Registered number: 00237558

ARRIVA NORTHUMBRIA LIMITED

Annual report and financial statements

For the Year Ended 31 December 2020

ARRIVA NORTHUMBRIA LIMITED

Company Information

Directors	J I Thompson P Cummins G Peace K J Purcell
Registered number	00237558
Registered office	1 Admiral Way Doxford International Business Park Sunderland Tyne and Wear SR3 3XP
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Central Square South Orchard Street Newcastle upon Tyne NE1 3AZ

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Strategic report
For the Year Ended 31 December 2020

The directors present their Strategic report for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES
The principal activity of the company during the year was the operation of bus and coach services.

REVIEW OF BUSINESS
The company's statement of comprehensive income on page 17 shows a loss before tax of £158,000 (2019: profit of £2,134,000). The deterioration in financial performance primarily reflects the impact of a significant fall in demand for the company's services from March 2020 due to the coronavirus ('COVID-19') pandemic. This was mitigated to an extent by income support from the Department for Transport ('DfT') through the COVID-19 Bus Services Support Grant ('CBSSG'), which was introduced in March 2020, as well as use of the Coronavirus Job Retention Scheme ('CJRS'). CBSSG and CJRS support is reflected in Other operating income in the statement of comprehensive income.

The company has obtained CBSSG funding to support its ongoing operations since March 2020, and has also made use of the COVID-19 Bus Services Support Grant Restart ('CBSSG Restart'), an extension to the CBSSG funding support which was introduced in August 2020. Under CBSSG Restart, the DfT funding of up to £27.3m per week was made available on a rolling basis to bus service operators in England during 2020. CBSSG Restart funding continued through to August 2021 when it was replaced by the Bus Recovery Grant ('BRG') from September 2021.

At the balance sheet date the company has net assets of £12,651,000 (2019: £14,875,000). The decrease in net assets reflects the profit for the financial year less the impact of negative fair value movements on the company's derivatives in the year and the payment of a dividend.

PRINCIPAL RISKS AND UNCERTAINTIES
The management of the business and the execution of the company's strategy are subject to a number of risks. The most significant risks and uncertainties affecting the company are related to the impact of the COVID-19 pandemic on future demand for the company's services and on the continuation of associated financial support from national and local transport bodies. Further discussion of these risks and uncertainties in the context of the Arriva group as a whole, is provided in the annual report of the UK intermediate parent company, Arriva plc, which does not form part of this report.

FUTURE DEVELOPMENTS
The company is a wholly owned subsidiary of Arriva UK Bus Holdings Limited and part of the Arriva group which Deutsche Bahn AG heads. As a public transport operator, the Arriva group has been significantly impacted by the COVID-19 coronavirus pandemic with a resulting impact on passengers, colleagues, and other business stakeholders. The Arriva group has and continues to work closely with both local and national government bodies and transport authorities on support measures to ensure continuation of critical transportation services through and beyond the pandemic.

The company is working closely with local authorities to maintain appropriate service levels for customers, supported by Bus Recovery Grant (BRG) funding. BRG is effective from September 2021 through to April 2022 and replaced the previous COVID-19 Bus Service Support Grant (CBSSG) Restart funding scheme, which ended in August 2021. The company expects to enter Enhanced Partnerships (EPs) with its local transport authorities in line with the Department for Transport's (DfT) National Bus Strategy no later than April 2022, with the EPs backed by new DfT funding.

FUTURE DEVELOPMENTS (continued)

Liquidity risk
The company voluntarily participates in a group cash pooling arrangement operated by its ultimate parent, Deutsche Bahn AG ('DB'). This is a long-standing arrangement operated by DB to manage the liquidity needs of DB group companies, and the company has been a party to this arrangement for several years. Under the arrangement substantially all the company's cash balances are swept into the group cash pool at the end of each business day. The company has a positive cash pooling balance at the balance sheet date, and the directors expect the company's pooled cash balance to remain positive over the going concern assessment period.

The company is currently dependent on daily access to its funds in the cash pool for the funds required to operate and to support the going concern assumption. As the terms of the company's agreement with DB do not provide explicit rights for immediate access to these funds on request, this gives rise to a potential liquidity risk that funds may not be available as required to settle liabilities during the period of 12 months from the date of approval of the financial statements, and the directors acknowledge that this indicates the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. However, the directors consider this risk to be highly improbable, as such action would contradict internal group policies and would be inconsistent with the past practice.

Since inception of the pooling arrangement, the company has never experienced any issues being able to draw upon its cash balances within the group cash pool to settle its liabilities as they fall due. The company also has a unilateral right to terminate its participation in the group cash pooling arrangement by giving one month's notice to DB.

Trading risk
In completing their going concern assessment, the directors have also considered a severe but plausible downside scenario, along with associated management actions that would be taken to mitigate the impacts under that scenario on the company's cash position. Actions management might need to implement include reducing services and delaying or curtailing discretionary operating or capital expenditures. If these actions were insufficient to allow cash requirements to be funded from within the current cash pooling arrangement, additional funding might be required from DB. This includes consideration of the risk, which the directors believe to be remote, of potential amendments to calculation methodologies for reconciliation payments still to be received for CBSSG or to the terms of BRG, which are at the discretion of the DfT. Changes to methodologies for either scheme could potentially result in receipt of lower cash flows than management's expectation or a need to repay government funding already received to date.

The introduction of BRG to replace CBSSG, together with the National Bus Strategy's commitment of new funding for EPs, gives the directors confidence in future government support available to the sector and to the company. However, the exact nature and value of government funding that will be receivable by the company under EPs beyond the end of BRG in April 2022 is uncertain. The directors acknowledge that this indicates the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

Outcome of directors' going concern assessment
The directors acknowledge the uncertainty regarding immediate access to funds placed with DB and the lack of certainty on government funding support that will be in place beyond April 2022. The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the company will continue to have full and immediate access to its pooled cash balances with DB and will continue to have access to adequate financial and other resources to continue to operate for the foreseeable future.

These conditions indicate the existence of material uncertainties which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not contain the adjustments that would arise if the company were unable to continue as a going concern.

SECTION 172 STATEMENT

The directors work to promote the success of the company, by considering the impact that their decisions may have on the company, along with the company's stakeholders. The issues and factors which have guided the directors' decisions are outlined in the 'Review of business' and the 'Principal Risks and Uncertainties' sections of this report.

The company's key stakeholders include, but are not limited to:

- Deutsche Bahn AG;
- Arriva UK Bus Investments Limited;
- Suppliers;
- Passengers;
- The Department for Transport;
- Local Transport Authorities; and
- Local communities in which the company is based.

During the financial year ended 31 December 2020 the directors, having regard to the financial performance and position of the company, and ability to continue to meet the expectations of its key stakeholders, made a principal decision to pay a dividend to its parent company Arriva UK Bus Holdings Limited. The directors considered the business implications and reserves and determined that the payment of the dividend leaves the company with sufficient resources and would not impact the company's long-term success.

