

Divisional strategy and performance continued

Government Services



Capita is a trusted strategic partner to central government for the delivery and transformation of technology-enabled business services.

It includes the operation of large, complex contracts that underpin the achievement of policy outcomes.

We are also a leading provider of support services such as revenues, benefits and back-office processing, IT, HR, and finance to local authorities, and education and health organisations.

Our strategy

Our strategy is to focus on and leverage areas where Capita has core expertise, invest in our transformation, technology and operational capabilities, package more of our services making them simpler to procure, improve the performance of challenging contracts, and implement structured client account management. We are also discontinuing smaller non-core activities such as facilities management and focusing on core areas of collections and disbursement, regulatory and planning services, and customer and digital services. Since April, we have begun a programme to drive operational excellence and put in place continuous improvement plans for all businesses.

Key contracts¹

Personal Independence Payments (PIP)
Administration of personal independence payments in two regions in England and Northern Ireland

Primary Care Support England (PCSE)
Support services for GPs, pharmacies, opticians and dental practices

Home Office Electronic Monitoring
Administration of tagging for offenders

Transport for London
Administration of Congestion Charge and Ultra Low Emissions Zone

DCC Smart Metering
Management, implementation and development of the national smart metering infrastructure

Birmingham City Council
IT and digital services

Staffordshire County Council (Entrust)
Provisions of support services to schools

London Borough of Barnet
Customer services, finance, HR and property strategic partnership

¹ Contracts over 1% of 2018 annual revenue.

Adjusted revenue

£745.5m

2017: £861.7m

Order book

£2,187.5m

2017: £2,660.6m

Adjusted operating profit

£35.2m

2017: £78.7m

Adjusted operating margin

4.7%

2017: 9.1%

Employees

8,700

Key regions

- UK
- India

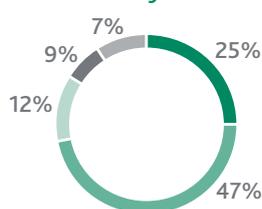
Key services and contracts

- Local government business process management and transactional services
- DWP PIP
- DCC Smart Metering
- Electronic Monitoring
- Primary Care Support England
- TfL Congestion Charging and ULEZ
- STA
- Gas Safe Register

Key markets

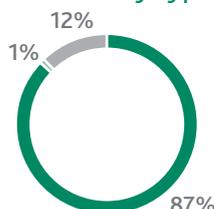
- Local government
- Central government
- Defence
- Education and health

Revenue by market



- Central government
- Local government
- Justice & emergency services
- Education
- Health

Revenue by type



- Long-term contractual
- Short-term contractual
- Transactional

Strategic priorities 2018–2020:

- Develop existing core service capabilities as repeatable product propositions to drive growth.
- Continuous programme of operational excellence to improve service delivery.
- Transformation of local government business away from a traditional outsourced contract model to business process as a service (BPaaS) where clients pay for services as they consume and are not tied into lengthy contract commitments.

2018 progress against strategic priorities:

- Local government strategy reviewed and reset to address accelerated market and contract decline.
- Commenced local government transformation programme to change service model.
- Investment in establishing delivery excellence partnership relationships with key government departments.
- Focused resources on securing re-bids with targeted accounts.
- Delivered cost-out targets.

Our market and growth drivers

Capita is one of the largest providers to government in the UK with an estimated market share of 13%. The UK market for central and local government services is valued at £6.7bn a year and estimated to be growing at approximately 3% per annum (source: Nelson Hall). However the local government market for large outsourced contracts is declining with a significant drop-off in the number and size of opportunities coming to market and existing clients choosing to end contracts early and take services back in-house. This accelerated decline is being driven by fiscal pressures, the expectation that this will provide a more flexible cost and delivery model but also an ideological shift away from outsourcing by some council leaderships. This structural decline has proved challenging for the division in the year, and a greater focus has been put on redefining and simplifying our core capabilities alongside managing the declining contracts.

Brexit is still affecting the volume of new policy initiatives by Government departments, resulting in fewer new opportunities for private sector contractors. Following the collapse of Carillion, 2018 was a challenging year for the outsourcing

Divisional financial summary

	2018 £m	2017 £m	change %
Adjusted revenue	745.5	861.7	(13.5)
Adjusted operating profit	35.2	78.7	(55.3)
Adjusted operating margin	4.7%	9.1%	
Order book	2,187.5	2,660.6	(17.8)

sector, but engagement by Capita with the Cabinet Office has increased and improved as it embarked on a review of contracting. After consultation across the sector, the Government has pledged to take on a greater share of the risk on outsourced public sector contracts, as part of a new set of rules drawn up in February 2019 to improve stability in the sector.

Despite these challenges, Government departments are still actively engaging with the private sector and continue to renew existing contacts and award new work.

Financial performance

Adjusted revenue fell by 13.5%, due to the re-shaping of our Defence Infrastructure Organisation (DIO) contract, which benefited from the recognition of previously deferred income in the prior year, and a decline in our local government long-term strategic partnerships, reflecting the aforementioned market weakness. Adjusted operating profit decreased due to the dropping-out of the £22m one-off benefit from DIO, as previously disclosed, and weakness in local government, which were partially offset by a reduction in loss on Primary Care Support England (PCSE). Excluded from 2018 adjusted profit is a charge of £33.8m from the impairment of goodwill (refer to note 15 of the consolidated financial statements).

Sales and operational performance

Despite the difficulties faced by the company in the early part of 2018, we remain a strategic partner to the Cabinet Office.

We won, renewed and extended a number of contracts in 2018, including:

- Department for Education's Standards and Testing Agency – new contract to manage the administration, processing and support for all primary school national curriculum assessment tests in England.
- Transport for London – implementation and management of the Central London Ultra Low Emission Zone.
- Renewed contracts with Westminster City Council to manage the authority's revenues and benefits services, and the Health and Safety Executive to continue to manage the Gas Safe Register.

In 2018 Capita's subsidiary, SmartDCC, went live with its GB-wide infrastructure for the rollout of second-generation smart meters. Alongside this service, SmartDCC is delivering key programmes of work for the government and energy industry to integrate first-generation smart meters into its network and deliver next-day consumer switching in the energy retail market.

We took firm action towards the end of 2018 over issues relating to our PCSE contract with NHS England. This followed the discovery of delays in the issuing of cervical screening correspondence, which forms part of PCSE, to thousands of women. We apologised to all the women affected by this administrative error and, following an investigation of the managerial handling of the matter, appropriate internal disciplinary action was taken. We have improved quality processes and other operational service delivery levels on the contract continue to be stable. We continue to expect the PCSE contract to reach break even by the end of 2020.

The local government market for large, multi-year deals, declined at an accelerated rate during the year. Southampton, Sheffield and Birmingham City Councils have notified us of their intention to end contracts with them ahead of their contracted end-dates. Barnet Council has agreed to take a small number of services back in-house.

Capita is committed to the local government market and is working closely with all our council partners to agree and manage a smooth transfer of services back to local authority management.