

Registered No: 02004966

Plymouth Citybus Limited

Annual Report and Financial Statements

Year ended 1 July 2017



Plymouth Citybus Limited

Directors

R C B Stevens
D A Brown
M B Horide
S P Butcher

Company secretary

C Ferguson

Auditor

Deloitte LLP
Statutory Auditor
2 New Street Square
London
EC4A 3BZ
United Kingdom

Bankers

The Royal Bank of Scotland plc
135 Bishopsgate
London
EC2M 3UR

Solicitors

Dickinson Dees LLP
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE99 3UR

Registered office

3rd Floor
41 - 51 Grey Street
Newcastle upon Tyne
NE1 6EE

Strategic Report

Results

The operating profit for the year amounted to £1,656,000 (2016: £784,000). The profit for the year, after taxation, amounted to £1,318,000 (2016: £506,000).

Principal activities and review of the business

The principal activities of the business are as follows:

- Commercial, tendered and contracted bus and coach services in Plymouth, South East Cornwall and West Devon.
- Coach tours and coach hire throughout the United Kingdom.
- Servicing, repair and refurbishment of cars, commercial vehicles, buses and coaches.

Key performance indicators

Revenue, operating profit and the number of passenger journeys, schedule adherence and route costing analysis are some of the key financial performance indicators used. Other performance indicators measured and monitored by management include customer satisfaction, employee engagement surveys alongside the more traditional employee absenteeism and revenue ratios. All making sure that every journey is taken care of.

Over the last 12 months Plymouth Citybus has increased passenger journeys per kilometre travelled by 5.1%. Working hard to increase passenger numbers per vehicle, making the network more efficient using the same resource..

Additional resource was deployed to combat the large roadwork scheme to the north of the City, making sure we did not reduce services whilst the speed of these services reduced. Controllable lost mileage reduced year on year, whilst uncontrollable lost mileage increased.

Revenue via off bus channels, which include the key and mobile tickets increased at a higher rate than cash on bus. We introduced new value based tickets with 'Add a kid for a quid' and 'Nightrider' tickets, aimed at group and off peak travel markets. Our customer satisfaction measured by independent body Transport Focus came out at 90%, a 6% increase on last year's result, with our punctuality score rising 10% year on year.

Our continued investment in our people showed when in November 2016 we were successful in regaining Investors in People Gold accreditation, one of the first in the country to be marked against the new tougher criteria. Our annual employee survey showed engagement up from 66% to 69%.

We were recognised on a national scale with a highly commended at the National Transport Awards for Bus Operator of the Year and by being shortlisted at the Route One Awards for Large Bus Operator of the Year.

We have continued to invest in our fleet, reducing our average vehicle age, with the introduction of 13 MAN gas powered buses, alongside new infrastructure at our Milehouse depot to fuel the vehicles.

Overall the above measures have set us to double our operating profit year on year to £1.656 million.

Strategic Report (continued)

Future developments

We will continue to invest in our fleet, with the introduction of 16 brand new Alexander Dennis Enviro 400 City buses entering service in the summer of 2017, of which are Euro 6 carbon certified vehicles. These buses will be introduced on the Company's flagship 21/21A cross city route.

Continuing with customer focus in November 2017 we will introduce Contactless payment on all our buses, cutting the need to carry cash for on bus fares.

Our new integrated journey planer and ticketing mobile app will be launched in the winter of 2017/18, allowing passengers to plan a real time journey and purchase travel all in one place.

We will continue to be agile, developing bus routes to fit a changing road network in the City, putting the customer at the centre of each decision we make.

Our involvement within the community will continue, introducing new innovative partnerships with charities and organisations within our operating area, showcasing what it is to be a good community partner

Risk management objectives and policies

The main risks associated with the Company's financial assets and liabilities are set out below. Given that the majority of the risks below derive from transactions with other Group companies, the Company does not undertake any hedging activity locally. Significant financial risks from a Group perspective are addressed on a case-by-case basis at Group level.

Interest rate risk

All surplus cash is swept by the ultimate parent company, which is invested at a Group level. Interest is charged at a variable rate on Group loans. Therefore financial assets, liabilities, interest income and interest charges and cash flows can be affected by movements in interest rates. However, the exposure is reduced because of the Group control.

Price risk

There is no significant exposure to changes in the carrying value of financial liabilities because all of these bear interest at floating rates. The Company is exposed to commodity price risk as a result of fuel usage. The Group closely monitors fuel prices and uses fuel derivatives to hedge its exposure to increases in fuel prices, when it deems this to be appropriate.

Credit risk

The Company manages its debtors on an ongoing basis and significant resource is put into mitigating credit risk.

Liquidity risk

The Company aims to mitigate liquidity risk by managing cash generated by its operations in line with Group policies. A cash sweeping facility exists with the ultimate parent company and therefore further information regarding the liquidity risk can be found in the Group financial statements. Capital expenditure is approved at Group level.

Foreign currency risk

The Company has no foreign currency risk, all of the transactions, assets and liabilities are in sterling.

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



S P Butcher
23 November 2017

Directors' Report

The directors present their annual report, together with the financial statements and auditor's report, for the year ended 1 July 2017.

The Company has chosen in accordance with section 414C(11) of the Companies Act 2006 to set out in the Company's strategic report the following which the directors believe to be of strategic importance:

- Review of business
- Future developments
- Financial risk management objectives and policies.

Directors

The directors who served the Company during the year, and up to date of approval of the financial statements, were as follows:

D A Brown
R C B Stevens
M B Horide
S P Butcher

Messrs Brown and Butcher were directors of the ultimate parent company, The Go-Ahead Group plc during the year.

Dividends

No dividends were paid or proposed during the year (2016: £nil).

Management and staff

The Company's policy is to consult and discuss with employees, through unions, staff councils and at meetings, on matters likely to affect employees' interests. Information on matters of concern to employees is provided through information bulletins and reports to achieve a common awareness of the financial and economic factors affecting the Company's performance.

It is the policy of the Company that disabled people, whether registered or not, should receive full and fair consideration for all job vacancies for which they are suitable applicants. Arrangements are made, wherever possible, for retraining employees who become disabled to enable them to perform work identified as appropriate to their aptitudes and abilities. As part of our continued staff engagement training the Company is working to ensure our workforce replicates the diversity of society as a whole.

The Company also encourages employee involvement in the Company's performance through a number of share schemes including a Share Incentive Plan and Save As You Earn Scheme. Details of these schemes can be found in the notes to the financial statements.

Health and Safety

Health and Safety is at the forefront of every process and decision the Company undertakes. This is managed through a process of established policies and procedures, safe systems of work and risk assessments. Our safety culture is embedded in everything we do and reviewed at regular intervals in a process led by the Engineering Director engaging with staff representatives; There were no serious incidents or near misses relating to Health and Safety reported during this financial year.