The Arriva group's values are working as "One Arriva", providing great customer experience, doing the right thing and thinking beyond. These values underpin the Arriva group's strategy and vision. Arriva group's vision is to be the preferred mobility partner of choice by customers, and its strategy is to have the best employees to strengthen its existing strong foundation and improve its business to create a platform for growth.

The directors of the company promote good governance, which is key to driving the success of the company. The directors also aim to achieve the above values of the Arriva group, as well as continuing good relationships with all stakeholders who are critical to the long-term success of the company. The directors consider the Arriva group values when making decisions.

During the financial year ended 31 December 2020, the company engaged, and continues to engage, with customers and customer groups to ensure a positive customer experience (including for passengers and the relevant local authorities in the area in which the company operates).

The company takes payment practice commitments to suppliers seriously and seeks to ensure prompt payment of invoices (in line with Arriva group's policies), and that there is a clear process in the event of any invoice dispute. The company believes that prompt payment of invoices is key to facilitating a good relationship with its suppliers.

The directors of the company aim to meet monthly to discuss the matters that cannot be delegated under the Companies Act 2006.

The implementation of the strategy and policies of the company, including those relating to its relationships with key stakeholders, are managed by the board of the company, and oversight is provided by the Arriva UK Bus division Executive Leadership Team. Any major matters of interest are then communicated to the Arriva Management Board (the "AMB"), a subcommittee of the board of Arriva plc. The membership of the AMB includes the Managing Director of the UK Bus division.

The company is committed to the communities that it serves. At Arriva group a Social Responsibility team has oversight of strategic commitments for social responsibility, which forms part of the Arriva group's wider business strategy.

SECTION 172 STATEMENT (continued)

Within its individual business functions, the Arriva group encourages employees to volunteer for charities and projects in the local community. During the financial year ended 31 December 2020, due to the COVID-19 pandemic, it was difficult for employees to undertake volunteering activities but in previous years volunteering activities have included supporting local schools with career advice, as well as various types of fund raising and other projects. This work was undertaken in a manner that fits best with the company's structure and that maximises the benefit that the company can deliver to its communities.

In addition to the group activities, the UK Bus division supports local charitable/charity initiatives which are meaningful and relevant to the local teams and customer base.

Further information on engagement with employees during the financial year ended 31 December 2020 is provided in the 'Employee engagement' section of the Directors' report.

Further information on engagement with customers during the financial year ended 31 December 2020 is provided in the 'Engagement with suppliers, customers and others' section of the Directors' report.

KEY PERFORMANCE INDICATORS

The Management Board of Deutsche Bahn AG manage the group's operations on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of the company. The development performance and position of the group, including this company, is discussed in the Deutsche Bahn AG Integrated Report which does not form part of this report.

This report was approved by the board on 22 December 2021 and signed on behalf of the Board.

J I Thompson
Director

Directors' report
For the Year Ended 31 December 2020

The directors present their report and the financial statements for the year ended 31 December 2020.

RESULTS AND DIVIDENDS

The profit for the year, after tax, amounted to £1,994,000 *(2019 - £1,790,000)*.

The company paid a dividend during the year of £3,500,000 *(2019 - £Nil)*.

DIRECTORS

The directors who served during the year, and up to the date of signing the financial statements were:

J I Thompson (appointed 31 March 2020)
P Cummins (appointed 1 July 2020)
D Cocker (resigned 31 March 2020)
P M Stone (resigned 31 March 2021)
R J Hoare (appointed 1 June 2020, resigned 1 August 2021)
N R Knox (resigned 30 June 2020)
T C Edwards (resigned 13 August 2021)
G Peace
A Ashcroft (resigned 1 April 2020)
M A Thornley (appointed 1 April 2020, resigned 30 June 2020)
K J Purcell (appointed 1 August 2021)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Details of financial risk management objectives and policies are shown in the financial statements of the UK intermediate parent company, Arriva plc.

EMPLOYEE ENGAGEMENT

The company recognises that its employees are key to its success, and it is committed to creating a working environment where everyone has the opportunity to learn, develop and contribute to the success of the company, whilst working within a common set of values. The company aspires to be an employer of choice and to employ a diverse workforce with the skills, abilities and attitudes to meet the company's business objectives and needs. The company's aim is to provide appropriate remuneration, benefits and conditions of employment which serve to attract, retain, motivate and reward its employees.

The company has a policy of employee involvement and inclusion and, subject to the restraints of commercial confidentiality, makes information available to employees about recent and future developments and the business activities of the company, including financial and economic factors that may have an impact on the company's performance.

The Arriva group conducts biennial employee surveys which are used to highlight areas of improvement, and areas of concern. The Arriva Management Board oversees initiatives to improve any areas of improvement highlighted by the surveys, as well as maintaining those areas highlighted as working well. The results of the employee surveys are communicated via the Arriva group's intranet and across the UK Bus division via social media channels and applications as well as notice boards. In addition, meetings are held by line managers with representatives of their teams in order to address areas of concern and seek employee input to find solutions.

EMPLOYEE ENGAGEMENT (continued)

Information on matters impacting employees, including initiatives arising following the employee surveys, are communicated to employees through briefings via line managers, email bulletins and using the Arriva group's intranet. There is also a weekly update on the Arriva group's intranet highlighting success stories. The update is also used to improve connectivity within the Arriva group and to promote working together as One Arriva. In the UK Bus division communications are also made via social media channels, notice boards and elected employee representatives.

In 2019 Arriva group launched 'GAIN' for Mental Health, which is the Arriva group's Global Arriva Inclusion Network aimed at promoting support for mental health and encouraging employees to share their stories in order to tackle mental health concerns and provide support to the wider Arriva group.

The UK Bus division has founded an Equality, Diversity and Inclusion council with a supporting governance structure. The Council has established a number of project streams to support equality in the workplace, increase colleague diversity and promote a more inclusive culture. Examples of the projects, include, conducting a diversity data collection survey to further understanding the diversity of our colleagues, thereby helping ensure that the UK Bus division welcomes and accommodates everyone. Other projects include marking events and celebrations, driver development and career pathways, flexible working, recruitment and selection improvements and training and education. These initiatives all support the overall aim to attract and retain colleagues and be an inclusive employer.

Leadership Schemes

Arriva group has a strategic objective to 'build the future generation of leaders' and building talent pools helps to achieve this. In addition to local initiatives, two group-wide programmes are in place to develop emerging and future leaders across the Arriva group.

The 'Emerging Leaders' programme is aimed at identifying and developing future leaders whose next step is a senior manager role, and who demonstrate the performance, potential and aspiration required to progress to this. As part of this programme candidates are required to complete an assessment for development which will give them the opportunity to discuss their career goals and experience in more detail and receive valuable feedback on their strengths and development areas against the Arriva Leadership Model. The assessment will result in a development plan, highlighting what steps they can take to help them achieve their career goals. Following the assessment certain candidates progress to the next phase, which includes leadership workshops and projects.

