(64.6)
Intragroup transfer	7.9
Impairment	(2.1)
	<hr/>
<b>At 31 December 2022</b>	<b>226.0</b>
	<hr/> <hr/>

In preparing these financial statements, the Company undertook a review to identify indicators of impairment of contract fulfilment assets. The Company determined whether or not the contract fulfilment assets were impaired by comparing the carrying amount of the assets 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 used the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price were removed for the impairment test.

In accordance with the accounting policy set out in note 1.5, if a contract or specific performance obligation exhibited marginal profitability or other indicators of impairment, judgement was applied to ascertain whether or not the future economic benefits from the contract were sufficient to recover its related fulfilment 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 key performance indicators that could trigger variable consideration, or service credits.

Following this review, management has taken the decision to impair costs capitalised as contract fulfilment assets of £2.1m (2021: £0.6m) within cost of sales.

\*As the Company continues to be a part of Group's restructuring plan, certain reallocations were made between the Group subsidiaries. Intragroup transfers are business combinations under common control that indicates transfer of assets and liabilities to/from other Group subsidiaries.

## CAPITA BUSINESS SERVICES LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

#### 16 Financial assets

<b>Non-current</b>	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Investment measured at FVPL	-	8.9
Finance lease receivable*	72.3	79.2
	<u>72.3</u>	<u>88.1</u>
	<u><u>72.3</u></u>	<u><u>88.1</u></u>
<b>Current</b>	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Finance lease receivable*	7.2	7.6
	<u>7.2</u>	<u>7.6</u>
	<u><u>7.2</u></u>	<u><u>7.6</u></u>

\*During 2020, the Company sublet a leased property. The sublease includes an option for the lessee to terminate the lease earlier than the Company's lease with its landlord. Management assessed it was reasonably certain that the break clause will not be exercised and accordingly, determined that the sublease is a finance lease. This has resulted in the recognition of a finance lease receivable. This judgement was based on a number of factors as prescribed within IFRS 16 'Leases' such as incentive to lessee, importance of the location to the lessee's operations, shorter non-cancellable period of lease and the lessee's planned modifications to, and customisation of, the property.

	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
<b>Maturity analysis - Contractual undiscounted cash flows</b>		
Less than one year	11.3	12.0
One to two years	11.3	11.3
More than two years	89.9	100.8
	<u>112.5</u>	<u>124.1</u>
<b>Total undiscounted lease receivables</b>	<b>112.5</b>	<b>124.1</b>
Unearned finance income	(33.0)	(37.3)
	<u>79.5</u>	<u>86.8</u>
<b>Net investment in lease receivables</b>	<b>79.5</b>	<b>86.8</b>
	<u><u>79.5</u></u>	<u><u>86.8</u></u>

#### 17 Inventories

	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Stores and spares	1.8	1.9
	<u>1.8</u>	<u>1.9</u>
	<u><u>1.8</u></u>	<u><u>1.9</u></u>

## CAPITA BUSINESS SERVICES LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

#### 18 Trade and other receivables

<b>Current</b>	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Trade receivables	32.0	48.4
Other receivables	6.9	6.2
Accrued income	74.0	77.8
Prepayments	21.9	24.3
Contract fulfilment assets	7.0	11.6
Amounts due from parent and fellow subsidiary companies*	837.3	741.5
	<u>979.1</u>	<u>909.8</u>
	<u><u>979.1</u></u>	<u><u>909.8</u></u>
<b>Non-current</b>	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Prepayments	3.5	5.9
	<u>3.5</u>	<u>5.9</u>
	<u><u>3.5</u></u>	<u><u>5.9</u></u>

\*Amounts due from parent and fellow subsidiary companies are repayable on demand. These are not chargeable to interest except for amounts due from Capita plc, on which interest is charged as per the prevailing Bank of England rates.

#### Non-recourse trade receivables facilities

The value of the outstanding invoices sold under non-recourse trade receivable facilities was £21.0m at 31 December 2022 (2021: £3.7m).

#### 19 Cash & cash equivalents

	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Cash at bank and in hand	28.0	1.7
	<u>28.0</u>	<u>1.7</u>
	<u><u>28.0</u></u>	<u><u>1.7</u></u>

## CAPITA BUSINESS SERVICES LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

#### 20 Trade and other payables

<b>Current</b>	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Trade payables	53.8	33.9
Other payables	18.1	13.5
Other taxes and social security	39.6	52.4
Accruals	95.4	88.4
Amounts due to parent and fellow subsidiary companies	50.0	46.1
	<u>256.9</u>	<u>234.3</u>
	<u><u>256.9</u></u>	<u><u>234.3</u></u>
<b>Non-current</b>	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Accruals	-	1.2
	<u>-</u>	<u>1.2</u>
	<u><u>-</u></u>	<u><u>1.2</u></u>

Trade payables are non-interest bearing and are settled within terms agreed with suppliers. None of the payables shown are repayable by installment. Neither are there any liabilities which fall due for repayment more than 5 years from the year end date.

#### 21 Deferred income

<b>Current</b>	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Deferred income	367.1	366.7
	<u>367.1</u>	<u>366.7</u>
	<u><u>367.1</u></u>	<u><u>366.7</u></u>
<b>Non-current</b>		
Deferred income	51.0	90.8
	<u>51.0</u>	<u>90.8</u>
	<u><u>51.0</u></u>	<u><u>90.8</u></u>

The deferred income balances solely relates to revenue from contracts with customers. Movements in the deferred income balances were driven by transactions entered into by the Company within the normal course of business in the year. Revenue recognised in the reporting period that was included in the deferred income balance at the beginning of the period was £366.7m (2021: £364.5m).