Directors' Report (continued)

Going concern

The directors have considered the Company's current and future prospects, risks and uncertainties set out in the risk management objectives and policies, and its availability of financing from its ultimate Group undertaking and are satisfied that the Company can continue to pay its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. For this reason, the directors continue to adopt the going concern basis of preparation for these financial statements. We have obtained confirmation from The Go Ahead Group plc that they will continue to provide the financial support for at least 12 months from the date of approval of the balance sheet.

Events after the balance sheet date

There were no significant events occurring after the balance sheet date requiring disclosure in these financial statements.

Directors indemnities

The Go-Ahead Group plc ("Group") maintains directors' and officers' liability insurance, for both the plc and its subsidiaries, which gives appropriate cover for any legal action brought against its directors. The Group has also granted indemnities to each of its, and its subsidiaries, directors to the extent permitted by law. Qualifying third party indemnity provisions (as defined in Section 234 of the Act) were in force during the year ended 1 July 2017 and remain in force, in relation to certain losses and liabilities that the directors may incur to third parties in the course of acting as directors or employees of the Group or of any associated company. Neither the Group's indemnity nor its insurance provides cover in the event that a director is proven to have acted dishonestly or fraudulently.

Directors' responsibilities for audit information

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information (this is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

This statement is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Auditor

A resolution to appoint Deloitte LLP was approved by the members at that Annual General Meeting.

Registered office:
3rd Floor
41 - 51 Grey Street
Newcastle upon Tyne
NE1 6EE

On behalf of the Board



S P Butcher
Director
23 November 2017

Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements for the year ended 1 July 2017 in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), 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 judgments and accounting 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent auditor's report

to the members of Plymouth Citybus Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 1 July 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Plymouth Citybus Limited (the 'Company') which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent auditor's report

to the members of Plymouth Citybus Limited (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Independent auditor's report

to the members of Plymouth Citybus Limited (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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 respect of these matters.

Anthony Matthews

Anthony Matthews FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP, Statutory Auditor
London
United Kingdom

23 November 2017

Income statement

for the year ended 1 July 2017

| | Notes | 2017 £000 | 2016 £000 |
|---|-------|--------------|--------------|
| Revenue | 3 | 24,843 | 25,262 |
| Operating costs | 4 | (23,187) | (24,478) |
| Operating profit | 5 | 1,656 | 784 |
| Interest receivable | 8 | - | - |
| Interest payable and similar charges | 9 | (153) | (166) |
| Profit before taxation | | 1,503 | 618 |
| Tax on profit | 10 | (185) | (112) |
| Profit for the year from continuing operations | | 1,318 | 506 |

Statement of comprehensive income

for the year ended 1 July 2017

| | Notes | 2017 £000 | 2016 £000 |
|---|-------|--------------|--------------|
| Profit for the year from continuing operations | | 1,318 | 506 |
| Other comprehensive income / (losses) | | | |
| <i>Items that will not be reclassified to profit or loss</i> | | | |
| Re-measurement loss on defined benefit pension scheme | 20 | (515) | (1,056) |
| Tax relating to items that will not be reclassified | | 46 | 130 |
| | | (469) | (926) |
| <i>Items that may subsequently be reclassified to profit or loss</i> | | | |
| Unrealised gains/(losses) on cashflow hedges | | 270 | (746) |
| (Losses)/gains on cashflow hedges taken to income statement – operating costs | | (110) | 1,147 |
| Tax relating to items that may be reclassified | | (37) | (80) |
| | | 123 | 321 |
| Other comprehensive losses for the year, net of tax | | (346) | (605) |
| Total comprehensive income for the year | | 972 | (99) |

Statement of changes in equity

for the year ended 1 July 2017

| | <i>Notes</i> | <i>Share capital</i> £000 | <i>Hedging reserve</i> £000 | <i>Retained earnings</i> £000 | <i>Total equity</i> £000 |
|---|--------------|------------------------------|------------------------------------|--------------------------------------|-----------------------------|
| At 27 June 2015 | | 1,290 | (783) | 3,938 | 4,445 |
| Profit for the year | | - | - | 506 | 506 |
| Actuarial loss on pension scheme, net of taxation | 20 | - | - | (926) | (926) |
| Net movement on hedges, net of tax | | - | 321 | - | 321 |
| Profit and total comprehensive income | | - | 321 | (420) | (99) |
| Share based payments | 23 | - | - | 16 | 16 |
| At 2 July 2016 | | 1,290 | (462) | 3,534 | 4,362 |
| Profit for the year | | - | - | 1,318 | 1,318 |
| Actuarial loss on pension scheme, net of taxation | 20 | - | - | (469) | (469) |
| Net movement on hedges, net of tax | | - | 123 | - | 123 |
| Profit and total comprehensive income | | - | 123 | 849 | 972 |
| Share based payments | 23 | - | - | 25 | 25 |
| At 1 July 2017 | | 1,290 | (339) | 4,408 | 5,359 |

Balance sheet

As at 1 July 2017

Registered No: 02004966

| | Notes | 2017 £000 | 2016 £000 |
|---|-------|------------------------|------------------------|
| Assets | | | |
| Non-current assets | | | |
| Intangible assets | 12 | - | 2 |
| Tangible assets | 13 | 11,969 | 12,048 |
| | | <u>11,969</u> | <u>12,050</u> |
| Current assets | | | |
| Inventories | 14 | 221 | 163 |
| Debtors: amounts due within one year | 15 | 2,393 | 5,144 |
| Deferred tax assets | 10 | 889 | 864 |
| Cash at bank | | 142 | 145 |
| | | <u>3,645</u> | <u>6,316</u> |
| Total assets | | <u>15,614</u> | <u>18,366</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Creditors: amounts falling due within one year | 16 | (3,373) | (7,831) |
| Current tax liabilities | 10 | (417) | (95) |
| | | <u>(3,790)</u> | <u>(7,926)</u> |
| Net current liabilities | | (144) | (1,610) |
| Total assets less current liabilities | | <u>11,824</u> | <u>10,440</u> |
| Non-current liabilities | | | |
| Creditors: amounts falling due after more than one year | 17 | (158) | (216) |
| Retirement benefit obligations | 20 | (4,774) | (4,163) |
| Deferred tax liabilities | 10 | (1,047) | (1,242) |
| Provisions | 19 | (486) | (457) |
| | | <u>(6,465)</u> | <u>(6,078)</u> |
| Total liabilities | | <u>(10,255)</u> | <u>(14,004)</u> |
| Net assets | | <u>5,359</u> | <u>4,362</u> |
| Capital and reserves | | | |
| Share capital | 21 | 1,290 | 1,290 |
| Hedging reserve | 21 | (339) | (462) |
| Retained earnings | | 4,408 | 3,534 |
| Total equity | | <u>5,359</u> | <u>4,362</u> |

Approved by the Board and signed on its behalf by:



S P Butcher
Director
23 November 2017

Notes to the financial statements

for the year ended 1 July 2017

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Plymouth Citybus Limited (the “Company”) for the year ended 1 July 2017 were authorised for issue by the board of directors on 23 November 2017 and the balance sheet was signed on the board’s behalf by S P Butcher. The Company is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company’s registered office is shown on page 1.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (“FRS 101”).