The 'Lift Off for Leadership' programme is an initiative for individuals who are still in the early stages of their career, who have demonstrated the potential to be a leader of the future. The programme focuses on improving readiness for broader roles. Participants join a 12-month programme of workshops and ongoing development activities, including coaching and job shadowing.

The Arriva Line Manager Programme (ALMP) is a group wide initiative aimed at providing front line people managers with the knowledge and skills to effectively lead their people. Based on the Arriva management competency framework, the programme is a blended curriculum covering areas such as leading others, communicating effectively, developing others and leading in an inclusive and diverse working environment. This collaborative approach invites managers from both the UK Bus division and the UK Train division to forge relationships and networks across the business delivering on the promise of acting as OneArriva.

The Arriva Supervisor Development Programme (ASDP) is aimed at helping first line supervisors to develop their knowledge and skills to become more effective in their role. A more practical programme than ALMP, this learning curriculum focuses more on day-to-day activities such as maintaining a safe working environment, coaching for performance and communicating tasks and company messages.

EMPLOYEE ENGAGEMENT (continued)

To support the modular development programmes, eLearning content is provided to reinforce the learning messages within the ALMP and the ASDP. Additionally, the eLearning programmes are used as standalone development tools and provide accessible learning for colleagues across the Arriva group.

In the commitment to support leadership skills at all levels of the business the UK Bus division partnered with higher education institutions to promote senior leader apprenticeship schemes.

Supporting employees during the COVID-19 pandemic

The safety and wellbeing of employees is of the utmost importance to the company and has been a key focus area since the start of the COVID-19 pandemic. In light of the very substantially reduced passenger volumes across UK Bus division, the Arriva group took a series of proactive steps to reduce costs and prioritise cash flow. By their nature, these types of decisions are very difficult but were necessary in order to protect the Arriva group for the long term. Wherever possible the UK Bus division has sought to use the emergency schemes put in place by governments to maintain its people in employment during the crisis, and as activity levels have increased, employees have been brought back to work.

In order to maintain a COVID-19 secure environment, risk assessments were undertaken in all areas of the business and measures were put in place in accordance with the Government guidelines. Measures included enhanced cleaning regimes of fleet vehicles, perspex screens, social distancing, face coverings and hand sanitisers. All initiatives were communicated in guidance documents to customers, colleagues and managers. COVID-19 guidelines were continually monitored, and processes implemented across the UK Bus division with all stakeholders advised of any changes.

Comprehensive guidance was provided to managers to enable them to support all colleagues during the COVID-19 pandemic including those working from home and those who were placed on furlough. The communication offered information on the support that was available, such as the Arriva Employee Assistance Programme. Additionally, all HR members were trained in Mental Health First Aid and a network of Health & Wellbeing Champions were implemented across sites and functions, all of which were trained in Mental Health First Aid.

A flexible approach was taken to working hours, recognising the changes to colleagues' circumstances as a result of the COVID-19 pandemic. For example, school closures, home schooling and caring responsibilities.

A specific and dynamic management structure was implemented to evaluate the crisis as it evolved and allow for swift and measured actions to be taken. The level of communication across the business was increased and the UK Bus division worked closely with the Trade Unions to respond in a timely manner to questions raised by colleagues. This also ensured that there was a consistent approach across the whole of UK Bus.

DISABLED EMPLOYEES

The company continues to give full and fair consideration to applications for employment by disabled persons, having regard to their respective aptitudes and abilities. The company's policy includes, where applicable, the continued employment of those who may become disabled during their employment.

ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS

The company's long-term success is dependent on fostering strong and effective business relationships with key stakeholders. The company's key stakeholders include, but are not limited to:

- Deutsche Bahn AG;
- Arriva UK Bus Investments Limited;
- Suppliers;
- Passengers;
- The Department for Transport;
- Local Transport Authorities; and
- Local communities in which the company is based.

The company is part of the Arriva plc group, and its ultimate parent company is Deutsche Bahn AG.

The implementation of strategies and policies of the company relating to its relationships with key stakeholders are managed locally by the board of the company, and oversight is provided by the Arriva UK Bus Executive Leadership Team.

The company engages extensively with national and local passenger groups, and collects feedback from customers through a variety of methods include:

- participation in the National Bus Passenger Survey, a yearly survey of passenger views across bus operators lead by Transport Focus.
- Arriva UK Bus divisions carries out passenger satisfaction surveys and uses the results from them to address issues and develop services and products to meet changing demand.
- Regular engagement with passenger groups, including Bus Users UK and Transport Focus, which helps to ensure that the interests and voices of stakeholders, and their experiences, inform decision making.
- A close working relationship with industry stakeholder groups, including the Confederation of Passenger Transport which promotes collaborative working on shared industry challenges.
- Arriva UK Bus division also maintains frequent communication with stakeholders in Government, including with the Department for Transport, as well as other relevant departments, authorities and public bodies.

COVID-19

The COVID-19 pandemic impacted Arriva UK Bus significantly and has required the company to implement contingency measures specific to the local communities in which it operates. Such measures included altering timetables to ensure adequate provision for key workers; addressing specific employee concerns about the pandemic and working collaboratively with local authorities and other stakeholders to deliver appropriate solutions as the company navigated through this crisis. The company implemented enhanced cleaning of vehicles and ensured that, where required by government guidelines, social distancing measures were put into place.

During the COVID-19 pandemic the safety and wellbeing of the company's employees and passengers has been a key priority for the company. Operating through a time of heightened risk both to health and to operating practices has required the company to take appropriate measures to ensure that travelling by public transport remained a safe and convenient option for passengers. The UK Bus division worked closely and collaboratively with key industry partners to find solutions which ensured that the service provision by the company remained at the right level, that government policy was brought into effect, and transport operators received funding to enable essential services to be delivered.

Further information on how the directors have fostered relationships with suppliers and the local communities in which the company operates is detailed in the Section 172 statement in the Strategic Report.
Further information on how the company has fostered relationships with its employees during the financial year ended 31 December 2020 is provided in the Employee Engagement section of this report.

STREAMLINED ENERGY AND CARBON REPORTING DISCLOSURE (SECR)

REPORTING YEAR 2020	
Scope 1 – Fuel use from transport and combustion of natural gas/tCO_2e*	14,493
Scope 2 – Emissions resulting from the purchase of electricity, including heat, steam, or cooling (location based)/tCO_2e	91
Scope 3 – Emissions from business travel in rental cars or employee-owned vehicles where the company is responsible for purchasing the fuel/tCO_2e	0
Total gross emissions/tCO_2e	14,584
tCO2e per full time equivalent employees	32.6
Energy consumption used to calculate the above emissions / kWh	58,235,200

* tCO2e means tonnes (t) of carbon dioxide (CO2) equivalent (e)

UK energy consumption and greenhouse gas emissions for Arriva Northumbria Limited (the Company) for the period 1 January 2020 to 31 December 2020.

Methodology

The Company is required for the first time to report its UK energy use and carbon emissions in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 which implement the UK Government's policy on Streamlined Energy and Carbon Reporting.

