

**TRAM OPERATIONS LIMITED**

**Annual Report and Financial Statements  
for the Year Ended 31 March 2017**

**Company Registered  
Number: 03097532**



# **TRAM OPERATIONS LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2017**

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**STRATEGIC REPORT**  
**31 March 2017**

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The directors in preparing this strategic report have complied with s414C of the Companies Act 2006.

**Tramlink incident at Sandilands Junction on 9 November 2016**

The company continues to work with Transport for London and the authorities to provide assistance to those who have been affected and to the ongoing investigations by the Rail Accident Investigation Branch ("RAIB"), British Transport Police and the Office of Rail and Road.

The RAIB issued an interim report on 20 February 2017 and their final report on 7 December 2017. Over the past year the company has taken a series of actions, working closely with Transport for London, on whose behalf we operate the system, to implement additional measures including enhanced speed monitoring and restrictions, improved signage and renewed guidance on fatigue management. The company is learning from the RAIB's analysis, as well as internal reviews, and will continue working with TfL to follow the RAIB's advice and to make further changes where necessary.

**Principal activities**

The company is part of FirstGroup plc and provides tram operating services to the concessionaire, Tramtrack Croydon Limited, and, ultimately, to Transport for London.

**Business review and future prospects**

In the year ended 31 March 2017, turnover increased by 3.0% (2016: 6.8%). Operating profit margin decreased to breakeven (2016: 12.2%).

The results showed a profit before tax of £12,000 (2016: £1,849,000), which is detailed in the profit and loss account on page 10 and the balance sheet showed cash of £5,157,000 (2016: £5,201,000) and net assets of £3,094,000 (2016: £4,672,000).

The year saw a large reduction in profit due to the costs of investigations into the Sandilands Incident.

**Key performance indicators**

In addition to the principal financial performance measures, the company monitors the following key performance indicator: operator controlled performance of scheduled kilometres in the year was 99.08% (2016: 98.70%). This improvement was due principally to increased tram vehicle reliability.

**STRATEGIC REPORT****31 March 2017**

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**Principal risks and uncertainties**

To fully consider both opportunities and risks, the management team consult regularly. Risk is an inherent part of doing business. The management of the risks is based on a balance of risk and reward determined through careful consideration of both the potential likelihood and impact.

The principal risks identified by the Board and the corresponding mitigating controls are set out below in no order of priority. Other pressures relate to possible changes in UK Government and EU regulation (payroll), pensions and for external charges on policing.

**Information technology**

The company relies on information technology in all aspects of its business. Any significant disruption or failure, caused by external factors, denial of service, computer viruses or human error, could result in a service interruption, accident or misappropriation of confidential information (including credit card data). Process failure, security breach or other operational difficulties may also lead to revenue loss. Extensive security controls are in place, which in conjunction with policy and procedures are designed to enhance the resilience and security of the company's information technology systems and the data they contain.

**Customer service**

The company's revenues are at risk if it does not continue to provide the level of service expected by the customer through its contractual obligations. There were no payments made by way of penalties for unsatisfactory delivery.

**Litigation**

The company has three main insurable risks: third party claims arising from passenger accidents, employee injuries and property damage. The company has a very strong focus on safety - it is one of our core values. The company self-insures these risks up to certain limits. It purchases insurance above these limits from reputable global insurance firms. Claims are managed by experienced claims handlers.

**Environment and sustainability**

The key risk facing the company in this area relates to reducing the environmental impact of the business with a focus on reducing waste and energy usage across its trams and office. A number of initiatives are in place, led by the Safety Executive Group to meet our customers' requirements in this area.

**Business continuity and acts of terrorism**

A major incident or act of terrorism could impact on the company's ability to trade. In the event of a potentially disruptive incident, detailed plans are in place to maintain business continuity.

**STRATEGIC REPORT****31 March 2017****Principal risks and uncertainties (continued)**

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**Legislation and regulation**

The business is subject to numerous laws regulating safety procedures, equipment specifications, employment requirements, environmental procedures, insurance coverage and other operating issues and considerations. These laws and regulations are constantly subject to change. The costs associated with complying with the adoption of new legislation, regulations or other laws could adversely impact the results of our operations. To help mitigate the risk of legislative or regulatory changes the company regularly lobbies both government and transport bodies.