The principal accounting policies adopted by the Company are set out in note 2.

2. Accounting policies

2.1 Basis of preparation

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company’s ultimate parent undertaking, The Go-Ahead Group plc, includes the Company in its consolidated financial statements. The consolidated financial statements of The Go-Ahead Group plc are prepared in accordance with International Financial Reporting Standards, as adopted by the EU, and are available to the public and may be obtained from Companies House, Cardiff and The Go-Ahead Group plc website.

The financial statements have been prepared on a historical cost basis, as modified by financial instruments recognised at fair value. The presentation and functional currency used is sterling and amounts have been presented in round thousands (“£’000”).

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

- the requirements of IFRS 7 *Financial Instruments: Disclosures*
- the requirements in paragraph 38 of IAS 1 ‘Presentation of Financial Statements’ to present comparative information in respect of:
 - a) paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;
 - b) paragraph 118(e) of IAS 38 *Intangible Assets*;
- the requirements of paragraphs 10(d), 111 and 134 of IAS 1 *Presentation of Financial Statements*;
- the requirements of IAS 7 *Statement of Cash Flows*;
- the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- the requirement of paragraph 17 of IAS 24 *Related Party Transactions*; and
- the requirements in IAS 24 *Related Party Transactions* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 *Share based payments*;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j)-(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66, B67 of IFRS3 *Business Combinations*; and
- the requirements of paragraphs 134 (d)-(f) and 135(c)-(e) of IAS 36 *Impairment of Assets*.

Notes to the financial statements

for the year ended 1 July 2017

2.1 *Basis of preparation (continued)*

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

2.2 *Critical accounting judgements and key sources of estimation uncertainty*

The preparation of the financial statements requires management to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods

Critical judgements in applying the Company's accounting policies

The following are the critical judgements, apart from those involving estimations (as detailed below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

- ***Uninsured liabilities***

The measurement of uninsured liabilities is based on an assessment provided by external advisors of the expected settlement of known claims and an estimate of the cost of claims not yet reported to the Group, as detailed in note 19.

Key sources of estimation uncertainty

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying value of assets and liabilities within the next financial year are in relation to:

- ***Retirement benefits***

The measurement of defined benefit pension obligations in the Local Government Pension Scheme, administered by Devon County Council, requires the estimation of future changes in salaries, inflation and the selection of a suitable discount rate, as set out in note 20.

2.3 *Significant accounting policies*

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future and meet its liabilities as they fall due.

The Company has net current liabilities of £145,000, including net amounts due from Group undertakings of £345,000. The Company is dependent on continuing financial support being available from its ultimate parent undertaking. The directors have received confirmation from the Company's ultimate parent undertaking that the necessary financial support will continue to be available to the Company for the foreseeable future and, in particular, for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the directors of the Company believe that it is appropriate to prepare the financial statements on a going concern basis.

Revenue

Revenue is recognised to the extent that it is probable that the income will flow to the Company and the value can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, VAT and other sales taxes or duty.

Revenue comprises revenue from bus transport services in the United Kingdom.

Notes to the financial statements

for the year ended 1 July 2017

2.3 Significant accounting policies (continued)

Bus revenue principally comprises amounts receivable from ticket sales and concessionary fare schemes. Concessionary amounts are recognised in the period in which the service is provided based on a predetermined formula as agreed with the relevant local authority.

Other bus revenue comprises amounts receivable from contracts with local authorities and are recognised as the services are provided. Non bus revenue includes amounts receivable from commercial engineering, advertising, tours, excursions and private hire contracts and other income and are recognised as the services are provided.

Interest receivable and similar income

Interest on deposits is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Fixed assets and depreciation

Tangible fixed assets are stated at cost, less accumulated depreciation.

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

| | | |
|----------------------|---|---------------|
| Leasehold buildings | - | 10 years |
| Plant & equipment | - | 3 to 15 years |
| Rolling stock | - | 8 to 15 years |
| Other motor vehicles | - | 5 years |

Freehold land is not depreciated. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Intangible assets and amortisation

Software

Software, that is not integral to the related hardware, is capitalised as an intangible asset and stated at cost less amortisation and any impairment in value. Amortisation is charged to the income statement evenly over its expected useful life of three to five years.

Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount, being the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. Value in use is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, and the estimated future cashflows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Impairment losses (including goodwill impairment) of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Goodwill impairment losses are not reversed. The reinstated amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, on a systematic basis less any residual value, over its remaining useful life.

Notes to the financial statements

for the year ended 1 July 2017

2.3 Significant accounting policies (continued)

Inventories

Inventories of fuel and engineering spares are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow moving items. Cost comprises direct materials and costs incurred in bringing the items to their present location and condition. Net realisable value represents the estimated selling price less costs of sale. Inventory is calculated using the first in first out method (FIFO).

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities on an undiscounted basis at the tax rates that are expected to apply when the related 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.

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

Deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Tax relating to items recognised outside the Income Statement is recognised in other comprehensive income or directly in equity in correlation with the underlying transaction. Otherwise, tax is recognised in the Income Statement.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the income statement over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Operating lease agreements

Rentals payable under operating leases are charged in the income statement on a straight line basis over the lease term.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, expected future cashflows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the Group expects some or all of a provision to be reimbursed, 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. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Insurance

The Company limits its exposure to the cost of motor, employer and public liability claims through third party insurance policies. These provide individual claim cover subject to high excess limits and an annual aggregate stop loss for total claims within the excess limits. An amount is recognised within Provisions for liabilities for the estimated cost to the Company to settle claims for incidents occurring prior to the balance sheet date, subject to the overall stop loss.

Notes to the financial statements

for the year ended 1 July 2017

2.3 Significant accounting policies (continued)

Provisions (continued)

The estimation of this liability is made after taking appropriate professional advice and is based on an assessment of the expected settlement on known claims, together with an estimate of settlements that will be made in respect of incidents occurring prior to the balance sheet date but have not yet been reported to the Company.

Pensions

The Company participates in the Local Government Superannuation Scheme, which is a defined benefit scheme. The proportion of the scheme's assets and liabilities relating to the Company, have been determined by an independent actuary.