As a wholly owned subsidiary of Deutsche Bahn AG, the Company is obliged to use their approved emission factors for site energy and the source for site consumption emission factors is the GEMIS database (GEMIS: IINAS, Darmstadt (Germany)). To calculate the emissions, the Company has used the UK Government GHG Conversion Factors for Company Reporting 2020.

Source data has been obtained from the following:
Fuel Usage – Fuel Issues to Bus Report
Site Energy – Consumption Reports from Schneider
Employee Figures – Workday (internal HR system)

Environmental policy

The Arriva group has an EHS policy, which consists of the group's internal environmental risk assurance standards and is built around the following objectives:

- Robust environmental management and risk assurance;
- Clear accountability;
- Clear communication of goals and progress;
- Targeting improvements in CO2e emissions, Energy, Water and Waste; and
- Ensuring compliance with local law regulations, and that key environmental risks are mitigated.

The existing environmental strategy for the Arriva group is called Destination Green. The strategy focuses on 4 key areas; fuel use, water consumption, site energy use and recycled waste, and all Arriva group businesses are required to measure their usage in these areas. It's anticipated that the next version of the strategy will be aligned to the goal to support sustainable communities and will set an ambitious net zero carbon goal by 2050.

STREAMLINED ENERGY AND CARBON REPORTING DISCLOSURE (SECR) (continued)

The UK Bus division strives for best practice in Health, Safety, Environment and Risk (HSER) and aims to play an important role in the reduction of greenhouse gases to stabilise the increase in global temperatures, reduce the ecological footprint, deliver business efficiencies and protect the environment.

Energy efficiency actions
In collaboration with the Arriva group, the Company is committed to reducing their carbon footprint. Examples of the carbon reducing initiatives include:

The UK Bus division is working closely with Transport for London (TfL) to progress its bus fleet to achieve TfL's objectives to meet the London Mayor's carbon target by 2030.

The UK Bus division will see its first all-electric fleet garage go live in 2021 followed by a further three locations in 2022.

The UK Bus division is currently working in conjunction with Local Authorities to implement electric fleets in West Yorkshire, Leicester, Milton Keynes, Northfleet and Liverpool. It is the intention that these will go live in in 2023, with a further six locations under review.

Directors' report
For the Year Ended 31 December 2020

DIRECTORS' RESPONSIBILITIES STATEMENT IN RESPECT OF THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, 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 the financial statements, the directors are required to:

Company law requires the directors to prepare financial statements for each financial

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 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 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.

Directors' confirmations
In the case of each director in office at the date the directors' report is approved:

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

This report was approved by the board on 22 December 2021 and signed by order of the Board.

J I Thompson
Director

Independent auditors' report to the members of Arriva Northumbria Limited

Report on the audit of the financial statements

Opinion

In our opinion, Arriva Northumbria Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2020; the Statement of comprehensive income and Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1.1 to the financial statements concerning the company's ability to continue as a going concern. The company is dependent on cash pooling arrangements with Deutsche Bahn AG ("DB") for access to cash for the day-to-day running of the company and to support the going concern assertion. As per the terms of the company's agreement with DB, the company does not have explicit rights for immediate access to these funds on request, which gives rise to a potential liquidity risk that funds may not be available as required to settle liabilities during the period of 12 months from the date of approval of the financial statements. In a severe but plausible downside scenario, if pandemic response measures impacting the use of public transportation were to persist for longer than anticipated, the directors expect that any withdrawal of government funding would also be delayed. However, the exact nature and value of government funding that will be receivable by the company under the recently introduced Bus Recovery Grant (BRG) scheme and National Bus Strategy commitment for Enhanced Partnerships beyond the end April 2022 is uncertain. This along with the potential risk of amendments to calculation methodologies for reconciliation payments still to be received for COVID-19 Bus Service Support Grant (CBSSG) or to the terms of BRG, could result in receipt of lower cash flows than management's expectation or a need to repay government funding already received to date.. These conditions, along with the other matters explained in note 1.1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

Independent auditors' report to the members of Arriva Northumbria Limited (continued)

Material uncertainty related to going concern (continued)

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Independent auditors' report to the members of Arriva Northumbria Limited (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement in respect of the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006 and tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journals to improve financial results and management bias in significant accounting estimates.. Audit procedures performed by the engagement team included:

- Discussions with management including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Review of board minutes;
- Review of legal expenditure in the year to identify potential non-compliance with laws and regulations;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Identifying and testing journal entries, in particular, any journal entries posted with unusual account combinations; and
- Challenging assumptions and judgements made by management in their significant accounting estimates, including the useful economic lives of tangible assets.

Independent auditors' report to the members of Arriva Northumbria Limited (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Craig Will

Craig Willis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
22 December 2021

Statement of comprehensive income
For the Year Ended 31 December 2020

	Note	2020 £000	*As restated* *2019* *£000*
Turnover	4	**18,977**	*27,768*
Cost of sales		**(23,941)**	*(24,987)*
Gross (loss)/profit		**(4,964)**	*2,781*
Administrative expenses		**(6,047)**	*(6,656)*
Other operating income	5	**10,846**	*5,973*
Operating (loss)/profit	6	**(165)**	*2,098*
Interest receivable and similar income	9	**18**	*41*
Interest payable and similar charges	10	**(11)**	*(5)*
(Loss)/profit before tax		**(158)**	*2,134*
Tax on (loss)/profit	11	**2,152**	*(344)*
Profit for the financial year		**1,994**	*1,790*
Other comprehensive (expense) / income:			
Items that may be reclassified to profit or loss:			
Changes in market value of cash flow hedges	18	**(883)**	*118*
Deferred tax attributable to changes in market value of cash flow hedges	19	**165**	*(20)*
Total other comprehensive (expense) / income net of tax		**(718)**	*98*
Total comprehensive income for the year		**1,276**	*1,888*

The notes on pages 21 to 42 form part of these financial statements.

Balance sheet
As at 31 December 2020

	Note		2020 £000		2019 £000
Fixed assets					
Tangible assets	13		**15,019**		*16,496*
			15,019		*16,496*
Current assets					
Stocks	14	**355**		*410*	
Debtors: Amounts falling due more than one year	15	**-**		*78*	
Debtors: Amounts falling due within one year	15	**12,486**		*14,261*	
Cash at bank		**201**		*847*	
		13,042		*15,596*	
Creditors: Amounts falling due within one year	16	**(14,058)**		*(15,963)*	
Net current liabilities			**(1,016)**		*(367)*
Total assets less current liabilities			**14,003**		*16,129*
Creditors: Amounts falling due more than one year	17		**(1,162)**		*(474)*
Provisions for liabilities					
Deferred taxation	19	**-**		*(780)*	
Other provisions	20	**(190)**		*-*	
			(190)		*(780)*
Net assets			**12,651**		*14,875*

Balance sheet (continued)
As at 31 December 2020

Capital and reserves			
Called up share capital	21	**2,050**	*2,050*
Cash flow hedge reserves		**(613)**	*105*
Profit and loss account		**11,214**	*12,720*
		12,651	*14,875*

The financial statements on pages 17 to 42 were approved and authorised for issue by the board and were signed on its behalf on 22 December 2021.