**Business strategy**

If the company adopts the wrong business strategy or does not implement its strategies effectively, the business may be negatively impacted. Strategic risk needs to be properly understood and managed to sustain long-term benefit for all stakeholders. A clear strategy is in place to regularly monitor costs and business performance.

**Economic and market risks**

Challenges to household/business disposable income and competitor pricing positions can affect the performance of the company in terms of costs, only. Focus continues on delivering a punctual service with excellent customer service standards and mitigating any cost pressures. This is achieved through effective management of the businesses activities.

Approved by the Board of Directors  
And signed by order of the Board

Tramlink Depot  
Coomber Way  
Croydon  
CRO 4TQ



A Wlodarski  
Director

22nd December 2017

**DIRECTORS' REPORT**  
**31 March 2017**

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The directors submit their annual report and financial statements for the year ended 31 March 2017. A review of the business for the year and future developments have been considered in the Strategic Report.

**Results and dividends**

The results showed a profit before tax of £12,000 (2016: £1,849,000), which is detailed in the profit and loss account on page 10.

The directors have not recommended payment of a dividend (2016: nil).

**Directors**

The directors who held office throughout the year and subsequently were:

Nick Chevis  
Stephen Duckering  
David Gausby  
Andrew James  
Stephen Montgomery  
John Rymer (resigned 2 October 2017)  
Michael Steward (resigned 12 September 2017)  
Adrian Wlodarski

**Going concern**

As at 31<sup>st</sup> March 2017 the company had cash of £5,157,000 and net assets of £3,094,000. The company operates a Retail Price Index linked government backed contract with the ability to renegotiate for changes in the cost base every five years. The most recent changes to the base contract were agreed from May 2015.

Additionally, the directors have considered the consequences to the company of the incident at Sandilands Junction on 9 November 2016. There is no reliable estimate for the eventual costs of the incident. The directors consider the comprehensive insurance in place and current and projected cash balances provide adequate headroom to meet the ongoing costs of the investigations. Hence, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis in the financial statements.

**DIRECTORS' REPORT****31 March 2017**

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**Financial risk management objectives and policies**

The company's principal financial assets are bank balances and trade debtors. The company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts. The company has one principal customer, Tramtrack Croydon Limited, which is ultimately owned by Transport for London, a government body. The credit risk on liquid funds is limited because the counterparties are banks. Liquidity within the company remains strong although profitability going forwards will determine whether this continues.

**Disabled persons**

The company recognises its obligations to give disabled people full and fair consideration for all vacancies within the statutory medical requirement, which must be met for certain grades of staff. Wherever reasonable and practicable, the company will retain newly disabled employees and at the same time provide full and fair opportunities for the career development of disabled people.

**Colleague engagement, retention and capability**

The company's employees are critical to the success of the business. Maintaining good relations with colleagues and investing in their training and development is essential to the efficiency and sustainability of the company's operations. The company's employment policies and remuneration and benefits packages are regularly reviewed and designed to be competitive with other companies, as well as providing colleagues with fulfilling career opportunities. Colleague surveys, performance reviews, communications with trade unions and regular communication of business activities are some of the methods the company uses to understand and respond to colleagues' needs. Processes are also in place to identify talent and actively manage succession planning throughout the business.

**Audit information**

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of section 418 of the Companies Act 2006.

**DIRECTORS' REPORT**

**31 March 2017**

**Auditor**

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The company has passed an elective resolution dispensing with the requirement to appoint an auditor annually, Deloitte LLP have indicated their willingness to continue as auditor of the company and are therefore deemed to be reappointed for a further term.

Approved by the Board of Directors  
And signed by order of the Board

Tramlink Depot  
Coomber Way  
Croydon  
CRO 4TQ



A Wlodarski  
Director

22<sup>nd</sup> December 2017

**DIRECTORS' RESPONSIBILITIES STATEMENT**

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The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law 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 102 "Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- 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 to 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.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF TRAM OPERATIONS LIMITED**

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We have audited the financial statements of Tram Operations Limited for the year ended 31 March 2017, which comprise the profit and loss account, the statement of comprehensive income, the balance sheet, the statement of changes in equity and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's member, 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 member 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditor**

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.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice Board's Ethical Standards for Auditors.