#### 22 Lease liabilities

	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Current	35.3	38.5
Non-current	284.4	316.1
	<u>319.7</u>	<u>354.6</u>
	<u><u>319.7</u></u>	<u><u>354.6</u></u>

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

22 Lease liabilities		(Continued)	
		2022	2021
		£m	£m
<b>Maturity analysis - Contractual undiscounted cash flows</b>			
Less than one year		52.2	55.9
One to two years		47.0	52.4
More than two years		366.4	404.5
		<u>465.6</u>	<u>512.8</u>
		<u><u>465.6</u></u>	<u><u>512.8</u></u>
<b>23 Financial liabilities</b>		<b>2022</b>	<b>2021</b>
		<b>£m</b>	<b>£m</b>
<b>Current</b>			
Overdrafts		-	5.4
Other loans		0.5	0.5
		<u>0.5</u>	<u>5.9</u>
		<u><u>0.5</u></u>	<u><u>5.9</u></u>
<b>Non-current</b>		<b>2022</b>	<b>2021</b>
		<b>£m</b>	<b>£m</b>
Other loans		-	0.5
		<u>-</u>	<u>0.5</u>
		<u><u>-</u></u>	<u><u>0.5</u></u>
<b>24 Issued share capital</b>		<b>2022</b>	<b>2021</b>
		<b>Numbers</b>	<b>Numbers</b>
<b>Allotted, called up and fully paid</b>		<b>2022</b>	<b>2021</b>
Ordinary shares of £1 each		<b>£</b>	<b>£</b>
At 1 January	13,269	13,269	13,269.0
	<u>13,269</u>	<u>13,269</u>	<u>13,269.0</u>
<b>At 31 December</b>	<b>13,269</b>	<b>13,269</b>	<b>13,269.0</b>
	<u><u>13,269</u></u>	<u><u>13,269</u></u>	<u><u>13,269.0</u></u>
<b>Share premium</b>		<b>2022</b>	<b>2021</b>
		<b>£m</b>	<b>£m</b>
Ordinary shares of £1 each			
At 1 January		60.0	60.0
		<u>60.0</u>	<u>60.0</u>
<b>At 31 December</b>		<b>60.0</b>	<b>60.0</b>
		<u><u>60.0</u></u>	<u><u>60.0</u></u>

## CAPITA BUSINESS SERVICES LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

25 Provisions Current	Property provision	Restructuring provision	Business exit provision	Customer contract provision	Others	Total
	£m	£m	£m	£m	£m	£m
As at 1 January 2022	3.6	16.8	0.6	18.0	4.8	43.8
Impact of changes in accounting standards- amendments to IAS 37	-	-	-	0.4	-	0.4
As at 1 January 2022 on adoption of IAS 37	3.6	16.8	0.6	18.4	4.8	44.2
Reclass within categories	17.4	(16.8)	(0.5)	2.8	(2.9)	-
Provisions provided for in the year	4.0	-	3.0	1.7	1.0	9.7
Released in the year	(5.2)	-	(0.1)	(3.4)	(0.4)	(9.1)
Intragroup transfer	0.1	-	-	0.7	(0.1)	0.7
Utilisation	(8.2)	-	-	(15.8)	(1.0)	(25.0)
<b>As at 31 December 2022</b>	<b>11.7</b>	<b>-</b>	<b>3.0</b>	<b>4.4</b>	<b>1.4</b>	<b>20.5</b>

As discussed in note 1.4, the adoption of the amendment to IAS 37 resulted in additional onerous contract provision. On adoption of the amended standard the cumulative effect was recognised as an opening balance adjustment to retained earnings.

Following the end of the Group-wide transformation programme, restructuring provision relating to severance and property costs (including unavoidable running costs, such as insurance, security, and dilapidation costs) where properties have been exited as a result of the transformation programme, have been reclassified to others and property provision respectively as at 1 January 2022.

The property provision relates to unavoidable running costs, such as insurance and security, of leasehold property where the space is vacant or currently not planned to be used for ongoing operations, and for dilapidation costs. The expectation is that this expenditure will be incurred over the remaining periods of the leases which vary up to 25 years.

The business exit provision relates to the cost of exiting businesses through disposal or closure including professional fees related to business exits and the costs of separating the businesses being disposed. These are likely to unwind over a period of one to four years.

The customer contract provision includes onerous contract provisions in respect of customer contracts where the costs of fulfilling a contract (both incremental and costs directly related to contract activities) exceeds the economic benefits expected to be received under them, claims/obligations associated with missed milestones in contractual obligations, and other potential exposures related to contracts with customers. These provisions are forecast to unwind over periods up to six years.