J I Thompson
Director

The notes on pages 21 to 42 form part of these financial statements.

Statement of changes in equity
For the Year Ended 31 December 2020

	Called up share capital £000	Cash flow hedge reserve £000	Profit and loss account £000	Total shareholders' funds £000
At 1 January 2019	2,050	7	10,930	12,987
Comprehensive income for the year				
Profit for the financial year	-	-	1,790	1,790
Changes in market value of cash flow hedges	-	118	-	118
Deferred tax attributable to changes in market value of cash flow hedges	-	(20)	-	(20)
Other comprehensive income for the year	-	98	-	98
Total comprehensive income for the year	-	98	1,790	1,888
At 1 January 2020	2,050	105	12,720	14,875
Comprehensive income for the year				
Profit for the financial year	-	-	1,994	1,994
Changes in market value of cash flow hedges	-	(883)	-	(883)
Deferred tax attributable to changes in market value of cash flow hedges	-	165	-	165
Other comprehensive expense for the year	-	(718)	-	(718)
Total comprehensive (expense) / income for the year	-	(718)	1,994	1,276
Dividends paid	-	-	(3,500)	(3,500)
At 31 December 2020	2,050	(613)	11,214	12,651

The notes on pages 21 to 42 form part of these financial statements.

1. ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006. The principal accounting policies adopted in the preparation of the financial statements are set out below and have been consistently applied to all years, unless otherwise stated. The financial statements have been prepared on the going concern basis under the historic cost convention as modified by revaluation of derivative financial instruments and in accordance with the Companies Act 2006.

There are no amendments to accounting standards, or IFRS IC interpretations that are effective for the year ended 31 December 2020 that have had a material impact on the company's financial statements.

Restatement of Statement of comprehensive income

The comparative amounts for Cost of sales and Other operating income for the year ended 31 December 2019 have been restated by £2,231,000 to correct the presentation of amounts receivable under the Bus Service Operators Grant (BSOG) in the company's previous financial statements. BSOG amounts should have been presented as Other operating income in line with the requirements of FRS 101 and IAS 20, but were incorrectly presented as reductions in Cost of sales. Following the restatement, Cost of sales as previously reported for the year ended 31 December 2019 of £22,756,000 has increased to £24,987,000. Other operating income as previously reported for the year ended 31 December 2019 of £3,742,000 has increased to £5,973,000.

The restatement had no impact on the total comprehensive income reported for the year ended 31 December 2019 and hence no impact on the previously reported Statement of changes in equity for the year ended 31 December 2019 or on the company's previously reported Balance sheet at 31 December 2019.

GOING CONCERN

The company is a wholly owned subsidiary of Arriva UK Bus Holdings Limited and part of the Arriva group which Deutsche Bahn AG heads. As a public transport operator, the Arriva group has been significantly impacted by the COVID-19 coronavirus pandemic with a resulting impact on passengers, colleagues, and other business stakeholders. The Arriva group has and continues to work closely with both local and national government bodies and transport authorities on support measures to ensure continuation of critical transportation services through and beyond the pandemic.

The company is working closely with local authorities to maintain appropriate service levels for customers, supported by Bus Recovery Grant (BRG) funding. BRG is effective from September 2021 through to April 2022 and replaced the previous COVID-19 Bus Service Support Grant (CBSSG) Restart funding scheme, which ended in August 2021. The company expects to enter Enhanced Partnerships (EPs) with its local transport authorities in line with the Department for Transport's (DfT) National Bus Strategy no later than April 2022, with the EPs backed by new DfT funding.

1. ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

GOING CONCERN (continued)

Liquidity risk
The company voluntarily participates in a group cash pooling arrangement operated by its ultimate parent, Deutsche Bahn AG ('DB'). This is a long-standing arrangement operated by DB to manage the liquidity needs of DB group companies, and the company has been a party to this arrangement for several years. Under the arrangement substantially all the company's cash balances are swept into the group cash pool at the end of each business day. The company has a positive cash pooling balance at the balance sheet date, and the directors expect the company's pooled cash balance to remain positive over the going concern assessment period.

The company is currently dependent on daily access to its funds in the cash pool for the funds required to operate and to support the going concern assumption. As the terms of the company's agreement with DB do not provide explicit rights for immediate access to these funds on request, this gives rise to a potential liquidity risk that funds may not be available as required to settle liabilities during the period of 12 months from the date of approval of the financial statements, and the directors acknowledge that this indicates the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. However, the directors consider this risk to be highly improbable, as such action would contradict internal group policies and would be inconsistent with the past practice.

Since inception of the pooling arrangement, the company has never experienced any issues being able to draw upon its cash balances within the group cash pool to settle its liabilities as they fall due. The company also has a unilateral right to terminate its participation in the group cash pooling arrangement by giving one month's notice to DB.

Trading risk
In completing their going concern assessment, the directors have also considered a severe but plausible downside scenario, along with associated management actions that would be taken to mitigate the impacts under that scenario on the company's cash position. Actions management might need to implement include reducing services and delaying or curtailing discretionary operating or capital expenditures. If these actions were insufficient to allow cash requirements to be funded from within the current cash pooling arrangement, additional funding might be required from DB. This includes consideration of the risk, which the directors believe to be remote, of potential amendments to calculation methodologies for reconciliation payments still to be received for CBSSG or to the terms of BRG, which are at the discretion of the DfT. Changes to methodologies for either scheme could potentially result in receipt of lower cash flows than management's expectation or a need to repay government funding already received to date.

The introduction of BRG to replace CBSSG, together with the National Bus Strategy's commitment of new funding for EPs, gives the directors confidence in future government support available to the sector and to the company. However, the exact nature and value of government funding that will be receivable by the company under EPs beyond the end of BRG in April 2022 is uncertain. The directors acknowledge that this indicates the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

1. ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

GOING CONCERN (continued)

Outcome of directors' going concern assessment
The directors acknowledge the uncertainty regarding immediate access to funds placed with DB and the lack of certainty on government funding support that will be in place beyond April 2022. The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the company will continue to have full and immediate access to its pooled cash balances with DB and will continue to have access to adequate financial and other resources to continue to operate for the foreseeable future.

These conditions indicate the existence of material uncertainties which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not contain the adjustments that would arise if the company were unable to continue as a going concern.

1. ACCOUNTING POLICIES (CONTINUED)

1.2 FINANCIAL REPORTING STANDARD 101 - REDUCED DISCLOSURE EXEMPTIONS

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 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 requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures 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 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

The company is a qualifying entity for the purpose of FRS 101 and Note 23 gives details of the company's ultimate parent and from where its consolidated financial statements, prepared in accordance with IFRS, may be obtained.

FRS 101 sets out a reduced disclosure framework for a "qualifying entity" as defined in the standard which permits a qualifying entity to apply the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU, but makes amendments where necessary in order to comply with the Companies Act 2006.