**Scope of the audit of financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TRAM OPERATIONS LIMITED (continued)**

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**Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed in 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 and the Directors' Report.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Jennifer Chase FCA  
Statutory Auditor  
for and on behalf of Deloitte LLP  
London, United Kingdom  
22 December 2017

**PROFIT AND LOSS ACCOUNT**  
**For the year ended 31 March 2017**

	Notes	2017 £000	2016 £000
<b>Turnover</b>	2	15,788	15,329
<b>Operating costs</b>	3	<u>(15,750)</u>	<u>(13,452)</u>
<b>Operating profit</b>		38	1,877
<b>Interest payable and similar expenses</b>	6	(26)	(28)
<b>Profit before taxation</b>	8	<u>12</u>	<u>1,849</u>
<b>Tax charge on profit</b>	9	<u>(3)</u>	<u>(381)</u>
<b>Profit after taxation and for the financial year</b>		<u>9</u>	<u>1,468</u>

All activities in the current and preceding year relate to continuing operations.

**Statement of comprehensive income**  
**For the year ended 31 March 2017**

	Notes	2017 £000	2016 £000
<b>Profit for the financial year</b>		<u>9</u>	<u>1,468</u>
<b>Loss recognised on defined pension scheme</b>	17(f)	(1,923)	(242)
<b>Movement on deferred tax relating to pension Scheme</b>	13	327	44
<b>Reduced deferred tax asset arising from rate change</b>	13	<u>(12)</u>	<u>(19)</u>
<b>Total other comprehensive cost</b>		<u>(1,608)</u>	<u>(217)</u>
<b>Total comprehensive (cost)/Income for the year</b>		<u>(1,599)</u>	<u>1,251</u>

**BALANCE SHEET**  
**At 31 March 2017**
**Company Registered Number: 03097532**

	Notes	2017 £000	2016 £000
<b>Non-Current assets</b>			
Tangible assets	10	10	18
Debtors more than one year	11	107	116
		<u>117</u>	<u>134</u>
<b>Current assets</b>			
Debtors	11	4,599	4,432
Cash at bank and in hand		<u>5,157</u>	<u>5,201</u>
		9,756	9,633
<b>Creditors:</b>			
Amounts falling due within one year	12	(3,840)	(3,798)
<b>Net current assets</b>		<u>5,916</u>	<u>5,835</u>
<b>Total assets less current liabilities</b>		6,033	5,969
<b>Defined pension obligations</b>	17	(2,720)	(1,070)
<b>Provisions for liabilities and charges</b>	14	(219)	(227)
<b>Net assets</b>		<u>3,094</u>	<u>4,672</u>
<b>Capital and reserves</b>			
Called up share capital	15	-	-
Profit and loss account		3,094	4,672
<b>Shareholder's funds</b>		<u>3,094</u>	<u>4,672</u>

These financial statements of Tram Operations Limited registered number 03097532 were approved by the Board of Directors on 22<sup>nd</sup> December 2017 and were signed on its behalf by:



A Wlodarski  
Director

**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 March 2017**

	Notes	Called up share capital £000	Profit and loss account £000	Total £000
Balance at 31 March 2015		-	3,405	3,405
Total comprehensive income for the year		-	1,251	1,251
Share-based payment charge	7	-	16	16
Balance at 31 March 2016		-	4,672	4,672
Total comprehensive income for the year		-	(1,599)	(1,599)
Share-based payment charge	7	-	21	21
Balance at 31 March 2017		-	3,094	3,094

**NOTES TO FINANCIAL STATEMENTS  
AS AT 31 MARCH 2017**

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**1 Principal accounting policies**

The following accounting policies have been applied consistently throughout the current and preceding year.

**(a) General information and basis of preparation**

Tram Operations Limited is a company incorporated in the United Kingdom under the Companies Act. The registered office address is TramLink Depot, Coomber Way, Croydon CR0 4TQ. The company is a private company limited by shares and is registered in England Wales.

The nature of the company's operations and its principal activities are set out in the Strategic report on page 1. The functional currency of Tram Operations Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

The financial statements have been prepared on the historical cost basis and in accordance with *Financial Reporting Standard 102 (FRS 102)* issued by the Financial Reporting Council hence being able to avoid certain disclosures.