Other provisions relates to provisions in respect of other potential exposures arising as a result of the nature of some of the operations that the Company provides. These are likely to unwind over periods of up to five years.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

### 26 Employee benefits

The Company operates both defined benefit and defined contribution pension schemes. The pension charge for the defined contribution pension schemes for the year is £25.3m (2021: £24.6m). The pension charge 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 participates in funded and unfunded public sector defined benefit pension schemes, however contractual protections are in place allowing actuarial and investment risk to be passed on to the end customer through recoveries for contributions paid. The nature of these arrangements vary from contract to contract but typically allow for the majority of contributions payable to the schemes in excess of an initial rate agreed at the inception to be recovered from the end customer, as well as exit payments (for funded schemes) payable to the schemes at the cessation of the contract, such that the Company's net exposure to actuarial and investment risk is immaterial.

It is estimated that around £6.0m of employer contributions were paid to these schemes during 2022 (2021: £7.0m) (and this is included in the above defined contribution scheme pension charge).

Retirement obligations are disclosed in relation to one (2021: one) defined benefit pension scheme. This is the Capita Pension and Life Assurance Scheme for which the Company is the Principal Employer.

#### The Capita Pension and Life Assurance Scheme (CPLAS)

CPLAS is the Company's main defined benefit pension scheme which closed to future accrual for most members in 2017 (with around 200 members (across all Capita companies) continuing to accrue benefits - out of a total membership of around 16,600 members).

Responsibility for the operation and governance of the CPLAS lies with a corporate Trustee which is independent of the Company. The Trustee Board is required by law to act in the interest of the CPLAS's beneficiaries in accordance with the rules of the CPLAS and relevant legislation (which includes the Pension Schemes Act 1993, the Pensions Act 1995 and the Pensions Act 2004). The nature of the relationship between the Company and the Trustee Board is also governed by the rules of the CPLAS and relevant legislation. The Trustee Board is chaired by an independent Trustee.

The assets of the CPLAS are held in a separate fund (administered by the Trustee Board) to meet long-term pension liabilities to beneficiaries. The Trustee Board invests the assets in accordance with their Statement of Investment Principles, which is regularly reviewed. During 2021, the Trustee Board delegated investment strategy decisions to a fiduciary manager, however, the Trustee Board maintained overall oversight of the investment strategy.

A full actuarial valuation of the CPLAS is carried out every three years by an independent actuary for the Trustee Board, with the last full valuation carried out as at 31 March 2020. The purpose of that valuation is to design a funding plan to ensure that the pension scheme has sufficient assets available to meet future benefit payments, based on assumptions agreed between the Trustee Board and the Company. The 31 March 2020 valuation showed a funding deficit of £182.2m (31 March 2017: £185.0m). This equates to a funding level of 89.0% (31 March 2017: 86.1%).

As a result of funding valuation, the Company and Trustee Board agreed the following plan to eliminate the deficit:

	2021	2022	2023**
Deficit contribution*	£59.0m	£30.0m	£30.0m

\* The agreed contributions make allowance for additional contributions, totalling c£113.6m, paid by the Company between 1 April 2020 and 30 June 2021 to meet its obligations under the previous agreement dated 23 November 2018, to unwind CPLAS's interest in the Capita Scotland (Pension) Limited Partnership, and in respect of a section 75 debt. The Trustee Board has agreed with the Group to accelerate the payment of some of the deficit contributions on a pound for pound basis in the event of disposal proceeds being used to fund mandatory prepayments of debt.

\*\* In addition, in 2023, the £5.0m held in escrow at 31 December 2022 was released to CPLAS.

## CAPITA BUSINESS SERVICES LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

(Continued)

#### 26 Employee benefits

In addition to the above, the Company 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 Company 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 and as part of that valuation the contribution requirements will be reviewed, and if necessary, amended. For the purpose of these accounts, an independent qualified actuary projected the results of the 31 March 2020 actuarial valuation to 31 December 2022 taking account of the relevant accounting requirements.

Approximate funding updates are produced at each scheme anniversary when a full actuarial valuation is not being undertaken. The most recent of these, as at 31 March 2022, showed a funding level of 104% on a Technical Provisions basis.

The valuation of liabilities for funding purposes (the actuarial valuation) differs to the valuation for accounting purposes (which are shown in these financial statements) mainly due to different assumptions being used and different market conditions at the different valuation dates. The assumptions used for funding purposes are agreed between the Trustee Board and the Company and allow for an appropriate amount of prudence, with the discount rate being based on the actual assets of the CPLAS. While for accounting purposes the assumptions are determined on a best estimate basis in accordance with IAS19, with the discount rate being based on the yields available on high quality corporate bonds of appropriate currency and term. The Company estimates that as at 31 December 2022 the net asset of the CPLAS was broadly the same on a funding basis (i.e. the funding assumption principles adopted for the full actuarial valuation at 31 March 2020) as that on an accounting basis.

The Company expects to contribute around £52m to the CPLAS during 2023. This includes the acceleration of agreed deficit contributions on a pound for pound basis as noted above.

#### Risks associated with CPLAS

The CPLAS exposes the Company to various risks, with the key risks set out below:

**Investment risk:** the scheme invests in a wide range of assets with a view to provide long-term investment returns at particular levels. There is a risk that investment returns are lower than expected which, in isolation, could result in a worsening of the funding position of the scheme.

**Interest rate risk:** the discount rate is derived from the yields available on good quality corporate bonds of suitable duration. If these yields decrease, then in isolation, this would increase the value placed on the defined benefit obligation and result in a worsening of the funding position of the scheme.

**Inflation risk:** the liabilities of the scheme are linked to future levels of inflation. If future inflation is higher than expected then this would result in the cost of providing the benefits increasing and thereby worsening the funding position of the scheme.