The equivalent disclosures are included in the consolidated financial statements of the ultimate parent company, Deutsche Bahn AG, in accordance with the application guidance of FRS 100 "Application of financial reporting requirements".

1. ACCOUNTING POLICIES (CONTINUED)

1.3 TURNOVER

Turnover consists of the gross revenue for road passenger transport together with the aggregate amounts receivable for other goods and services supplied in the ordinary course of the business, excluding value added tax. Income is accrued where it is earned in an earlier period to that in which it is billed or received in cash. Income is deferred where it is received in an earlier period than that to which it relates.

1.4 INTANGIBLE ASSETS AND AMORTISATION

Intangible assets, which relate to licences for the use of the Arriva brand name, are being amortised through the statement of comprehensive income over the licence period of 15 years.

1.5 TANGIBLE ASSETS

Tangible assets are stated at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided at rates calculated to write off the cost of assets, less their estimated residual value, over their expected useful lives. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if it is greater than its estimated recoverable amount

Depreciation is provided on the following bases:

Short term leasehold property	-	straight line over the period of the lease
Plant, machinery, fixtures and motor vehicles	-	10% to 48% straight line
Public service vehicles	-	straight line over periods up to 15 years
Right-of-use assets	-	over the term of the lease

1. ACCOUNTING POLICIES (CONTINUED)

1.6 LEASES

For lease contracts within the scope of IFRS 16, a lease liability and corresponding right-of-use asset are recognised at the lease commencement date.

The lease liability is initially measured at the present value of future lease payments, discounted using the incremental borrowing rate of the company (or rate implicit in the lease, if available). Future lease payments include fixed and variable payments, amounts repayable under a residual value guarantee, and the exercise price of future purchase options the company is reasonably certain to exercise (where applicable). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The liability is subsequently measured at amortised cost using the effective interest method, with the financing cost recognised within 'Interest payable and similar charges'.

Corresponding right-of-use assets are measured at the initial amount of the lease liability, adjusted for any lease payments prepaid at the commencement date, initial direct costs, lease incentives, and an estimate of costs to dismantle or remove the underlying asset. Subsequently, the right-of-use asset is depreciated on a straight-line basis over the lease term. Where an impairment indicator is identified the right-of-use asset is adjusted by any associated impairment losses. The right-of-use asset is also adjusted for any remeasurements of the lease liability.

The company has elected to apply the exemption included within IFRS 16 for short-term leases (lease terms of less than 12 months from the commencement date), and low value leases (asset values less than £5,000). The lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

1.7 STOCKS

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks.

1.8 DEBTORS

Trade and other debtors are held with the intention to collect the contractual cash flows and are initially measured at fair value and subsequently at amortised cost less any allowance for impairment (where such allowance is material).

The simplified approach is used to measure expected lifetime credit loss allowances under IFRS 9 for trade and other debtors on a collective basis for any assets that are not considered to be individually impaired. Trade and other debtors are considered to be individually impaired when there is objective evidence that the estimated future cash flows associated with the asset have been affected. Objective evidence for impairment could be observable changes in national or local economic conditions / government policies on transport. Allowances for expected credit losses on trade and other debtors are recognised only where they are material.

1. ACCOUNTING POLICIES (CONTINUED)

1.9 CASH

Cash balances comprise cash in hand and all bank balances and are stated in the balance sheet at fair value. The company does not hold any cash equivalents.

1.10 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are recognised as a financial asset or a financial liability in the balance sheet at the trade date. Derivative financial instruments are initially and subsequently measured at fair value. At the point at which the contract is taken out, derivative financial instruments are classified as a hedging instrument for hedging cash flows arising from a contractual obligation or an expected transaction. Cash flow hedges are used to provide protection against fluctuations in the cash flows of financial assets or liabilities or anticipated transactions. When future cash flows are hedged, the hedging instruments are recognised with their fair value. Changes in value are initially recognised in shareholders' equity with no impact on the statement of comprehensive income, and are only recognised in the statement of comprehensive income at the point at which the corresponding losses or profits from the underlying hedged item have an impact on the statement of comprehensive income or the transaction expires.

Derivatives are measured using common methods such as option price or present value models, because their fair values are not traded on an active market. No parameters from non-observable markets are used for measurement purposes, no credit risk adjustment is used for the present value of hedged transactions.

1.11 CREDITORS

Trade creditors are obligations to pay for goods / services that have been acquired in the ordinary course of business and are initially stated at fair value and subsequently at amortised cost.

1.12 PENSIONS

During the year Arriva plc, the intermediate UK parent company, operated both a defined benefit pension schemes and a contract based pension scheme, which covered employees of the company.

The assets of the defined benefit scheme are held separately from those of the company in independently administered funds. As the company is unable to identify its share of the assets and liabilities of the group schemes, it accounts for contributions as if they were to a defined contribution pension scheme.

Contributions payable under all schemes are charged to the statement of comprehensive income as they arise.

1. ACCOUNTING POLICIES (CONTINUED)

1.13 GOVERNMENT GRANTS

Government grants related to income comprise research and development grants and other government grants which are not related to assets. They are presented in the balance sheet as deferred income and released as other operating income in the statement of comprehensive income in the periods necessary to match them with the related costs which they are intended to compensate.

Government grants are recognised in other operating income only when there is reasonable assurance that the company will comply with the conditions attaching to them and that the grants will be received or will not need to be repaid.

1.14 DIVIDENDS

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

1.15 SHARES

Proceeds from the issuance of shares are accounted as equity (forming part of Total shareholders' funds) only to the extent that they include no contractual obligation upon the company to deliver cash or other financial assets to another party (or exchange financial assets or financial liabilities with another party on unfavourable terms). Where this condition is not satisfied, the proceeds of issuance are accounted as financial liabilities, initially measured at fair value and subsequently at amortised cost.

1. ACCOUNTING POLICIES (CONTINUED)

1.16 CURRENT AND DEFERRED TAXATION

The tax charge or credit in the statement of comprehensive income represents the sum of the current tax charge or credit and the deferred tax charge or credit for the year. Tax is recognised within the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds.

The current tax charge or credit is based on the taxable profit for the year. Taxable profit can differ from the profit or loss before tax as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, or that are never taxable or deductible. The company's liability or asset relating to current tax is calculated using rates prevailing during the year.

Where companies within the UK Group make payments for tax losses where the amount paid exceeds the tax value of the losses, any excess is reported as a movement through equity.

Deferred taxation is recognised on the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary timing differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can 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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current taxation assets against current taxation liabilities and when the deferred taxation assets and liabilities relate to taxation levied by the same taxation authority, and the company intends to settle its current taxation assets and liabilities on a net basis.

Deferred tax assets and liabilities are not discounted.

2. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Application of certain company accounting policies required management to make judgements, assumptions and estimates concerning the future as detailed below.

The preparation of financial statements in conformity with FRS 101 requires management to make estimates and judgements in the application of accounting policies that affect the reported amounts of assets, liabilities, income and expense. Estimates and judgements are based on historical experience and management's best knowledge of the amount. Due to the inherent uncertainty in making estimates and judgements, actual results in future periods may be based on amounts which differ from those estimates.