To assess the value of the liabilities at 30 June 2016, the actuary roll forward the value of the liabilities calculated for the last full funding valuation, using financial assumptions that comply with IAS19. To calculate the asset share the actuary rolls forward the assets allocated to the Employer at the latest full actuarial valuation, allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the Fund by and in respect of the Employer and its employees.

Pension scheme assets are measured at market value (bid). Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. The increase in the present value of the liabilities of the defined benefit pension scheme expected to arise from employee service in the period is charged to operating profit. The expected return on the scheme's assets and the increase during the year in the present value of the scheme's liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of comprehensive income.

The pension scheme's surplus, to the extent that it is considered recoverable, or deficit is recognised in full and presented on the face of the balance sheet net of the related deferred tax.

The Company also operates the Plymouth Citybus Pension Scheme. This is a defined contribution scheme. Premiums are charged to the income statement in the period to which they relate.

The Company is also a member of the Go-Ahead Group Pension Scheme operated by The Go-Ahead Group plc for the majority of its employees. Plymouth Citybus Limited is part of the defined contribution section.

For the defined contribution schemes, the amount charged to the income statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised in operating costs within the income statement over the period necessary to match on a systematic basis to the costs that it is intended to compensate. Where the grant relates to a non-current asset, value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Notes to the financial statements

for the year ended 1 July 2017

2.3 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets and derivatives

The Company uses derivatives to hedge its risks associated with fuel price fluctuations, and interest derivatives to hedge its risks associated with interest rate fluctuations. Such derivatives are initially recognised at fair value by reference to market values for similar instruments, and subsequently re-measured at fair value at each balance sheet date.

Changes in the fair value of financial instruments that are designated and effective as hedges of future cashflows are recognised in other comprehensive income and the ineffective portion is recognised immediately in the income statement. When the cashflow hedge results in the recognition of a non-financial asset or a liability, then at the time that asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in other comprehensive income are included in the initial measurement of that non-financial asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the period in which the hedged item affects net profit or loss.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement as they arise.

Hedge accounting is discontinued when the derivative expires or is sold, terminated or exercised without replacement or rollover, or otherwise no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is kept in equity until the forecast transaction occurs, at which point it is taken to the income statement or included in the initial carrying amount of the related non-financial asset as described above. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the income statement.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Share Based Payment

The Company participates in equity-settled share option schemes operated by the ultimate parent undertaking (The Go-Ahead Group plc), under which options are granted to employees (including directors). The cost of options granted to employees is measured by reference to the fair value at the date at which they are granted, determined by an external valuation using an appropriate pricing model. In valuing equity-settled options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of The Go-Ahead Group plc ('market conditions').

The cost of options is recognised in the income statement over the period from grant to vesting date on which the relevant employees become fully entitled to the award, with a corresponding increase in reserves. The cumulative cost recognised, at each reporting date, reflects the extent to which the period to vesting has expired and the directors' best estimate of the number of options that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above.

No cost is recognised for awards that do not ultimately vest except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised for the award is recognised immediately.

Notes to the financial statements

for the year ended 1 July 2017

3. Revenue

The revenue and profit before tax are attributable to the one principal activity of the Company.

An analysis of revenue by class of business is given below:

| | 2017 £000 | 2016 £000 |
|-----------------------|---------------|---------------|
| Regional bus services | <u>24,843</u> | <u>25,262</u> |

An analysis of revenue by geographical market is given below:

| | 2017 £000 | 2016 £000 |
|----------------|---------------|---------------|
| United Kingdom | <u>24,843</u> | <u>25,262</u> |

4. Operating costs

| | 2017 £000 | 2016 £000 |
|---------------------------------------|---------------|---------------|
| Materials and external charges | 7,185 | 8,445 |
| Staff costs | 14,378 | 14,434 |
| Depreciation of tangible fixed assets | 1,654 | 1,644 |
| Other operating income | (30) | (45) |
| | <u>23,187</u> | <u>24,478</u> |

5. Operating profit

This is stated after charging/(crediting):

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Auditor's remuneration - audit services | <u>9</u> | <u>8</u> |
| Depreciation of owned fixed assets | 1,467 | 1,347 |
| Depreciation of assets held under hire purchase contracts | 187 | 309 |
| | <u>1,654</u> | <u>1,656</u> |
| Amortisation of software | (2) | (12) |
| Profit on disposal of tangible assets | (9) | (83) |
| Deferred capital grant released into profit | (12) | (12) |
| Rent receivable | (7) | (7) |
| Operating lease costs | <u>(6)</u> | <u>(7)</u> |

Notes to the financial statements

for the year ended 1 July 2017

6. Staff costs

| | 2017 £000 | 2016 £000 |
|---------------------------------------|---------------|---------------|
| Wages and salaries | 12,902 | 12,962 |
| Social security costs | 1,131 | 1,105 |
| Other pension costs – defined benefit | 45 | 62 |
| – defined contribution | 300 | 305 |
| | <u>14,378</u> | <u>14,434</u> |

The monthly average number of employees during the year was as follows:

| | 2017 No. | 2016 No. |
|-------------------------------------|-------------|-------------|
| Bus operations and other activities | 531 | 521 |
| Administration | 25 | 24 |
| | <u>556</u> | <u>545</u> |

7. Directors' emoluments

| | 2017 £000 | 2016 £000 |
|--|---------------------|---------------------|
| Aggregate emoluments in respect of qualifying services | <u>177</u> | <u>176</u> |
| Company pension contributions to money purchase schemes | <u>15</u> | <u>14</u> |
| | <u>2017 No.</u> | <u>2016 No.</u> |
| Number of directors accruing benefits under defined benefit schemes | <u>-</u> | <u>-</u> |
| Number of directors accruing benefits under money purchase pension schemes | <u>2</u> | <u>2</u> |
| Number of directors who exercised share options | <u>2</u> | <u>-</u> |

The amounts in respect of the highest paid director are as follows:

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Emoluments | <u>101</u> | <u>103</u> |
| Company pension contributions to money purchase schemes | <u>11</u> | <u>11</u> |

During the year, the highest paid director exercised 460 share options (2016: £nil) and 395 share options (2016: £nil) were granted in respect of a deferred share bonus plan (DSBP). See note 23.

Certain directors are also directors of The Go-Ahead Group plc. These directors received total remuneration of £1,223,000 (2016: £1,483,000) from The Go-Ahead Group plc during the year, but it is not practical to allocate this between their services as directors of The Go-Ahead Group plc and their services to the Group's subsidiaries. Further details on the remuneration of the directors of The Go-Ahead Group plc can be found in the directors remuneration report with the Annual Report and Accounts.

