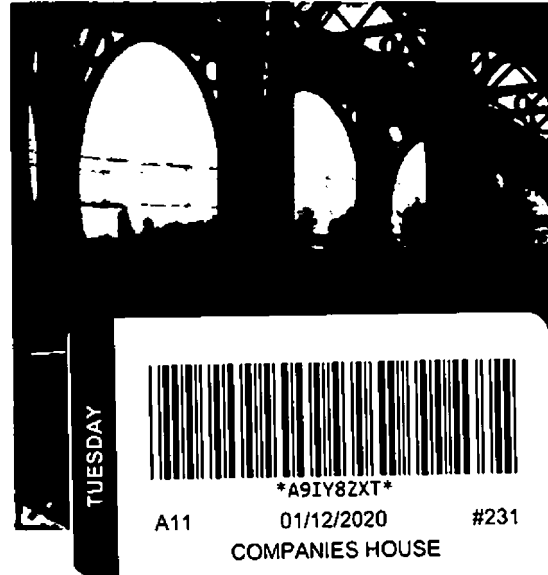
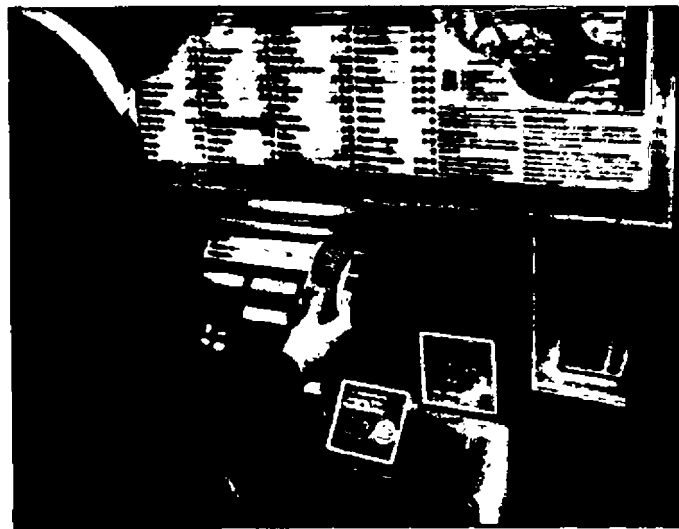
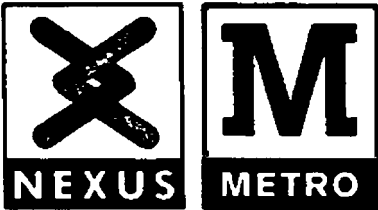


**North East**  
**Metro Operations Limited\***  
**Annual Accounts**  
For the year ended 31 March 2020



\*part of the Nexus Group

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COMPANIES HOUSE

**NORTH EAST METRO OPERATIONS LIMITED**  
**Company number 10552145**

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**NORTH EAST METRO OPERATIONS LIMITED**  
**Company number 10552145**

**DIRECTORS, OFFICERS AND ADVISORS**

**Directors**

TJ Hughes  
JD Fenwick  
C Carson

**Secretary**

C Whittle

**Registered Office**

Nexus House  
St James' Boulevard  
Newcastle upon Tyne  
NE1 4AX

**Registered Number**

10552145

**Auditors**

Mazars LLP  
Appointed Auditor  
Salvus House  
Ayckley Heads  
Durham  
DH1 5TS

**Bankers**

Barclays  
Barclays House  
5 St Ann's Street  
Quayside  
Newcastle Upon Tyne  
NE1 2BH

**NORTH EAST METRO OPERATIONS LIMITED**  
**Company number 10552145**

**STRATEGIC REPORT**  
**FOR THE YEAR ENDED 31 MARCH 2020**

The Directors present their report and the financial statements of the company for the year ended 31 March 2020.

**Principal Activity**

The company was incorporated in the United Kingdom on 9 January 2017 as a private company limited by shares. These accounts represent the company's third year of trading for the year ended 31 March 2020.

The company's principal activity during the year was the operation and maintenance of the Tyne and Wear Metro service on behalf of The Tyne and Wear Passenger Transport Executive (trading as Nexus).