**Longevity risk:** if members live longer than expected, then pensions will be paid for a longer time which will increase the value placed on the liabilities and therefore worsen the funding position of the scheme.

To manage these risks, the Company and the Trustee Board carry out regular assessments of these risks. The following actions have been taken:

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

(Continued)

### 26 Employee benefits

- The Trustee Board has entered into two bulk annuity contracts with an insurer in respect of a small number of high individual liability pensioner members (one in 2015 and the second in late 2017) with total value included in the assets at 31 December 2022 of £50.1m (2021: £67.8m)
- The Trustee Board has entered into a Liability Driven Investment programme. The level of risk that is managed by this is set by various market-related and funding trigger points.

Together, these actions have led to the Trustee Board hedging (interest rate and inflation) a high proportion of the CPLAS's liabilities. As at 31 December 2022 around 95% of CPLAS's liabilities measured on the Trustee Board's long-term funding basis was hedged. As the funding level improves it is planned to further increase the level of hedging. Despite the market volatility during the last quarter of 2022, the CPLAS held sufficient liquid assets to meet its collateral calls and maintain its hedged positions throughout the year, as well as holding a sufficient buffer against future adverse movements. The fiduciary manager has confirmed that the investment strategy held up well despite the market volatility and that they continue as planned with the current strategy (which involved the selling down of more illiquid holdings in any event).

The objective of the hedging is to match the value of the assets to the movement in liabilities (on a funding basis) arising from changes in market expectations of future inflation rates and future gilt yields. This is to help protect and reduce volatility in funding valuations which are used to determine the cash contribution requirements to the scheme. As these accounting disclosures use the yields available on corporate bonds to determine the accounting liabilities, the hedging may not have the same impact against changes as they do on a funding valuation. Although credit spreads (difference between the yields available on long-dated corporate bonds and long-dated government bonds) have been volatile over the year, they have fallen back down towards levels seen at the start of the year. This means that the hedge has broadly had the same impact on the funding position of the scheme and the accounting disclosures at the year-ends.

To illustrate how sensitive the value of the defined benefit obligations are to different market conditions, the below table shows what the resulting defined benefit obligation would be if the assumptions were changed as shown (assuming all other assumptions remain constant):

Change in assumptions compared with 31 December 2022 actuarial assumptions	£m
Base defined benefit obligation	1,087.0
0.5% pa decrease in discount rate	1,171.7
0.5% pa increase in salary inflation	1,088.2
0.5% pa increase in inflation (and related assumptions, e.g., salary and pension increases)	1,133.8
1 year increase in life expectancy	1,119.6

Due to the higher interest rate environment and recent market volatility, please note the change in method used to prepare the sensitivity analysis (analysis from 0.1% pa to 0.5% pa).

#### Assets and liabilities

Under IAS 19, plan assets must be valued at fair value at the balance sheet date. The plan assets are made up of quoted and unquoted investments, and asset valuations have been sourced from the scheme's investment managers and custodians, based on their pricing sources and methodologies. Unquoted investments require more judgement as their values are not directly observable. The assumptions used in valuing unquoted investments are affected by current market conditions which could result in changes in fair value after the measurement date.

For the main asset categories:

- Equities listed on recognised stock exchanges are valued at closing bid prices.
- Bonds are measured using a combination of broker quotes and pricing models making assumptions for credit and market risks and market yield curves.
- Properties are valued on the basis of an open market value or are valued using models based on discounted cash flow techniques.

## CAPITA BUSINESS SERVICES LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

(Continued)

#### 26 Employee benefits

- Assets in investment funds are valued at fair value which is typically the Net Asset Value provided by the investment manager.
- Certain unlisted investments are valued using a model based valuation such as discounted cash flow.
- The value of bulk annuity contracts have been assessed by discounting the projected cash flows payable under the contracts (projected by an actuary, consistent with the terms of the contract) and is equal to the corresponding liability calculated by reference to the IAS19 assumptions.

The assets and liabilities of the CPLAS (excluding additional voluntary contributions) as at 31 December are:

	2022			2021		
	Quoted*	Unquoted	Total	Quoted	Unquoted	Total
	£m	£m	£m	£m	£m	£m
Scheme assets at fair value:						
Equities:						
- UK	-	2.5	2.5	-	3.1	3.1
- Overseas	-	24.8	24.8	-	76.5	76.5
	<u>-</u>	<u>27.3</u>	<u>27.3</u>	<u>-</u>	<u>79.6</u>	<u>79.6</u>
Debt securities:						
- UK Government	469.7	-	469.7	772.1	0.2	772.3
- UK Corporate	-	11.6	11.6	-	7.6	7.6
- Overseas Government	8.4	11.4	19.8	-	53.4	53.4
- Overseas Corporate	-	101.0	101.0	0.1	67.8	67.9
- Emerging Markets	-	27.3	27.3	-	-	-
- Private Debt	-	133.7	133.7	-	128.6	128.6
- Secured Loans	-	39.8	39.8	0.1	-	0.1
	<u>478.1</u>	<u>324.8</u>	<u>802.9</u>	<u>772.3</u>	<u>257.6</u>	<u>1,029.9</u>
Property	-	88.2	88.2	-	97.5	97.5
Credit Funds	-	-	-	-	160.1	160.1
Diversified growth funds	-	-	-	-	79.5	79.5
Hedge Funds	-	1.7	1.7	-	53.6	53.6
Insurance contracts	-	50.1	50.1	-	67.8	67.8
Cash and cash equivalents	33.4	133.2	166.6	145.3	11.2	156.5
Other	(8.6)	(1.9)	(10.5)	1.0	7.0	8.0
	<u>24.8</u>	<u>271.3</u>	<u>296.1</u>	<u>146.3</u>	<u>476.7</u>	<u>623.0</u>
<b>Total</b>	<b>502.9</b>	<b>623.4</b>	<b>1,126.3</b>	<b>918.6</b>	<b>813.9</b>	<b>1,732.5</b>
Present value of scheme liabilities			(1,087.0)			(1,725.3)
<b>Net assets</b>			<b>39.3</b>			<b>7.2</b>