Notes to the financial statements

for the year ended 1 July 2017

8. Interest receivable and similar income

| | 2017 £000 | 2016 £000 |
|---------------------|--------------|--------------|
| Interest receivable | - | - |
| | <u>-</u> | <u>-</u> |

9. Interest payable and similar charges

| | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| Finance lease and hire purchase interest | 35 | 44 |
| Unwinding of discounting on provisions | 2 | 16 |
| Interest payable on defined benefit pension scheme | 116 | 106 |
| | <u>153</u> | <u>166</u> |

10. Taxation

(a) Tax recognised in the income statement

The tax charge is made up as follows:

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| <i>Current tax:</i> | | |
| UK corporation tax | 396 | 73 |
| Total current tax | <u>396</u> | <u>73</u> |
| <i>Deferred tax:</i> | | |
| Origination and reversal of timing differences | (65) | 118 |
| Adjustment in respect of previous periods | - | 3 |
| Effect of rate change on opening deferred tax balance | (130) | (60) |
| Deferred tax charge on movement in pension scheme liability | (16) | (22) |
| Total deferred tax | <u>(211)</u> | <u>39</u> |
| Tax reported in the income statement (note 10(c)) | <u>185</u> | <u>112</u> |

(b) Income tax recognised in other comprehensive income

| | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| Tax relating to items that may not be reclassified | (46) | (130) |
| Tax relating to items that may be reclassified | 37 | 80 |
| Total tax recognised in comprehensive income | <u>(9)</u> | <u>(50)</u> |

Notes to the financial statements

for the year ended 1 July 2017

10. Taxation (continued)

(c) Reconciliation

A reconciliation of income tax applicable to accounting profit before tax at the statutory tax rates for the years ended 1 July 2017 and 2 July 2016 is as follows:

The tax assessed on the profit for the year is the standard rate of corporation tax in the UK. The standard rate of corporation tax for the year ended 1 July 2017 was 19.75% (2016: 20%).

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Profit before tax | 1,503 | 618 |
| At United Kingdom tax rate of 19.75% (2016: 20%) | 297 | 124 |
| Non-qualifying depreciation | 5 | 4 |
| Expenses not deductible for tax purposes | - | 4 |
| Difference between deferred tax and corporation tax rates | 14 | 37 |
| Adjustment in respect of deferred tax of previous periods | - | 3 |
| Effect of rate change on opening deferred tax balance | (131) | (60) |
| Tax reported in the income statement (note 10(a)) | 185 | 112 |

(d) Current tax liabilities

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Current tax liability / (asset) at start of year | 95 | (2) |
| Corporation tax reported in income statement (note 10(a)) | 396 | 73 |
| (Paid) / received in the year | (75) | 24 |
| Current tax liability at end of year | 416 | 95 |

(e) Deferred tax

The deferred tax include in the balance sheet is as follows:

Deferred tax liability

| | 2017 £000 | 2016 £000 |
|--------------------------------|--------------|--------------|
| Accelerated capital allowances | (1,047) | (1,242) |
| Deferred tax liability | (1,047) | (1,242) |

Deferred tax asset

| | 2017 £000 | 2016 £000 |
|-----------------------------|--------------|--------------|
| Pension liability (note 20) | 810 | 749 |
| On cashflow hedges | 79 | 115 |
| Deferred tax asset | 889 | 864 |

Notes to the financial statements

for the year ended 1 July 2017

10. Taxation (continued)

The movements in deferred tax in the income statement and in equity are as follows:

| | 27 June 2015 | Recognised in income | Recognised in equity | 2 July 2016 |
|--------------------------------|--------------|-------------------------|-------------------------|--------------|
| | £000 | £000 | £000 | £000 |
| Accelerated capital allowances | (1,181) | (61) | - | (1,242) |
| Pension liability | 596 | 22 | 130 | 748 |
| On cashflow hedges | 196 | - | (80) | 116 |
| | <u>(389)</u> | <u>(39)</u> | <u>50</u> | <u>(378)</u> |

| | 2 July 2016 | Recognised in income | Recognised in equity | 1 July 2017 |
|--------------------------------|--------------|-------------------------|-------------------------|--------------|
| | £000 | £000 | £000 | £000 |
| Accelerated capital allowances | (1,242) | 195 | - | (1,047) |
| Pension liability | 748 | 16 | 46 | 810 |
| On cashflow hedges | 116 | - | (37) | 79 |
| | <u>(378)</u> | <u>211</u> | <u>9</u> | <u>(158)</u> |

The deferred tax asset is recognised as it is considered probable that there will be future taxable profits available.

Of the deferred tax liability, £87k (2016: £103k) is classed as current and £960k (2016: £1,139k) is classed as non-current. Of the deferred tax asset, £56k (2016: £82k) is classed as current and £833k (2016: £782k) as non-current.

(f) Factors affecting future tax charges

The standard rate of UK corporation tax reduced from 20% to 19% from 1 April 2017. A rate of 19.75% therefore applies to the current tax charge arising during the year ended 1 July 2017.

In addition to the change in rate of UK corporation tax identified above, a further reduction in the rate to 17% from 1 April 2020 was substantively enacted prior to the balance sheet date and has been applied to the Company's deferred tax balance at the balance sheet date.

11. Dividends

| | 2017 | 2016 |
|---|----------|----------|
| | £000 | £000 |
| Paid during the year | | |
| Equity dividends on ordinary shares: | | |
| Final dividend for 2017: nilp per share (2016: nil per share) | <u>-</u> | <u>-</u> |

There were no dividends proposed as at 1 July 2017.

Notes to the financial statements

for the year ended 1 July 2017

12. Intangible assets

| | <i>Software</i> £000 |
|------------------------|-------------------------|
| <i>Cost:</i> | |
| At 2 July 2016 | 126 |
| Additions | 0 |
| At 1 July 2017 | <u>126</u> |
| <i>Amortisation:</i> | |
| At 2 July 2016 | 124 |
| Charge for the year | 2 |
| At 1 July 2017 | <u>126</u> |
| <i>Net book value:</i> | |
| At 1 July 2017 | <u>-</u> |
| At 2 July 2016 | <u>2</u> |

Software is being amortised over its expected useful life of three to five years.

Amortisation is included within operating costs in the income statement.