Tram Operations Limited meets the definition of a qualifying entity under FRS 102 and therefore has taken advantage of the disclosure exemptions in respect of its separate financial statements. The Company is included in the consolidated financial statements of FirstGroup plc which can be obtained on request from its registered office 395 King Street, Aberdeen AB24 5RP.

Exemptions have been taken in relation to share-based payments, financial instruments, presentation of a cash flow statement and remuneration of key management personnel.

The financial statements have been prepared on the going concern basis as described in the going concern statement in the Directors' Report on page 4.

**(b) Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided to write off the cost less residual value of tangible fixed assets over their estimated useful economic lives as follows:

Plant and equipment	-	2 to 8 years straight line
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**(c) Leases**

All leases are operating leases and the rental charges are taken to the profit and loss account on a straight-line basis over the life of the lease.

**(d) Financial assets and liabilities**

All financial assets and liabilities are measured at transaction price (including transaction cost).

**NOTES TO FINANCIAL STATEMENTS  
AS AT 31 MARCH 2017**

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**1 Principal accounting policies (continued)****(e) Deferred contract costs**

Deferred contract costs represent pre-contract expenditure incurred and are deferred and amortised over the contract term.

**(f) Taxation**

UK corporation tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

The taxation liability is reduced wholly or in part by the surrender of losses by group undertakings. The tax benefits arising from group relief are recognised in the financial statements of the surrendering undertaking.

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

**(g) Employee benefits**

The company participates in the FirstGroup UK Bus Pension Scheme and Flexible Benefits Scheme in separately administered funds.

The amounts charged to operating profit regarding the defined benefit scheme are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. The interest cost on the net pension scheme liability is shown in net interest payable. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. For defined contribution schemes, contributions are charged to the profit and loss account as they become payable.

**(h) Share-based payment**

The company's parent issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest and is adjusted for the effects of non-market based vesting conditions.

Fair value is measured by use of a Black-Scholes model or other appropriate valuation models. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

**NOTES TO FINANCIAL STATEMENTS  
AS AT 31 MARCH 2017**

**1 Principal accounting policies (continued)**

**(i) Pensions**

**Defined Contribution schemes**

The company operates a defined contribution scheme, which is held in separately administered funds.

The amounts charged to operating profit regarding the defined contribution scheme are the cash payments made by the company into the scheme.

**(j) Provisions**

Provisions are recognised when the company has a present obligation as a result of a past event and it is probable that the company will be required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material. Provisions are split between those falling due within one year and those falling greater than one year.

**(k) Critical accounting judgements and key sources of estimation uncertainty**

In the process of applying the company's accounting policies as described above, management have made the following judgements and estimates that have the most significant effect on the amounts recognised in the financial statements:

*Measurement of defined benefit pension obligations requires estimation of a suitable discount rate, the expected return on scheme assets, expected rate of inflation of future salary and pension costs along with assumptions about mortality rates. The most significant of these are the discount rate and inflation rate assumptions, which are detailed in note 17.*

**(l) Turnover**

Turnover includes amounts attributable to contracted income predominantly based on providing drivers and support services to run trams to a timetable. It includes a small amount of other variable income.

**2 Turnover**

Turnover is stated net of VAT. The whole of the turnover derives within the United Kingdom and is based on an annual RPI inflated fee agreed every five years. The company has one principal class of business, namely, the provision of passenger transport services.

**3 Operating costs**

	2017 £000	2016 £000
Staff costs (note 4)	10,766	10,409
Operating Expenses	4,975	3,033
Depreciation	9	10
	<u>15,750</u>	<u>13,452</u>

**NOTES TO FINANCIAL STATEMENTS  
AS AT 31 MARCH 2017**

**4 Employee numbers and costs**

The average monthly number of persons employed by the company (including directors) during the year was as follows:

	2017 Number	2016 Number
Operations	203	199
Maintenance	1	1
Administration	14	15
	<u>218</u>	<u>215</u>

The aggregate payroll costs of these persons were as follows:

	2017 £'000	2016 £'000
Wages and salaries	9,449	9,001
Social security costs	962	915
Other pension costs	334	477
Share-based payment charge	21	16
	<u>10,766</u>	<u>10,409</u>

Other pension costs include only those defined benefit scheme costs included within operating costs and defined benefit contributions scheme.