Critical judgements in applying accounting policies

The following is a critical judgement that has been made in the process of applying the company's accounting policies, apart from those involving estimations, that had the most significant effect on the financial statements:

<u>Accounting for contributions to multi-employer defined benefit pension schemes</u>
Certain of the company's employees are members of group multi-employer defined benefit pension schemes and the company pays contributions to those schemes in respect of those employees.

As the company is unable to identify its share of the assets and liabilities of the group defined benefit schemes, it accounts for contributions payable as if they were to a defined contribution pension scheme, with the amounts payable charged to the statement of comprehensive, as outlined in Note 22.

Critical assumptions and key sources of estimation uncertainty

The following areas are the critical assumptions concerning the future and the key sources of estimation uncertainty in the reporting period that may have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

<u>Useful economic lives of tangible assets</u>
The annual depreciation charge for tangible fixed assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are reassessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See Note 13 for the carrying amount of the tangible fixed assets and Note 1.5 for the useful economic lives for each class of assets.

<u>Insurance provisions</u>
The company makes a provision for the amounts payable under insurance incidents as presented under accruals and deferred income, see Note 16 for the carrying amount of accruals and deferred income included within creditors. The estimation of the insurance provision is based on an assessment of the expected settlement on known claims based on the experience of insurance claims handlers.

2 JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Critical assumptions and key sources of estimation uncertainty (continued)

Accruals
The company recognise accrued expenses within the financial statements. They are calculated at the cost the company expect to be paid in future periods, based on reliable evidence available at the time the financial statements are prepared.

3. GENERAL INFORMATION

The company is a private limited company, limited by shares and incorporated and domiciled in England, the United Kingdom.

The registered company number is 00237558 and the address of the registered office is 1 Admiral Way, Doxford International Business Park, Sunderland, Tyne & Wear, SR3 3XP.

4. TURNOVER

The whole of the turnover is attributable to the company's principal activity.

All turnover arose within the United Kingdom.

5. OTHER OPERATING INCOME

	2020 £000	*As restated* *2019* *£000*
Profit on disposal of tangible assets	-	*397*
Government grants receivable	**8,405**	*2,333*
Rental income	**10**	*10*
Other income	**2,431**	*3,233*
	10,846	*5,973*

Government grants receivable for the year ended 31 December 2019 as previously reported of £102,000 have been restated by £2,231,000 to £2,333,000. Further information on this restatement is provided in Note 1.1.

6. OPERATING (LOSS)/PROFIT

The operating (loss)/profit is stated after charging / (crediting):

	2020	*2019*
	£000	*£000*
Depreciation of tangible assets	**2,532**	*2,034*
Loss/(profit) on disposal of tangible assets and buildings	**29**	*(397)*
Staff costs (Note 8)	**15,707**	*16,756*
Cost of stocks recognised as an expense	**5,338**	*6,657*
Operating lease payments		
- short-term lease expenses	**-**	*53*

7. AUDITORS' REMUNERATION

Fees payable to the company's auditors in respect of the audit of the financial statements and for other services provided to the company:

	2020	*2019*
	£000	*£000*
Fees for the audit of the company	**44**	*11*

8. STAFF COSTS

Staff costs were as follows:

	2020 £000	*2019 £000*
Wages and salaries	**13,951**	*14,009*
Social security costs	**1,166**	*1,199*
Other pension costs (Note 22)	**590**	*1,548*
	15,707	*16,756*

During the year, no director received any emoluments (2019 - £NIL).

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

	2020 No.	*2019 No.*
Drivers	**416**	*434*
Engineering	**47**	*52*
Administrative	**34**	*49*
	497	*535*

9. INTEREST RECEIVABLE AND SIMILAR INCOME

	2020 £000	*2019 £000*
Interest receivable from group undertakings	**18**	*41*
	18	*41*

10. INTEREST PAYABLE AND SIMILAR CHARGES

	2020 £000	*2019 £000*
Interest on lease liabilities	**11**	*5*
	11	*5*

Notes to the financial statements
For the Year Ended 31 December 2020

11. TAX ON (LOSS)/PROFIT

	2020 £000	2019 £000
CORPORATION TAX		
Current tax on (loss)/profit for the year	**(91)**	*380*
Adjustments in respect of prior years	**(380)**	*19*
	(471)	*399*
TOTAL CURRENT TAX	**(471)**	*399*
DEFERRED TAX		
Origination and reversal of timing differences	**(38)**	*(43)*
Adjustments in respect of prior years	**(1,643)**	*(12)*
TOTAL DEFERRED TAX	**(1,681)**	*(55)*
TAX ON (LOSS)/PROFIT	**(2,152)**	*344*

FACTORS AFFECTING TAX (CREDIT) / CHARGE FOR THE YEAR

The tax assessed for the year is lower than (2019 - lower than) the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020 £000	2019 £000
(Loss)/profit before tax	**(158)**	*2,134*
(Loss)/profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	**(30)**	*405*
EFFECTS OF:		
Adjustments in respect of prior years	**(2,023)**	*7*
Profit on disposal of ineligible assets	**-**	*(78)*
Depreciation in respect of ineligible assets	**5**	*5*
Impact of rate change on deferred tax	**(104)**	*5*
TOTAL TAX (CREDIT)/CHARGE FOR THE YEAR	**(2,152)**	*344*

11. TAX ON (LOSS)/PROFIT (CONTINUED)

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the deferred tax asset by £336,535.

12. DIVIDENDS

	2020 £000	*2019* *£000*
Dividends paid	3,500	-
	3,500	-

13. TANGIBLE ASSETS

	Short term leasehold property £000	Plant, machinery, fixtures and motor vehicles £000	Public service vehicles £000	Total £000
Cost or valuation				
At 31 December 2019	4,724	2,082	13,306	20,112
Additions	37	39	1,275	1,351
Disposals	(25)	(218)	(881)	(1,124)
Adjustment*	-	506	7,095	7,601
At 31 December 2020	4,736	2,409	20,795	27,940
Accumulated depreciation				
At 31 December 2019	678	1,116	1,822	3,616
Charge for the year	236	245	2,051	2,532
Disposals	(7)	(213)	(608)	(828)
Adjustment*	-	506	7,095	7,601
At 31 December 2020	907	1,654	10,360	12,921
Net book value				
At 31 December 2020	3,829	755	10,435	15,019
At 31 December 2019	*4,046*	*966*	*11,484*	*16,496*

*After a review of the company's fixed asset register, it was noted that tangible assets cost and accumulated depreciation amounts were understated by £7,601,000 for the year ended 31 December 2020. This was due to disposals being accounted for incorrectly by reducing cost or accumulated depreciation only by the net book value of the assets disposed. The adjustment has increased the costs and accumulated depreciation of public service vehicles by £7,095,000, from £13,700,000 to £20,795,000 and £3,265,000 to £10,360,000 respectively. The adjustment has also increased the costs and accumulated depreciation of plant, machinery, fixtures and motor vehicles by £506,000, from £1,903,000 to £2,409,000 and £1,148,000 to £1,654,000 respectively. This adjustment had no impact on profit or loss, net assets or equity as at 31 December 2019 or as at 1 January 2019, which is the beginning of the earliest period presented.