**Review of Business**

The company formally commenced trading on 1<sup>st</sup> April 2017. As at this date the employees of the company were transferred via TUPE arrangements from their former employer. As a result, the company now bears the costs and obligations of staff who are members of the Local Government Pension Scheme.

The company's statement of comprehensive income on page 11 shows a profit before taxation of £2.100m (2019: *loss before taxation of £6.099m*) and total comprehensive income of £16.672m (2019: *expense of £4.083m*).

When actuarial pensions and taxation adjustments are excluded, the trading position shows a net loss of £1.778m (2019: *surplus of £0.354m*).

The company has one £1 share held by Nexus and no dividends will be paid for the year.

The company is funded through the Metro Operating Payment payable each reporting year by Nexus and the year-end cash position is a cash balance of £2.792m (2019: *£5.535m*).

North East Metro Operations Limited (NEMOL) does not hold any fixed assets on the balance sheet and no capital additions have been applied during the year.

**Principal Risks and Uncertainties**

NEMOL maintains a risk register and the Metro Senior Leadership Team review and control the risks through the risk management process.

The main risks to the business relate to the possibility of failing to achieve the following aims and objectives:-

**NORTH EAST METRO OPERATIONS LIMITED**  
**Company number 10552145**

- having sufficient resources with the skills and competencies to deliver business requirements;
- maintaining customer satisfaction;
- delivering the programme of Special Events successfully; and
- managing the current aged fleet and Depot infrastructure.

**Coronavirus (COVID-19)**

Before the end of the financial year, the COVID-19 pandemic began to adversely affect NEMOL's parent company Nexus, and the services it provides on an unprecedented scale. Patronage on public transport in general, fell by around 95% before the end of March 2020, with losses at that level sustained during the early part of 2020/21 also. In relation to Metro, Nexus reported losses in its fare and commercial revenues of around £1.3m during March 2020. In response, Nexus sought emergency financial support from the Department for Transport (DfT) and HM Treasury and £8.6m of special grant, payable for 12 weeks from 17 March to 9 June 2020 was announced by the DfT in May 2020. However, the grant applicable in 2019/20 only covered 80% of Metro's net losses and therefore £0.256m of net losses directly attributable to COVID-19 are reported in Nexus' 2019/20 financial performance. The Metro Operating Payment made by Nexus to NEMOL was maintained at budgeted levels despite the fall in revenue for the period to 31 March 2020.

This has since been followed by a further £24.6m of emergency support to cover Metro's net losses for the period to 18 January 2021. The DfT have indicated that it is probable that this support will be extended again to 31 March 2021 given the expected continuing impacts into the New Year. As a condition of ongoing support, DfT and HM Treasury require Nexus (and other light rail operators) to develop a recovery plan by 31 December 2020, aimed at Metro becoming more financially sustainable and less reliant on this additional government grant support. Details of the required content of the recovery plan are awaited.

Consideration of the impact of COVID-19 on the ability of the Company to operate as a going concern has been made in the going concern statement on page 16.

**Future Developments**

This is the third year trading as the operator of the Tyne and Wear Metro system.

NEMOL currently provides maintenance of all Metro cars based at the Gosforth fleet depot site.

During 2018, Nexus secured government capital grant funding of £337 million to replace its fleet of Metrocars and to construct a new Depot. This funding will be augmented by a further £25 million to be provided directly by Nexus. The procurement of the new fleet includes a long-term maintenance contract with Stadler Rail UK Ltd.

On 1 November 2019, 447 employees from NEMOL were transferred into Nexus. This leaves around 118 employees in NEMOL, wholly engaged in delivering the Metro fleet maintenance, who will transfer to Stadler Rail UK Ltd at some point during 2020/21.

**NORTH EAST METRO OPERATIONS LIMITED**  
**Company number 10552145**

**Key Performance Indicators**

NEMOL's KPIs are reported to the North East Combined Authority's Transport Committee, having been reviewed by both the Metro Senior Leadership Team and Nexus. This range of performance indicators, both financial and operational, is used to measure the company's strategic objectives.

**Section 172 Companies Act 2006**

This statement sets out how the Directors have approached and met their responsibilities under section 172 Companies Act 2006. The Directors have a history of regular engagement with stakeholders, including employees, customers and suppliers. Specific examples of interaction with stakeholders include the establishment of an employee engagement group and the completion of customer satisfaction surveys.