**5 Directors' remuneration**

Certain directors received remuneration from other group companies in the current and prior years, details of which are disclosed in their accounts. It is not considered practical to allocate this between services provided to those companies and services provided in their capacity as directors to Tram Operations Limited.

The remuneration of the other directors paid by Tram Operations Limited was as follows:

	2017 £'000	2016 £'000
Aggregate emoluments (excluding pension contributions)	330	321
Company pension contributions to Final Salary schemes	<u>77</u>	<u>75</u>
	<u>407</u>	<u>396</u>

Retirement benefits accrue to three directors (2017: three) under a defined benefit scheme.

**NOTES TO FINANCIAL STATEMENTS  
AS AT 31 MARCH 2017**
**5 Directors' remuneration (continued)**

Emoluments of the highest paid director amounted to:

	£'000	£'000
Aggregate emoluments (excluding pension contributions)	153	142
Company pension contributions to Final Salary schemes	30	30
	<u>183</u>	<u>172</u>

Accrued pension balance and lump sum at the end of the year amounted to £46,799 (2016: £45,737) and £216,928 (2016: £214,027), respectively.

**6. Interest payable and similar expenses**

	2017 £'000	2016 £'000
Notional interest on pensions	<u>26</u>	<u>28</u>

**7 Share-based payments**
**Equity-settled share option plans**

The Group, defined as the ultimate parent company FirstGroup plc and its subsidiary undertakings, operates an HMRC approved savings-related share option scheme. The scheme is based on eligible employees being granted options to save over a specified period of time.

The group has allocated the expense over its participating trading subsidiaries based on employee members. The company has recognised a total expense of £21,000 (2016: £16,000) relating to equity-settled share-based payment transactions.

**8 Profit before taxation**

	2017 £'000	2016 £'000
<i>This is stated after charging:</i>		
Auditor's remuneration for audit of company's annual accounts (No other services were provided by Deloitte LLP in either year)	6	3
Depreciation	9	10
Rentals payable under operating leases		
- plant and machinery	24	38
- other	<u>33</u>	<u>31</u>

**NOTES TO FINANCIAL STATEMENTS**  
**AS AT 31 MARCH 2017**

**9 Tax charge on profit**

	2017 £000	2016 £000
Current taxation		
Group relief payable	(50)	357
Adjustment in respect of prior years	61	4
	<u>11</u>	<u>361</u>
Deferred taxation		
Origination and reversal of timing differences	41	15
Effect on decrease in tax rate on opening asset	5	6
Adjustment in respect of prior years	(54)	(1)
Total deferred taxation (note 13)	<u>(8)</u>	<u>20</u>
Tax charge	<u>3</u>	<u>381</u>

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 20% (2016: 20%). The UK Government enacted legislation to reduce the main rate of UK corporation tax to 19% with effect from 1 April 2017, plus a further reduction to 17% from 1 April 2020. The impact of this rate reduction to 17% has reduced the deferred tax asset on UK timing differences. The actual current tax charge for the current and previous year differed from the standard rate for the reasons set out in the following reconciliation:

	2017 £000	2016 £000
Profit multiplied by the standard rate of corporation tax in the UK of 20% (2016: 20%)	2	370
Factors affecting charge:		
- Expenses not deductible	(4)	2
- Prior year adjustments	-	3
- Effect of decrease in tax rate on origination and reversal of timing differences	5	6
Total tax charge on profit	<u>3</u>	<u>381</u>

**NOTES TO FINANCIAL STATEMENTS  
AS AT 31 MARCH 2017**
**10 Tangible fixed assets**

	Plant and equipment £'000
Cost	
At 1 April 2016	304
Additions	1
Disposals	(5)
At 31 March 2017	<u>300</u>
Depreciation	
At 1 April 2016	286
Charge for the year	9
Disposals	(5)
At 31 March 2017	<u>290</u>
Net book value	
At 31 March 2017	<u>10</u>
At 31 March 2016	<u>18</u>

**11 Debtors**

	2017 £000	2016 £000
<b>Amounts due within one year</b>		
Trade debtors	1,418	1,597
Amounts owed by group undertakings	2,493	2,492
Deferred tax asset (note 13)	584	261
Prepayments and accrued income	104	82
	<u>4,599</u>	<u>4,432</u>
<b>Amounts due after one year</b>		
Deferred contract costs	107	116
<b>Total Debtors</b>	<u>4,706</u>	<u>4,548</u>

The deferred tax asset has been recognised because it is anticipated that the tax deductions generated by the reversal of the timing differences will be offset against future taxable profits of the company by way of group relief. All intercompany balances are interest-free and repayable on demand.