13. Tangible fixed assets

| | <i>Freehold land & buildings</i> £000 | <i>Plant & machinery</i> £000 | <i>Rolling Stock</i> £000 | <i>Total</i> £000 |
|---|--|--|------------------------------|----------------------|
| <i>Cost:</i> | | | | |
| At 2 July 2016 | 174 | 2,665 | 26,636 | 29,475 |
| Additions | 93 | 149 | 357 | 599 |
| Disposals | - | (56) | (1,918) | (1,974) |
| Transfers from other Group undertakings | - | - | 1,335 | 1,335 |
| At 1 July 2017 | <u>267</u> | <u>2,758</u> | <u>26,410</u> | <u>29,435</u> |
| <i>Depreciation:</i> | | | | |
| At 2 July 2016 | 57 | 2,222 | 15,148 | 17,427 |
| Provided during the year | 23 | 174 | 1,457 | 1,654 |
| Disposals | - | (56) | (1,918) | (1,974) |
| Transfers from other Group undertakings | - | - | 359 | 359 |
| At 1 July 2017 | <u>80</u> | <u>2,340</u> | <u>15,046</u> | <u>17,466</u> |
| <i>Net book value:</i> | | | | |
| At 1 July 2017 | <u>187</u> | <u>418</u> | <u>11,364</u> | <u>11,969</u> |
| At 2 June 2016 | <u>117</u> | <u>443</u> | <u>11,488</u> | <u>12,048</u> |

The net book value of assets above includes an amount of £602,000 (2016: £790,000) in respect of assets held under hire purchase contracts.

There were capital commitments as at the year-end of £3,468m (2016: £nil).

Notes to the financial statements

for the year ended 1 July 2017

14. Inventories

| | 2017 £000 | 2016 £000 |
|-------------------------------|--------------|--------------|
| Raw materials and consumables | 221 | 163 |

The amount of any write down of inventory recognised as an expense during the year is immaterial.

15. Debtors

| | 2017 £000 | 2016 £000 |
|-------------------------------------|--------------|--------------|
| Trade debtors | 494 | 332 |
| Amounts due from Group undertakings | 384 | 3,674 |
| Other debtors | 679 | 226 |
| Prepayments and accrued income | 836 | 912 |
| | <u>2,393</u> | <u>5,144</u> |

All the above debtors fall due within less than 1 year.

Amounts due from Group undertakings are repayable on demand.

16. Creditors: amounts falling due within one year

| | 2017 £000 | 2016 £000 |
|---------------------------------------|--------------|--------------|
| Amounts owed to Group undertakings | - | 5,811 |
| Trade creditors | 1,078 | 533 |
| Other taxation and social security | 400 | 232 |
| Accruals and deferred income | 1,585 | 831 |
| Deferred capital grant (note 18) | 11 | 12 |
| Other financial liabilities (note 24) | 299 | 412 |
| | <u>3,373</u> | <u>7,831</u> |

Amounts owed to Group undertakings are repayable on demand.

Notes to the financial statements

for the year ended 1 July 2017

17. Creditors: amounts falling due after more than one year

| | 2017 £000 | 2016 £000 |
|---------------------------------------|--------------|--------------|
| Deferred capital grant (note 18) | 39 | 51 |
| Other financial liabilities (note 24) | 119 | 165 |
| | <u>158</u> | <u>216</u> |

18. Deferred capital grants

| | £000 |
|---|-----------|
| At 2 July 2016 | 62 |
| Grants released to the income statement | (12) |
| At 1 July 2017 | <u>50</u> |

19. Provisions

| | Uninsured claims £000 |
|--------------------------|-----------------------------|
| At 2 July 2016 | 457 |
| Provided in year | 271 |
| Utilised | (240) |
| Unwinding of discounting | (2) |
| At 1 July 2017 | <u>486</u> |

Uninsured claims represent the cost to the Company to settle claims for incidents occurring prior to the balance sheet date based on an assessment of the expected settlement, together with an estimate of settlements that will be made in respect of incidents that have not yet been reported to the Company by the insurer, subject to the overall stop loss. It is estimated that the majority of uninsured claims will be settled within the next six years. Both the estimate of settlements that will be made in respect of claims received, as well as the estimate of settlements made in respect of incidents not yet reported, are based on historic trends which alter over time reflecting the length of time some matters can take to be resolved. No material changes to carrying values are expected within the next twelve months.

Notes to the financial statements

for the year ended 1 July 2017

20. Pension commitments

The Company participates in both a defined contribution scheme and a defined benefit scheme:

Defined contribution:

The Company participates in the defined contribution scheme of The Go-Ahead Group Pension Plan. This scheme is not contracted-out of the State Second Pension Scheme and is open to new entrants. The expense recognised in these financial statements for the year is £300,000 (2016: £305,000) being the contributions paid and payable. The pre-existing scheme was transferred to the Go-Ahead Group Pension Plan in April 2010.

Defined benefit:

The Company participates in the Local Government Pension Scheme (LGPS). In accordance with IAS19, the Company is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees.

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings. The scheme is externally funded and is now closed to new entrants.

The administering authority for the Fund is Devon County Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering authority. Where appropriate some functions are delegated to the Fund's professional advisers.

As administering authority to the Fund, Devon County Council, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Statement of Investment Principles.

Contributions are set every three years as a result of the actuarial valuation of the Fund required by the Regulations. The most recent full actuarial valuation was carried out as at 31 March 2016 using the projected unit method, and has been updated by independent actuaries to the Devon County Council Pension Fund to take account of the requirements of IAS19 in order to assess the liabilities of the Fund as at 1 July 2017. The next actuarial valuation of the Fund will be carried out as at 31 March 2019 and will set contributions for the period from 1 April 2020 to 31 March 2023. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

On the Employer's withdrawal from the Fund, a cessation valuation will be carried out in accordance with Regulation 64 of the LGPS Regulations 2013 which will determine the termination contribution due by the Employer, on a set of assumptions deemed appropriate by the Fund Actuary.

The expected return on assets is based on the long term future expected investment for each asset class as at the beginning of the period. The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields.

The Company's contributions made in the year were £65,000 (2016: £38,000). At the balance sheet date there were outstanding contributions due to the scheme of £1,447 (2016: £3,638).

Notes to the financial statements

for the year ended 1 July 2017

20. Pension commitments (continued)

Risks associated with defined benefit plans

The number of employees in the defined benefit plan is reducing, as the plan is closed to new entrants. The Company is exposed to the following risks:

- Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges;
- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way;
- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation; and
- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Devon County Council Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Company e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

Summary of year end assumptions

| | 2017 % | 2016 % |
|------------------------------|-----------|-----------|
| Rate of increase in salaries | 4.0 | 3.8 |
| Discount rate | 2.5 | 2.8 |
| Inflation RPI assumption | 3.4 | 2.9 |
| Inflation CPI assumption | 2.5 | 2.0 |

These assumptions are set with reference to market conditions at 30 June 2017.