This report was approved by the Board of Directors on 17 November 2020 and signed on its behalf by



JD Fenwick, CPFA  
Director

**NORTH EAST METRO OPERATIONS LIMITED**  
**Company number 10552145**

**DIRECTORS' REPORT**  
**FOR THE YEAR ENDED 31 MARCH 2020**

**Directors**

The Directors who served during the year ended 31 March 2020 were as follows:

TJ Hughes  
JD Fenwick  
R Johnstone (resigned 16 August 2019)  
C Carson

**Directors' responsibilities statement**

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

Company law requires the Directors to prepare audited 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 Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). 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 year.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the audited 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 proper 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 to 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.

**Disclosure of information to auditors**

Each of the persons who are Directors at the time when this Directors' report is approved has confirmed that:

- So far as the Directors are aware, there is no relevant audit information (information needed by the company's auditors in connection with the preparation of their report) of which the company's auditors are not aware; and

**NORTH EAST METRO OPERATIONS LIMITED**  
**Company number 10552145**

- the Directors have taken all the steps necessary to ensure that they are aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**Engagement with employees and others**

NEMOL use many different channels to ensure our internal communications engage staff with corporate matters, as well as providing opportunities for them to provide feedback and share their own ideas and news. These include both NEMOL and Nexus intranets, which feature regular internal news articles, collaborative working areas and staff achievements.

We send regular newsletters to staff containing a broad range of articles to keep colleagues up to date with organisational news, raise awareness of relevant issues, boost morale and inform staff about the wider social and political landscape in which we operate. NEMOL have a formal appraisal mechanism that includes regular 1-2-1s for staff to receive feedback on their performance, identify training needs and gain an understanding of how their targets feed into the achievement of the organisation's goals.

The Directors also have regard to the need to foster the company's business relationships with suppliers, customers and others as demonstrated by the decisions taken in the future developments included in the Strategic Report on page 3.

**Employees with disabilities**

Nexus is a Disability Confident Employer who has committed

- inclusive and accessible recruitment
- communicating vacancies
- offering an interview to disabled people
- providing reasonable adjustments
- supporting existing employees

NEMOL is currently working towards this accreditation.

**Other information**

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 3.

The effect of COVID-19 on the operations of the Company and the impact on the Company's ability to operate as a going concern are included within the Strategic Report on page 3 and the going concern statement on page 16 respectively.

**Signed on behalf of the Board**



**JD Fenwick, CPFA**  
**Director**

**Approved by the Board of Directors on 17 November 2020**



## **Independent auditor's report to the members of North East Metro Operations Limited**

### **Opinion**

We have audited the financial statements of North East Metro Operations Limited (the 'company') for the year ended 31 March 2020 which comprise Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter - valuations of NEMOL's share of direct property and pooled residential property investments**

We draw attention to Note 2 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of NEMOL's share of the Tyne & Wear Pension Fund's direct property and pooled residential property investments as at 31 March 2020. As disclosed in Note 2 of the financial statements, the outbreak of Covid-19 has had a significant impact on the number of transactions in the market and consequently the relevant observable data available upon which to base a valuation judgement. As such the Pension Fund's property investment manager, has included a material valuation uncertainty clause in some of their 31 March 2020 valuation reports due to the possible impact of Covid-19. Therefore, there is less certainty and a higher degree of caution should be attached to valuations of unquoted property assets than would normally be the case. Our opinion is not modified in respect of this matter.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

**NORTH EAST METRO OPERATIONS LIMITED**  
**Company number 10552145**

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

**Other information**

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

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

We have nothing to report in this regard.

**Opinions on other matters prescribed by the Companies Act 2006**

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

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

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

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

- 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
- the company 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.