**NOTES TO FINANCIAL STATEMENTS  
AS AT 31 MARCH 2017**
**12 Creditors**

	2017	2016
	£000	£000
<b>Amounts falling due within one year</b>		
Trade creditors	451	342
Amounts owed to group undertakings	107	949
Other creditors	444	502
Accruals and deferred income	2,838	2,005
	<u>3,840</u>	<u>3,798</u>

The intercompany balances are interest-free and repayable on demand.

**13 Deferred tax**

	Deferred tax
	£000
At 1 April 2016	261
Debited to the profit and loss account	8
Credited to other comprehensive income	315
At 31 March 2017	<u>584</u>

The deferred tax asset consists of the following amounts:

	2017	2016
	£000	£000
Pension	463	193
Depreciation in excess of capital allowances	10	11
Other timing differences	111	57
Deferred tax asset	<u>584</u>	<u>261</u>

The deferred tax balance is included within Debtors note 11.

**14 Provisions for liabilities and charges**

	Insurance claims provision
	£000
At 1 April 2016	(227)
Utilised	(95)
Released to the profit and loss account	103
At 31 March 2017	<u>(219)</u>

The insurance claims provision arises from estimated exposures for incidents occurring prior to 31 March 2017. It is anticipated that most of these claims will be settled within the next three years.

**15 Called up share capital**

	2017	2016
	£000	£000
<b>Authorised:</b>		
1,000,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
<b>Allotted, called up and fully paid:</b>		
2 Ordinary shares of £1 each	<u>-</u>	<u>-</u>

**NOTES TO FINANCIAL STATEMENTS  
AS AT 31 MARCH 2017**
**16 Operating leases**

Commitments for payments under operating leases fall due as follows:

	2017		2016	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Within one year	33	22	17	10
Within one to five years	114	69	-	-
Greater than five years	-	-	-	-
<b>Total</b>	<b>147</b>	<b>91</b>	<b>17</b>	<b>10</b>

A new lease on land and buildings started from 16<sup>th</sup> September 2016 for five years at an annual rental of £33,000.

**17 Pension scheme**
**Railways Pension Scheme**
**Defined Contribution Scheme- Tram Operations Limited Section.**

The company operates a defined contribution scheme for all qualifying employees. The total expense charged during the year ended 31<sup>st</sup> March 2017 was £248,000 (2016: £149,000).

**FirstGroup Pension Schemes**

The company is a member of defined benefit pension schemes, which are funded. Details of the FirstGroup flexible benefit scheme are disclosed in the financial statements of FirstGroup Holdings Limited (company registration number 02029363) and is funded separately by defined contributions, which have been expensed during the year ended 31<sup>st</sup> March 2017. The FirstGroup UK Bus pension scheme is included in these financial statements as required under FRS 102 and has been based on the proportion of pensionable pay relating to members of Tram Operations Limited. The scheme's assets are held and managed independently of the company's finances by independent investment managers appointed by the trustees of the scheme.

The scheme is subject to triennial valuation by independent actuaries, the last valuation being carried out in 2017 using the projected unit method. The valuation will be updated at each financial period end for FRS 102 purposes. Last valuation date was 5<sup>th</sup> April 2016 performed by scheme actuary and AON Hewitt who provided actuarial advice.

**NOTES TO FINANCIAL STATEMENTS  
AS AT 31 MARCH 2017**
**17 Pension scheme (continued)**

The key financial assumptions used in this update were as follows:

	2017	2016
Discount rate	2.80%	3.70%
Expected rate of salary increases	2.00%	1.75%
Inflation - RPI	3.10%	2.85%
Rate of increase of pensions in payment	2.00%	1.75%
Rate of increase of pensions in deferment	2.00%	1.75%

**(a) Income statement**

Amounts credited/(charged) to the income statement in respect of these defined benefit schemes are as follows:

	2017 £000	2016 £000
Current service cost	(87)	(119)
Employer administration expenses	(58)	(58)
Net interest cost	(26)	(28)
	<u>(171)</u>	<u>(205)</u>
<b>Net interest cost comprises:</b>		
Interest cost	(700)	(688)
Interest income on assets	674	660
	<u>(26)</u>	<u>(28)</u>

During the year £58,000 (2016: £58,000) of administrative expenses were incurred. Actuarial gains and losses have been reported in the statement of comprehensive income.