\* Some investments are in funds which are in themselves not traded in active markets. Please also note a change in asset classification for Credit Funds (£93.0m) and Diversified Growth Funds (£56.8m) as at 31 December 2022 which are now classified on a 'look-through' basis.

## CAPITA BUSINESS SERVICES LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

(Continued)

#### 26 Employee benefits

The CPLAS Trustee Board invests in Liability Driven Investments (LDIs) as part of a risk hedging strategy. The aim of the strategy is to match the value of the assets to the movement in liabilities (on a funding basis) arising from changes in market expectations of future inflation rates and future gilt yields. In order to achieve this, LDIs invest in a variety of instruments including gilts, synthetic gilts (combination of repurchase agreement, reverse repurchase agreements and total return swaps) and cash. In the table above, the LDI as at 31 December 2022 (approximately £484.3m) has been mapped as 97.0% Quoted UK government bonds, 1.7% Quoted Overseas Government Bonds, 3.1% Quoted Cash and -1.8% Quoted Other.

These amounts do not include any directly owned financial instruments issued by the Company.

Within the Private Debt allocation, approximately £97.3m relates to lagged valuations as at 30 September 2022. Allowance has been made for broad market movements and distributions over the period to 31 December 2022.

In accordance with the CPLAS Trustee Board's focus on financially material considerations, it is acknowledged that Environment, Social and Governance (ESG) factors can impact security prices. The CPLAS Trustee Board has discussed their views on ESG factors, and considered the Company's perspective, and developed responsible investment beliefs. These can be found in the CPLAS's Statement of Investment Principles (which can be found at <https://www.cplas-pension.co.uk/library>).

#### IFRIC 14

The Company has considered the impact of IFRIC 14 on the CPLAS (in relation to either recognising a surplus or allowing for the impact of any funding commitments made) and has concluded, based on the interpretation of the rules for the CPLAS, that IFRIC 14 would not limit the surplus or increase the deficit shown at the balance sheet date because the Company has an unconditional right to a refund at some point during the life of the scheme.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

(Continued)

### 26 Employee benefits

The following tables show a reconciliation from the opening balances to the closing balances for the CPLAS

	Defined benefit obligations		Fair value of plan assets		Net defined benefit liability/(asset)	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
<b>Balance at 1 January</b>	<b>1,725.3</b>	<b>1,810.6</b>	<b>(1,732.5)</b>	<b>(1,568.8)</b>	<b>(7.2)</b>	<b>241.8</b>
Recognised in the income statement:						
Current service cost	2.9	4.5	-	-	2.9	4.5
Administration costs	3.7	3.4	-	-	3.7	3.4
Past service cost including curtailments	0.6	0.3	-	-	0.6	0.3
Settlements	(0.1)	(0.4)	0.2	0.5	0.1	0.1
Interest cost/(income)	43.1	26.9	(46.7)	(25.4)	(3.6)	1.5
<b>Sub-total</b>	<b>50.2</b>	<b>34.7</b>	<b>(46.5)</b>	<b>(24.9)</b>	<b>3.7</b>	<b>9.8</b>
Recognised in other comprehensive income:						
Remeasurements loss/(gain):						
Actuarial loss/(gain) arising from:						
- demographic assumptions	(6.5)	11.7	-	-	(6.5)	11.7
- financial assumptions	(685.8)	(127.3)	-	-	(685.8)	(127.3)
- experience adjustments	47.2	41.3	-	-	47.2	41.3
Return on plan assets excluding interest		-	655.8	(32.0)	655.8	(32.0)
<b>Sub-total</b>	<b>(645.1)</b>	<b>(74.3)</b>	<b>655.8</b>	<b>(32.0)</b>	<b>10.7</b>	<b>(106.3)</b>
Employer contributions		-	(46.5)	(152.5)	(46.5)	(152.5)
Benefits paid	(43.4)	(45.7)	43.4	45.7	-	-
<b>Balance at 31 December</b>	<b>1,087.0</b>	<b>1,725.3</b>	<b>(1,126.3)</b>	<b>(1,732.5)</b>	<b>(39.3)</b>	<b>(7.2)</b>

The main reason for the movement in the net defined benefit pension position was the deficit funding contributions (£38.6m) paid into the CPLAS. Both the value attributed to the pension liabilities and the value of the assets fell materially over the year predominantly due to the material increase in the yields available on both long-dated Government and corporate bonds. Due to the investment strategy adopted by the CPLAS Trustee Board the impact of these changes has been broadly hedged so that the value of the assets has moved to a similar degree to the value of the liabilities. The schemes are highly sensitive to the change in discount rates (with a 0.5% pa change resulting in a c. £84.7m impact) and in future inflation expectations (with a 0.5% pa change resulting in a c. £46.8m impact).