### **Responsibilities of Directors**

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

### **Use of the audit report**

This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

  
Craig Maxwell (Nov 19, 2020 15:45 GMT)

**Craig Maxwell (Senior Statutory Auditor)**  
**for and on behalf of Mazars LLP**  
**Chartered Accountants and Statutory Auditor**

**Mazars LLP**  
**100 Queen Street**  
**Glasgow**  
**G1 3DN**  
**19 November 2020**

**NORTH EAST METRO OPERATIONS LIMITED**  
**Company number 10552145**

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 MARCH 2020**

	<b>Note</b>	<b>Year ended 31 March 2020 £'000</b>	<b>Year ended 31 March 2019 £'000</b>
Turnover	3	36,071	35,147
Cost of Sales		(10,303)	(8,781)
<b>Gross Profit</b>		<b>25,768</b>	<b>26,366</b>
Administrative Expenses		(29,738)	(31,784)
Other Operating Income		93	-
<b>Operating Loss</b>	4	<b>(3,877)</b>	<b>(5,418)</b>
Exceptional gain on transfer of pension liability	14	6,681	-
Interest Payable		(704)	(681)
<b>Profit/(loss) before taxation</b>		<b>2,100</b>	<b>(6,099)</b>
Taxation (charge)/credit for the year	5	-	(26)
<b>Profit/(loss) for the financial year</b>		<b>2,100</b>	<b>(6,125)</b>
Actuarial gain on defined benefit pension	14	14,572	2,042
<b>Total comprehensive income for the year</b>		<b>16,672</b>	<b>(4,083)</b>

The notes on pages 14 to 25 form part of these financial statements.

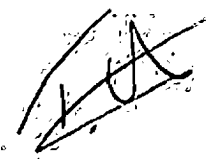
**NORTH EAST METRO OPERATIONS LIMITED**  
**Company number 10552145**

**BALANCE SHEET AT 31 MARCH 2020**

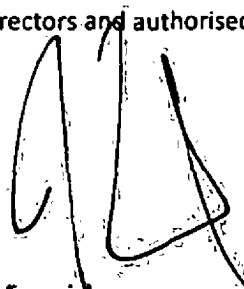
	Note	2020 £'000	2019 £'000
<b>Current Assets</b>			
Debtors and prepayments	8	1,202	1,088
Cash at bank and in hand		2,792	5,535
<b>Total Assets</b>		<u>3,994</u>	<u>6,623</u>
<b>Creditors: Amounts falling due within one year</b>	9	(4,746)	(5,597)
<b>Net Current (Liabilities)/Assets</b>		<u>(752)</u>	<u>1,026</u>
<b>Total Assets less Current Liabilities</b>		<u>(752)</u>	<u>1,026</u>
<b>Net (Liabilities)/Assets (excluding pension liability)</b>		<u>(752)</u>	<u>1,026</u>
Defined benefit pension liability	14	(13,702)	(32,152)
<b>Net liabilities</b>		<u>(14,454)</u>	<u>(31,126)</u>
<b>Capital and Reserves</b>			
Called up share capital	10	-	-
Profit and loss reserve	11	(14,454)	(31,126)
<b>Total Shareholders' Funds</b>		<u>(14,454)</u>	<u>(31,126)</u>

The notes on pages 14 to 25 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 17 November 2020 and signed on its behalf.



**TJ Hughes**  
**Managing Director, Transport North East**



**JD Fenwick**  
**Director of Finance and Resources**

**NORTH EAST METRO OPERATIONS LIMITED**  
**Company number 10552145**

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 MARCH 2020**

	<b>Called up share capital</b>	<b>Profit and loss Account</b>	<b>Total Shareholders' funds</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 April 2018	-	(27,043)	(27,043)
Total comprehensive income for the year	-	(4,083)	(4,083)
<b>At 31 March 2019</b>	<b>-</b>	<b>(31,126)</b>	<b>(31,126)</b>
At 1 April 2019	-	(31,126)	(31,126)
Total comprehensive income for the year	-	16,672	16,672
<b>At 31 March 2020</b>	<b>-</b>	<b>(14,454)</b>	<b>(14,454)</b>

The notes on pages 14 to 25 form part of these financial statements.

## **NORTH EAST METRO OPERATIONS LIMITED**

**Company number 10552145**

### **NOTES TO THE ACCOUNTS**

#### **1 Accounting policies**

##### **a. Basis of preparation**

North East Metro Operations Limited (the "Company") is a private company incorporated, domiciled and registered in England in the UK. The registered number is 10552145 and the registered address is Nexus House, St James Boulevard, Newcastle Upon Tyne, United Kingdom, NE1 4AX.