*Reconciliation of the actual return on scheme assets:*

	2017	2016
Interest income on assets	674	660
Actuarial gain / (loss) on assets	2,155	(1,109)
Actual return on scheme assets	<u>2,829</u>	<u>(449)</u>

**(b) Balance sheet**

The amounts included in the balance sheet arising from the company's obligations of its defined benefit pension scheme are as follows:

	2017 £000	2016 £000
Fair value of scheme assets	20,310	18,322
Present value of defined benefit obligations	(23,030)	(19,392)
Deficit in the scheme	<u>(2,720)</u>	<u>(1,070)</u>
Related deferred tax liability	463	193
Net pension liability	<u>(2,257)</u>	<u>(877)</u>

**NOTES TO FINANCIAL STATEMENTS  
AS AT 31 MARCH 2017**
**17 Pension scheme (continued)**
**(c) Asset allocation**

The majority of the assets held by the pension arrangements are invested in pooled funds with a quoted market price. The analysis of the scheme's assets at the balance sheet date were as follows:

	2017 £000	2016 £000
Equities and other return seeking assets	9,404	6,702
Bonds	9,769	6,896
Property	1,584	405
Cash	(447)	4,319
	<u>20,310</u>	<u>18,322</u>

**(d) Defined benefit obligations (DBO)**

Movements in the present value of DBO were as follows:

	2017 £000	2016 £000
At 1 April	19,392	19,839
Current service cost	87	119
Employer administration expenses	58	58
Interest cost	700	688
Employee contributions	182	182
Experience gain / (loss) on DBO	(328)	228
Loss / (gain) on change of assumptions (financial)	4,406	(1,095)
Change of assumptions (demographic)	-	-
Benefit payments	(1,467)	(627)
At 31 March	<u>23,030</u>	<u>19,392</u>

**(e) Fair value of scheme assets**

Movements in the fair value of scheme assets were as follows:

	2017 £000	2016 £000
At 1 April	18,322	18,925
Interest income on assets	674	660
Company contributions	444	291
Employee contributions	182	182
Actuarial gain / (loss)	2,155	(1,109)
Benefit payments	(1,467)	(627)
At 31 March	<u>20,310</u>	<u>18,322</u>

**NOTES TO FINANCIAL STATEMENTS  
AS AT 31 MARCH 2017**
**17 Pension scheme (continued)**
**(f) Statement of comprehensive income**

Amounts presented in the statement of comprehensive income comprise:

	2017	2016
	£000	£000
Actuarial gain / (loss) on DBO	(4,078)	867
Actuarial gain / (loss) on assets	2,155	(1,109)
Actuarial (losses) / gains on defined benefit schemes	<u>(1,923)</u>	<u>(242)</u>

**18 Contingent liabilities**

Various investigations into the Sandilands Junction incident on 9 November 2016 are currently being undertaken and it is uncertain when they will be concluded. No proceedings have been commenced and, as such, it is not possible to assess whether any financial penalties or related costs could be incurred.

**19 Related party transactions**

The company is taking advantage of the exemption under FRS102 paragraph 33.1A not to disclose transactions with wholly owned group companies that are related parties. Details of outstanding balances with related parties can be found in notes 11 and 12.

**20 Ultimate and immediate parent company and controlling party**

The directors regard FirstGroup plc, a company incorporated in the United Kingdom and registered in Scotland, as the ultimate parent and controlling company, which is the smallest and largest group that includes the company's results and for which group financial statements are prepared.

The company's immediate parent company is CentreWest Limited, 8th Floor The Point, 37 North Wharf Road, London, United Kingdom, W2 1AF. CentreWest Limited is a wholly owned subsidiary of FirstGroup plc and therefore does not prepare consolidated accounts.

Copies of the accounts of FirstGroup plc can be obtained on request from 395 King Street, Aberdeen AB24 5RP.