The most significant non-financial assumption is the assumed rate of longevity. The table below shows the life expectancy assumptions used in the accounting assessments based on the life expectancy of a male member of each pension scheme at age 65.

| | 2017 Years | 2016 Years |
|---------------|---------------|---------------|
| Pensioner | 23 | 23 |
| Non-pensioner | 25 | 25 |

Notes to the financial statements

for the year ended 1 July 2017

20. Pension commitments (continued)

Sensitivity analysis

In making the valuation, the above assumptions have been used. The following is an approximate sensitivity analysis of the impact of the change in the key assumptions. In isolation, the following adjustments would adjust the pension deficit as shown.

| | 2017 Impact on pension deficit £'000 | 2016 Impact on pension deficit £'000 |
|---|---|---|
| Discount rate – increase of 0.1% | 17 | 15 |
| Rate of increase in salaries – increase of 0.1% | 17 | 16 |
| Rate of increase of pensions in payment – increase of 0.1% | 17 | 16 |
| Increase in life expectancy of pensioners or non-pensioners by 1 year | 18 | 16 |

The sensitivity analysis presented above has been calculated using approximate methods. The use of 0.1% and 1 year in the sensitivity analysis is considered to be a reasonable illustrative approximation of possible changes, as these variations can regularly arise.

Funding position

The fair value of the scheme assets, the present value of the scheme liabilities and the resulting deficit are:

| | 2017 Value £000 | % | 2016 Value £000 | % |
|---------------------------------------|-----------------------|----|-----------------------|----|
| Equities | 7,274 | 59 | 6,586 | 57 |
| Bonds | 370 | 3 | 285 | 2 |
| Properties | 1,064 | 9 | 1,222 | 11 |
| Cash | 315 | 3 | 260 | 2 |
| Absolute return funds | 1,818 | 15 | 1,705 | 15 |
| Infrastructure | 474 | 4 | 474 | 4 |
| Other bonds | 296 | 2 | 398 | 3 |
| Alternative assets | 663 | 5 | 675 | 6 |
| Total market value of assets | 12,274 | | 11,605 | |
| Present value of scheme liabilities | (17,048) | | (15,768) | |
| Pension liability before deferred tax | (4,774) | | (4,163) | |
| Related deferred tax asset | 810 | | 749 | |
| Net pension liability | (3,964) | | (3,414) | |

Notes to the financial statements

for the year ended 1 July 2017

20. Pension commitments (continued)

Amounts recognised in the Income Statement

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Current service cost | (35) | (55) |
| Administration expenses | (10) | (7) |
| Total operating charge | <u>(45)</u> | <u>(62)</u> |
| Interest income on assets in the scheme | 315 | 419 |
| Interest cost on scheme liabilities | (431) | (525) |
| Net interest costs | <u>(116)</u> | <u>(106)</u> |

Amounts recognised in the Statement of Comprehensive Income

| | 2017 £000 | 2016 £000 |
|--|--------------|----------------|
| Return on assets greater than discount rate | 1,374 | (79) |
| Actuarial losses on assets | (317) | - |
| Changes in financial assumptions | (1,810) | (977) |
| Experience gains on defined benefit obligation | 238 | - |
| Remeasurement losses on defined benefit pension scheme | <u>(515)</u> | <u>(1,056)</u> |

Analysis of the change in the pension scheme assets over the financial year

| | 2017 £000 | 2016 £000 |
|---|---------------|---------------|
| Fair value of scheme assets at the start of the year | 11,605 | 11,972 |
| Interest income on scheme assets | 315 | 419 |
| Remeasurement gains/(losses) due to return on assets greater than discount rate | 1,374 | (79) |
| Other actuarial losses | (317) | - |
| Administration expenses | (10) | (7) |
| Company contributions | 65 | 39 |
| Member contributions | 7 | 10 |
| Benefit payments | (765) | (749) |
| Fair value of scheme assets at end of the year | <u>12,274</u> | <u>11,605</u> |

Analysis of the change in the pension scheme liabilities over the financial year

| | 2017 £000 | 2016 £000 |
|--|---------------|---------------|
| Present value of scheme liabilities at the start of the year | 15,768 | 14,950 |
| Current service cost | 35 | 55 |
| Interest cost | 431 | 525 |
| Member contributions | 7 | 10 |
| Remeasurement losses due to changes in financial assumptions | 1,682 | 977 |
| Change in demographic assumptions | 128 | - |
| Experience gain on defined benefit obligation | (238) | - |
| Benefit payments | (763) | (747) |
| Unfunded pension payments | (2) | (2) |
| Present value of scheme liabilities at end of the year | <u>17,048</u> | <u>15,768</u> |

Notes to the financial statements

for the year ended 1 July 2017

20. Pension commitments (continued)

Analysis of the change in the pension scheme deficit over the financial year

| | 2017 £000 | 2016 £000 |
|---|----------------|----------------|
| Present value of scheme deficit at the start of the year | (4,163) | (2,978) |
| Interest income on scheme assets | 315 | 419 |
| Current service cost | (35) | (55) |
| Interest cost | (431) | (525) |
| Administration expenses | (10) | (7) |
| Remeasurement losses due to changes in financial assumptions | (1,682) | (977) |
| Remeasurement gains/(losses) due to return on assets greater than discount rate | 1,374 | (79) |
| Other actuarial losses | (317) | - |
| Change in demographic assumptions | (128) | - |
| Experience gain on defined benefit obligation | 238 | - |
| Company contributions | 65 | 39 |
| Present value of scheme deficit at end of the year | <u>(4,774)</u> | <u>(4,163)</u> |

Estimated contributions for future

| | £000 |
|---|-----------|
| Estimated Company contributions in financial year 2018 | 58 |
| Estimated employee contributions in financial year 2018 | 4 |
| Estimated total contributions in financial year 2018 | <u>62</u> |

21. Share capital and reserves

| | No. | <i>Allotted, called up and fully paid</i> | |
|----------------------------|-----------|---|--------------|
| | | 2017 £000 | 2016 £000 |
| Ordinary shares of £1 each | 1,290,100 | <u>1,290</u> | <u>1,290</u> |

Hedging reserve

The hedging reserve records the movement in value of fuel derivatives, offset by any movements recognised directly in equity.

22. Operating lease commitments

Future minimum rentals payable under non-cancellable operating leases as at 1 July 2017 and 2 July 2016 were as follows:

| | 2017 £000 | 2016 £000 |
|----------------------|--------------|--------------|
| Within one year | 8 | 5 |
| In two to five years | 6 | - |
| | <u>14</u> | <u>5</u> |

Notes to the financial statements

for the year ended 1 July 2017

23. Shared based payments

Share Incentive Plan

The Company participates in an HMRC approved share incentive plan, operated by the ultimate parent undertaking, known as The Go-Ahead Group plc Share Incentive Plan (the "SIP"). The SIP is open to all Group employees (including executive directors) who have completed at least six month's service with a Group company at the date they are invited to participate in the plan.

The SIP permits The Go-Ahead Group plc to make four different types of awards to employees (free shares, partnership shares, matching shares and dividend shares), although the Group has, so far, made awards of partnership shares only. Under these awards, the Group invites qualifying employees to apply between £10 and £150 per month in acquiring shares in the Group at the prevailing market price. Under the terms of the scheme, certain tax advantages are available to the Group and employees.