13. TANGIBLE ASSETS (continued)

Information on right-of-use lease assets included within tangible assets is provided in the following table:

	Short term leasehold property £000	Plant, machinery, fixtures and motor vehicles £000	Total £000
Right-of-use assets			
Cost			
At 1 January 2020	431	205	636
Additions	-	34	34
At 31 December 2020	431	239	670
Accumulated depreciation			
At 1 January 2020	43	50	93
Charge for the year	148	64	212
At 31 December 2020	191	114	305
Net book value			
At 31 December 2020	240	125	365
At 31 December 2019	388	155	543

14. STOCKS

	2020 £000	*2019 £000*
Raw materials and consumables	**355**	*410*
	355	*410*

15. DEBTORS

	2020 £000	*2019 £000*
Amounts falling due after more than one year		
Derivative financial instruments (Note 18)	**-**	*78*
	-	*78*

15. DEBTORS (CONTINUED)

	2020 £000	2019 £000
Amounts falling due within one year		
Trade debtors	623	361
Amounts owed by group undertakings	8,175	12,014
Other debtors	1,719	696
Prepayments and accrued income	812	961
Group relief	91	-
Deferred taxation	1,066	-
Derivative financial instruments (Note 18)	-	229
	12,486	14,261

16. CREDITORS: Amounts falling due within one year

	2020 £000	2019 £000
Lease liabilities	217	248
Trade creditors	70	-
Amounts owed to group undertakings	7,318	8,012
Group relief	-	379
Other taxation and social security	801	778
Other creditors	1,074	1,273
Accruals and deferred income	4,147	5,184
Derivative financial instruments (Note 18)	431	89
	14,058	15,963

17. CREDITORS: Amounts falling due after more than one year

	2020 £000	2019 £000
Lease liabilities	194	382
Deferred capital grants	642	-
Derivative financial instruments (Note 18)	326	92
	1,162	474

18. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments relate to cash flow hedges which are valued on a marked to market basis at the balance sheet date. Fuel price hedging has been entered into with the intention to reduce price fluctuations attributable to fuel sourcing.

The receipts/payments from fuel derivatives are recognised in the statement of comprehensive income in the periods in which they fall due.

The effectiveness of the hedge is assessed prospectively using linear regression. The retrospective effectiveness measurement is carried out as of every balance sheet date by means of linear regression.

The ineffectiveness is also calculated using the dollar-offset method. Under this method, the changes in the market values of the underlying are compared with the changes in the market value of the hedging instrument. The resultant quotient determines the inefficiency.

The inefficiencies of cash flow hedges of the fuel price derivatives recognised in the statement of comprehensive income are £Nil (2019: £Nil).

The amounts recognised in the balance sheet are as follows:

	2020 £000	2019 £000
Debtors : Amounts falling due more than one year (Note 15)	-	78
Debtors : Amounts falling due within one year (Note 15)	-	229
Creditors : Amounts falling due within one year (Note 16)	(431)	(89)
Creditors : Amounts falling due more than one year (Note 17)	(326)	(92)
	(757)	126

19. DEFERRED TAXATION (ASSET) / LIABILITY

	2020 £000	2019 £000
At 1 January	780	815
Credited to (loss)/profit for the financial year (Note 11)	(1,681)	(55)
(Credited) / charged to other comprehensive income	(165)	20
At 31 December	**(1,066)**	**780**

The deferred taxation (asset) / liability is made up as follows:

	2020 £000	*2019 £000*
Differences between capital allowances and depreciation	110	*793*
Short term timing differences	(1,032)	*(34)*
Derivative financial instruments	(144)	*21*
	(1,066)	*780*

20. OTHER PROVISIONS

	Restructuring £000	Dilapidations £000	Total £000
At 1 January 2020	-	-	-
Charged to profit or loss	120	9	129
Transfers from accruals and deferred income	-	61	61
At 31 December 2020	**120**	**70**	**190**

21. CALLED UP SHARE CAPITAL

	2020 £000	*2019 £000*
Authorised		
3,000,000 Ordinary shares of £1 each (2019: 3,000,000)	3,000	*3,000*
Allotted, called up and fully paid		
2,050,000 Ordinary shares of £1 each (2019: 2,050,000)	2,050	*2,050*

22. PENSION COMMITMENTS

At 31 December 2020 the UK intermediate parent company, Arriva plc, operated defined benefit pension schemes and a contract based retirement benefit scheme providing benefits to certain employees within Arriva Northumbria Limited.

The defined benefit pension schemes are the Arriva Passenger Services Pension Plan and the Arriva Passenger Services National Pension Scheme, financed through separate Trustee administered funds managed by independent professional fund managers on behalf of the Trustees.

The contract based pension scheme is the Arriva Workplace Pension Plan and the pension charge represents the amounts payable by the company to the fund in respect of the year. The assets of the scheme are held separately from those of the company in an independently administered fund.

Arriva Passenger Services Pension Plan

Contributions to the defined benefit scheme, the Arriva Passenger Services Pension Plan, are based upon actuarial advice following the most recent actuarial valuation of the fund. The latest actuarial valuation was performed as at 5 April 2020, using the Projected Unit Method.

Arriva Passenger Services National Pension Scheme

Contributions to the Arriva Passenger Services National Pension Scheme are based upon actuarial advice following the most recent actuarial valuation of the fund. The latest actuarial valuation was performed as at 6 April 2019, using the Projected Unit Method.

IAS 19 'Employee Benefits' (revised June 2011)

The company makes contributions to the defined benefit pension schemes which are operated by the UK intermediate parent company, Arriva plc. Other companies within the Arriva group make contributions to the schemes, therefore it is not possible for the company to identify its share of the underlying assets and liabilities as at 31 December 2020. As the company is unable to identify its share of the assets and liabilities of the group schemes, it accounts for contributions as if they were to a defined contribution pension scheme. Contributions payable by the company are charged to the statement of comprehensive income in the period in which they fall due.

The pension cost charge for the year represents contributions payable by the company to the pension schemes and amounted to £590,000 (2019: £1,548,000).

23. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent company is Arriva UK Bus Holdings Limited.

The ultimate parent company and ultimate controlling party is Deutsche Bahn AG, a company registered in Germany, which has prepared group financial statements incorporating the results of the company. Copies of these financial statements can be obtained from Potsdamer Platz 2, 10785 Berlin.

Deutsche Bahn AG is the largest and smallest group to consolidate the financial statements of the company.

Transactions with other companies In the Deutsche Bahn AG Group are not specifically disclosed as the company has taken advantage of the exemption available under paragraph 17 of IAS 24 'Related party disclosures' for wholly-owned subsidiaries.