The defined benefit obligation comprises of £1,087.0m (2021: £1,725.3m) that are wholly or partly funded.

Of the total pension cost of £3.7m (2021: £9.8m); £7.3m (2021: £8.3m) was included in cost of sales and administrative expenses, and the balance of (£3.6m) (2021: £1.5m) was included in finance (income)/costs.

Events have occurred in the CPLAS that has led to the income statement being remeasured during the year.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

(Continued)

### 26 Employee benefits

#### Information about the defined benefit obligation for CPLAS:

	Proportion of	Duration	Proportion of	Duration
	overall liability	(Years)	overall liability	(Years)
	%	2022	%	2021
Active members	6.0	16.9	5	21.4
Deferred members	59.0	18.0	63	22.8
Pensioners	35.0	10.6	32	13.0
<b>Total</b>	<b>100.0</b>	<b>15.5</b>	<b>100.0</b>	<b>19.8</b>

Duration is a weighted average of when benefits are expected to be paid from a pension scheme. It is sensitive to the interest rate used to calculate it. The increase in yields has acted to reduce the duration of the CPLAS (as less weight is placed of the pension cash flows stretching far out into the future).

	CPLAS	
	2022	2021
	%	%
<b>Main assumptions:</b>		
Rate of price inflation (RPI/CPI)	3.15/2.50	3.30/2.65
Rate of salary increase	3.15	3.30
Rate of increase of pensions in payment*:		
- RPI inflation capped at 5% per annum	3.05	3.20
- RPI inflation capped at 2.5% per annum	2.15	2.20
- CPI inflation capped at 5% per annum	2.50	2.65
Discount rate	4.75	1.90
Expected take up maximum available tax free cash	85.0	85.0

The average future life expectancy from age 65 (in years) for mortality tables used to determine scheme liabilities at 31 December 2022 and 31 December 2021 are as follows:

	Member currently aged 65 (current life expectancy)			
	Male		Female	
	2022	2021	2022	2021
CPLAS**	22.4	22.5	24.3	24.4

  

	Member currently aged 45 (life expectancy at 65)			
	Male		Female	
	2022	2021	2022	2021
CPLAS**	22.3	22.4	25.2	25.3

\* There are other levels of pension increases which apply to particular periods of membership.

\*\* The assumptions used for the CPLAS are tailored for each member. The assumptions adopted make allowance for an increase in longevity in future (CMI 2021 core model Sk=7.0) with a long-term rate of improvement of 1.25% p.a., an 'A' parameter of 0.25% for both males and females and no weighting applied to 2020 and 2021 data). The rate for members currently aged 65 is derived from the pensioner membership and the rate for members reaching age 65 in 20 years' time is derived from non-pensioner membership.

## CAPITA BUSINESS SERVICES LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

#### 27 Employees

The average monthly number of employees (including directors) during the year were:

	2022	2021
	Number	Number
Operations	11,124	11,772
Sales and administration	603	739
	<u>11,727</u>	<u>12,511</u>

Their aggregate remuneration comprised:

	Re-presented*	
	2022	2021
Employee costs	£m	£m
Wages and salaries	515.5	507.6
Social security costs	55.2	55.1
Pension costs	25.3	24.6
Shared based payments (recharged from Capita plc)	1.1	0.2
	<u>597.1</u>	<u>587.5</u>

The above includes payroll costs for temporary staff as well as recharges from other Group entities in respect of various services received by the Company throughout the year.

In May 2022, Capita plc announced its intention to repay the 2021 furlough related grant under Coronavirus Job Retention Scheme (CJRS) at the end of the its publicly stated disposal programme and no later than the end of 30 June 2023. The Company has recognised an accrual in May 2022 for this repayment, being £4.9m in respect of the Capita plc consolidated Group.

\*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 £17.7m 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.

## CAPITA BUSINESS SERVICES LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

#### 28 Related party disclosures

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	Year	Enterprises over which Company exercises significant influence
		£m
<b>Purchase of goods/ services</b>		
Entrust Support Services Limited	2022	5.0
	2021	3.8
Axelos Limited*	2022	-
	2021	0.1
Fera Science Limited	2022	0.7
	2021	0.6
<b>Total</b>	<b>2022</b>	<b>5.7</b>
	<b>2021</b>	<b>4.5</b>
<b>Sale of goods/services</b>		
Entrust Support Services Limited	2022	6.9
	2021	8.8
Axelos Limited*	2022	-
	2021	1.1
Fera Science Limited	2022	13.4
	2021	12.0
<b>Total</b>	<b>2022</b>	<b>20.3</b>
	<b>2021</b>	<b>21.9</b>

\* No longer a related party with effect from 29 July 2021.