Sharesave Scheme

Shareholder approval was obtained at the 2013 AGM for the introduction of a new HM Revenue & Customs approved Savings-Related Share Option scheme, known as The Go-Ahead Group plc 2013 Savings-Related Share Option Scheme (the Sharesave scheme) for employees of the Group and its operating companies.

The Sharesave scheme is open to all full time and part-time employees (including executive directors) who have completed at least six months of continuous service with a Go-Ahead Group company at the date they are invited to participate in a scheme launch. To take part, qualifying employees have to enter into a savings contract for a period of three years under which they agree to save a monthly amount, from a minimum of £5 to a maximum (not exceeding £500) specified by the Group at the time of invitation. For the February 2014 launch, the maximum monthly savings limit set by the Group was £50. At the end of the savings period, employees can buy shares at a 20% discount of the market price set at the date of the invitation or take their full savings back.

The fair value of equity-settled share options granted is estimated as at the date of grant using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The key assumptions input into the model are future share price volatility, future dividend yield, future risk free interest rate, forfeiture rate and option life.

There are savings-related options at 1 July 2017 as follows:

| Scheme maturity | 1 May 2019 | 1 May 2017 |
|---|------------|------------|
| Option price (£) | 19.11 | 17.34 |
| No. of options unexercised at 1 July 2017 | 3,275 | 1,999 |
| No. of options exercised during the year | - | 917 |
| No. of options exercisable at 1 July 2017 | - | 1,999 |

The expense recognised for the scheme during the year to 1 July 2017 was £8,000 (2016: £4,000).

The following table illustrates the number and weighted average exercise price (WAEP) of share options for the Sharesave scheme:

| | 2017 | | 2016 | |
|--|-------|----------|-------|----------|
| | No. | WAEP (£) | No. | WAEP (£) |
| Outstanding at the beginning of the year | 6,829 | 18.27 | 3,504 | 17.34 |
| Granted during the year | 0 | 0.00 | 3,594 | 19.11 |
| Forfeited during the year | (638) | 18.23 | (269) | 17.34 |
| Exercised during the year | (917) | 17.34 | - | - |
| Outstanding at the end of the year | 5,274 | 18.44 | 6,829 | 18.27 |

Notes to the financial statements

for the year ended 1 July 2017

23. Shared based payments (continued)

The weighted average exercise price at the date of exercise for the options exercised in the year was £17.34 (2016: (17.34)).

The options outstanding at the end of the year have a weighted average remaining contracted life of 1.14 years (2016: 1.88 years). These options are exercisable at a weighted average exercise price of £18.44 (2016: £18.27). This represents a range of exercise prices between £17.34 and £19.11 (2016: £17.34 to £19.11).

Deferred Share Bonus Plan

The Deferred Share Bonus Plan (DSBP) provides for directors and certain other senior employees to be awarded shares in the Group conditional on the achievement of financial and strategic targets. The shares are deferred over a three year period.

The expense recognised for the DSBP during the year to 1 July 2017 was £16,000 (2016: £8,335).

The DSBP options are not subject to any market based performance conditions. Therefore the fair value of the options is equal to the share price at the date of grant.

Deferred Share Bonus Plan (continued)

The weighted average fair value of options granted during the year was £20.08 (2016: £26.38).

The following table shows the number of share options for the DSBP:

| | 2017 No. | 2016 No. |
|--|--------------|--------------|
| Outstanding at the beginning of the year | 1,547 | 1,009 |
| Granted during the year | 474 | 538 |
| Forfeited during the year | - | - |
| Exercised during the year | - | - |
| Outstanding at the end of the year | <u>2,021</u> | <u>1,547</u> |

The weighted average exercise price of options exercised during the year was £nil (2016: £nil). This represents a range of exercise prices between £nil and £nil (2016: £nil).

At the year end, 1,008 options relating to the 2014 DSBP will be eligible to vest from November 2017 following the end of a three year deferral period. The year-end weighted average exercise price of the options was £17.72 (2016: £19.78).

The weighted average remaining contractual life of the options was 0.73 years (2016: 1.35 years).

Notes to the financial statements

for the year ended 1 July 2017

24. Derivatives and financial instruments

A derivative is a security whose price is dependent upon or derived from an underlying asset. The Company uses energy derivatives to hedge its risks associated with fuel price fluctuations.

(a) Fair values

The fair values of the Company's financial instruments carried in the financial statements have been reviewed as at 1 July 2017 and 2 July 2016 and are as follows:

| | 2017 £000 | 2016 £000 |
|-------------------------|--------------|--------------|
| Current liabilities | 299 | 412 |
| Non-current liabilities | 119 | 165 |
| | <u>418</u> | <u>577</u> |

The fair values shown above have been calculated by discounting cashflows at prevailing interest rates.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

24. Derivatives and financial instruments (continued)

As at 1 July 2017, the Company has used a level 2 valuation technique to determine the fair value of all financial instruments.

During the year ended 1 July 2017, there were no transfers between valuation levels.

(b) Hedging activities

The Company is exposed to commodity price risk as a result of fuel usage. The Company closely monitors fuel prices and uses fuel derivatives to hedge its exposure to increases in fuel prices, when it deems this to be appropriate.

As at 1 July 2017 the Company had derivatives against bus fuel for the four years ending June 2021. The fair value of the asset or liability has been recognised on the balance sheet. The value has been generated since the date of the acquisition of the instruments due to the movement in market fuel prices.

As at 1 July 2017 the litres of bus fuel hedged are as follows:

| | 2018 | 2019 | 2020 | 2021 |
|--------------------------|------|------|------|------|
| Actual percentage hedged | 100% | 70% | 40% | 20% |

25. Related party transactions

The Company is a 100% subsidiary of The Go-Ahead Group plc. Advantage has been taken of the exemption in paragraph 8 (k) of Financial Reporting Standard 101 and transactions entered into between two or more members of the Group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member, have not been disclosed.

Notes to the financial statements

for the year ended 1 July 2017

26. Ultimate parent company and controlling party

The Company's immediate parent undertaking is Go-Ahead Holding Limited, a company incorporated in England and Wales whose registered office is 3rd Floor, 41 - 51 Grey Street, Newcastle upon Tyne, NE1 6EE. In the directors' opinion the Company's ultimate parent company and controlling party is The Go-Ahead Group plc, a company incorporated in England and Wales whose registered office is 3rd Floor, 41 - 51 Grey Street, Newcastle upon Tyne, NE1 6EE.

The Go-Ahead Group plc is also the parent undertaking of the Group of undertakings for which Group financial statements are drawn up, and it is also the largest and smallest parent company preparing Group financial statements. The Go-Ahead Group plc is registered in England and Wales and copies of its financial statements can be obtained from Companies House, Cardiff.