## CAPITA BUSINESS SERVICES LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

28 Related party disclosures (Continued)

Nature of Transaction	Year	Enterprises over which Company exercises significant influence
<b>Closing balance of related parties</b>		
<b>Trade payables</b>		
Entrust Support Services Limited	2022	1.3
	2021	1.6
RE (Regional Enterprise) Ltd	2022	-
	2021	0.1
<b>Total</b>	<b>2022</b>	<b>1.3</b>
	<b>2021</b>	<b>1.7</b>
<b>Trade receivables</b>		
Entrust Support Services Limited	2022	-
	2021	0.7
RE (Regional Enterprise) Limited	2022	1.7
	2021	-
Fera Science Limited	2022	2.8
	2021	1.0
<b>Total</b>	<b>2022</b>	<b>4.5</b>
	<b>2021</b>	<b>1.7</b>

## CAPITA BUSINESS SERVICES LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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#### 29 Directors' remuneration

	2022	2021
	£m	£m
Remuneration for qualifying services	1.5	2.9
	<u>1.5</u>	<u>2.9</u>

Five Directors were paid by the Company (2021: Five). The other 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.

The number of Directors for whom retirement benefits are accruing under defined contribution schemes amounted to two (2021 - One).

The number of Directors who exercised share options during the year were three (2021 - three)

The number of Directors who are entitled to receive shares under long term incentive schemes during the year were five (2021 - two).

The remuneration disclosed above includes the following amounts paid to the highest paid director:

	2022	2021
	£m	£m
Remuneration for qualifying services	0.4	0.9
	<u>0.4</u>	<u>0.9</u>

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

## **CAPITA BUSINESS SERVICES LTD**

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

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

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#### **30 Contingent liabilities**

Contingent liabilities represent potential future cash outflows which are either not probable or cannot be measured reliably.

At 31 December 2022, the Company has indemnities provided through the normal course of its business, performance bonds and bank guarantees of £2.8m (2021: £3.5m).

At 31 December 2022 the RCF commitment was £288.4m (31 December 2021: £385.7m). The RCF expires on 31 August 2024 and was not drawn upon at 31 December 2022 (31 December 2021: £40.0m drawn).

At 31 December 2022, the total exposure under these guarantees undertaken for the benefit of Capita plc and other subsidiary companies was £285.4m (2021: £552.9m).

The Company also forms part of a cross-guarantee in respect of the overdrafts of its fellow subsidiary companies under a notional cash-pool bank arrangement.

The Company is a party to legal actions and claims which arise in the normal course of business. The Company throughout the year needs to apply judgement in determining the merit of litigation against it and the chances of a claim successfully being made. It needs to determine the likelihood of an outflow of economic benefits occurring and whether there is a need to disclose a contingent liability or whether a provision might be required due to the probability assessment.

At any time, there are a number of claims or notifications that need to be assessed across the Company. The disparate nature of the Company heightens the risk that not all potential claims are known at any point in time.

# CAPITA BUSINESS SERVICES LTD

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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### 31 Share-based payment transactions

The Company participates in various share option schemes operated by Capita plc, the ultimate parent company. Full details of these schemes are contained in Capita plc's Annual Report. Details of the schemes are as follows:

#### Deferred Annual Bonus Plan

This scheme is applicable to executive directors. Under this scheme, awards are made annually consisting of only deferred shares, which are linked to the payout under the annual bonus scheme (details of which are contained in the directors' remuneration report on pages 99 to 122).

The value of deferred shares is determined by the pay-out under the annual bonus scheme: half of the annual bonus is paid in cash and the remainder is deferred into shares under the deferred annual bonus plan or the Capita executive plan. Directors have the option to defer up to 100% of their annual bonus into deferred shares or net bonus into a restricted share award. The deferred/restricted shares are held for a period of three years from the date of award, during which they are not forfeitable, except in the case of dismissal for gross misconduct.

The weighted average share price of options at the date of exercise in 2022 was £0.22 (2021: £0.33). The weighted average share price during the year was £0.26 (2021: £0.43).

The total cash value of the deferred shares awarded during the year was £0.2m (2021: £nil).

#### Long-term incentive plans (LTIPs) - 2017

The structure of the Group's LTIP schemes was approved at the Company's AGM in 2017. From 2021, no new awards will be granted under the LTIP although the 2020 awards are yet to vest.

For the 2019 award, 75% of the award was equally weighted between free cash flow, EBIT margin and organic revenue growth, with the remaining 25% split equally between customer satisfaction and employee engagement, measured over a three-year period. Threshold vesting (25%) for each measure is dependent upon: free cash flow reaching £190m; EBIT margin exceeding 9%; organic revenue growth to £3,900m; six point positive swing in NPS for both customer satisfaction and employee engagement. Target vesting (50%) for each measure is dependent upon: free cash flow reaching £210m; EBIT margin exceeding 10%; organic revenue growth to £3,950m; eight point positive swing in NPS for both customer satisfaction and employee engagement. Maximum vesting (100%) for each measure is dependent upon: free cash flow reaching £250m; EBIT margin of 12%; organic revenue growth to £4,050m; 12 point positive swing in net promoter score (NPS) for both customer satisfaction and employee engagement. Awards are also subject to an underpin based on an assessment of underlying financial and operational performance.

The 2020 award is split into three equal tranches that vest on the first, second and third anniversary of the grant date. The first tranche in 2020 was subject to a retention element which will vest in full on each annual vesting date, with the remaining 50% subject to a performance condition of net debt. Threshold vesting (25%) is dependent on net debt falling to £872m, target vesting (50%) is dependent on net debt falling to £822m and maximum vesting (100%) is dependent on net debt being below £772m. Tranches 2 and 3 are subject to the retention element only apart from the CEO's award which is subject to relative TSR and responsible business scorecard measures.

Details of the LTIP awards made to executive directors over the same period are set out in the directors' remuneration report, on page 115.

All of the above awards are subject to a performance underpin assessment of the underlying financial and operational performance of Capita over the performance period.

### 32 Capital commitments

At 31 December 2022, the Company had amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounting to £0.2m, relating to building improvement on a leased property (2021: £3.0m).

## CAPITA BUSINESS SERVICES LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

#### 33 Common control transactions

As a part of the on-going legal entity reorganisation programme within the Capita Group, the trade and assets related to Public division business were transferred into the Company and the trade and assets related to Experience division business and Portfolio division business were transferred out of the Company by way of a Business Transfer Agreement ("BTA"). As both transferor and transferee entities for these BTAs were ultimately controlled by Capita plc, these are deemed to be business combinations under common control, with an accounting policy choice made as detailed in note 1.24. The following table shows the gross assets acquired/transferred and gross liabilities assumed/transferred as part of each BTA, consideration paid/received by the Company, and whether any entity level goodwill was recognised in Capita Business Services Limited in each case:

##### Business acquisitions:

Following table shows assets acquired, liabilities assumed and consideration received/(paid) by the Company.

Name of company	Date of acquisition	Asset	Liability	Consideration	Goodwill
Update Infrastructure (UK) Limited	1-Dec	18.4	(12.1)	(6.3)	-
Capita Secure Information Solutions Limited	1-Nov	7.0	(2.4)	(4.6)	-
CHKS Limited	1-Dec	6.1	(0.5)	(5.9)	0.3
Capita Learning Limited	1-Nov	6.1	(9.5)	1.3	2.1
Capita Gas Registration and Ancillary Services Limited	1-Nov	3.9	(9.3)	5.4	-
Capita Birmingham Limited	1-Jul	4.2	(4.1)	(0.1)	-
Capita Health and Wellbeing Limited	1-Jul	3.3	(2.6)	(0.7)	-
Capita IT Services Limited	1-Nov	2.2	(2.0)	(0.9)	0.7
Clinical Solutions International Limited	1-Sep	5.6	(4.9)	(7.7)	7.0
Brightwave Limited	1-Sep	3.7	(0.8)	(2.9)	-
Others	1-May/1-Sep	3.4	(1.2)	(2.2)	-
<b>Total</b>		<b>63.9</b>	<b>(49.4)</b>	<b>(24.6)</b>	<b>10.1</b>

##### Business disposals:

Following table shows assets, liabilities transferred and consideration received by the Company.

Name of company	Date of disposal	Asset	Liability	Consideration	Goodwill
Capita Shared Services Limited	1-Nov	(31.9)	9.5	22.4	-
Pay360 Limited	1-May	(15.9)	13.4	2.5	-
Capita Customer Management Limited	1-May/ 1-Jun	(17.0)	7.2	9.8	-
Capita Resourcing Limited	1-Jan	(9.8)	2.2	7.6	-
<b>Total</b>		<b>(74.6)</b>	<b>32.3</b>	<b>42.3</b>	<b>-</b>

## CAPITA BUSINESS SERVICES LTD

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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#### 34 Controlling party

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

The Company's ultimate parent company is Capita p.l.c, a company incorporated in England and Wales. The annual report and consolidated financial statements of Capita plc are available from its registered office at 65 Gresham Street, London, EC2V 7NQ, and on its website [www.capita.com/investors](http://www.capita.com/investors).

#### 35 Post balance sheet events

The following events occurred after 31 December 2022, and before the approval of these financial statements, but have not resulted in adjustment to the 2022 financial results:

- In February 2023, the Group entered into a committed bridge facility of £50m with three of its relationship banks providing additional liquidity from 1 January 2024. It incorporates provisions such that it will partially reduce in quantum as a consequence of specified transactions. The committed facility has an expiry date of 31 December 2024 and is subject to covenants, which are the same as those in the RCF.
- A new subsidiary of the Company, SEC Watchdog Limited, was incorporated on 25 January 2023 to take over the business of pre- and post-employment screening solutions from Capita Resourcing Limited. This business transfer from Capita Resourcing Limited to SEC Watchdog Limited took place on 1 March 2023.
- On 6 March 2023, the Company announced that it had agreed to sell its investment in Capita Resourcing Limited to Inspirit Capital, for £21m on a cash free, debt free basis. On 8 March 2023, the Company announced the sale of its investment in SEC Watchdog Limited to Matrix (which is owned by Bridgepoint Development Capital, part of Bridgepoint Group Plc), for £14m on a cash free, debt free basis.
- On 5 April 2023, the Company received a dividend of £4.5m from its subsidiary, FirstAssist Services Limited, to be settled in specie by way of intercompany balances.
- On 17 May 2023, the Company received a dividend of £2.0m from its subsidiary, Synaptic Software Limited, to be settled in specie by way of intercompany balances.
- On 22 May 2023, the Company received a dividend of £15.5m from its subsidiary, Capita Gas Registration and Ancillary Services Limited, to be settled in specie by way of intercompany balances.
- On 22 May 2023, the Company received a dividend of £0.2m from its subsidiary, Capita Insurance Services Group Limited, to be settled in specie by way of intercompany balances.
- On 8 June 2023, the Company announced that it had agreed to sell its investment in Synaptic Software Limited to AdvancedAdvT Limited, for £0.5m on a cash free, debt free basis.

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