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS101) 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.

The financial statements have been prepared under the historic cost convention and in accordance with the Companies Act 2006.

##### **b. Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes.

Revenue is receivable from Nexus to operate the Tyne and Wear Metro and maintain the fleet of Metrocars. Revenue to provide these services is recognised in the period in which the services are supplied to Nexus.

##### **c. Expenditure**

The financial statements are prepared on an accruals basis. This means that activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular where expenditure has been recognised but cash has not been paid, a creditor for the relevant amount is recorded in the Balance Sheet.

##### **d. Debtors**

Trade and other debtors are initially measured at fair value. In general, this is equivalent to the costs of purchase. Receivables for which there are substantial objective indications of an impairment are adjusted appropriately.

Trade and other debtors are considered to be impaired when there is objective evidence that the estimated future cash flows associated with the asset have been affected. In addition, certain trade and other debtors that are not considered to be individually impaired, may be assessed for impairment on a collective basis. Objective evidence for impairment could be observable changes in national or local economic conditions / government policies on transport.

**NORTH EAST METRO OPERATIONS LIMITED**  
**Company number 10552145**

**1 Accounting policies (*continued*)**

**e. Cash**

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

**f. Creditors**

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade and other creditors are initially stated at fair value.

**g. Contingent Liabilities**

A contingent liability arises where an event has taken place that gives NEMOL a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within NEMOL's control. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet and would be disclosed in Note 12 to the accounts.

**h. Events after the Balance Sheet date**

Where an event occurs after the Balance Sheet date, favourable or unfavourable, which provides evidence of conditions that existed at the Balance Sheet date, an adjusting event occurs and the amounts recognised in the Statement of Accounts will be adjusted to take into account any new information about that adjusting event.

Where an event occurs after the Balance Sheet date that is indicative of conditions that arose after the Balance Sheet date, the amounts recognised in the Statement of Accounts are not adjusted but are disclosed as a separate note to the accounts. Any events after the balance sheet date 2019/20 are described in Note 15.

**i. VAT**

VAT is a tax on the supply of goods and services that is eventually borne by the final consumer but collected at each stage of the production and distribution chain. The treatment of VAT in the accounts reflects NEMOL's role as a collector of the tax. VAT is not included in income or in expenditure except in circumstances where the VAT is irrecoverable, where it is included in the cost of the items reported in the financial statements.



**1 Accounting policies (*continued*)**

**j. Pensions**

The company is an Admitted Body of the Local Government Pension Scheme administered by South Tyneside Metropolitan Borough Council, which is a defined benefit pension scheme and covers employees of the company. The assets of the defined benefit scheme are held separately from those of the company in independently administered funds. Independent qualified actuaries complete valuations periodically and, in accordance with their recommendations, annual contributions from employees and employer are paid to the scheme so as to secure the benefits set out in the rules.

**k. Taxation**

Corporation tax payable is provided on taxable profits at the current rate. Deferred taxation is accounted for in respect of all material timing differences that have originated but not reversed at the balance sheet date. Timing differences arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is calculated at the rate which it is anticipated the timing differences will reverse and is measured on a non-discounted basis. Deferred tax assets are only recognised to the extent that they are reported as recoverable.

**l. Going Concern**

The Directors have prepared the accounts on a going concern basis, which assumes that the company will continue in operational existence for the foreseeable future and meet its liabilities as they fall due. The company has a management agreement in place with Nexus which underpins both Nexus and NEMOL budgets and forecasts which show that the company is expected to be able to meet its liabilities as they fall due for the foreseeable future, in particular, for a period of at least 12 months from the date of approval of these financial statements. These budgets and forecasts include contributions payable to the pension scheme on the current agreed contribution schedule drawn up by the actuary. In this regard, NEMOL has confirmation from Nexus that they would assist in meeting its pension liabilities, as this forms the basis of the guarantee held by the Local Government Pension Scheme with Nexus. Furthermore, Nexus has provided a letter of comfort that confirms its intention to continue to provide financial support to NEMOL and enable it to meet its liabilities as they fall due.

However, in common with other transport providers, public sector bodies and commercial entities, the COVID-19 pandemic has had, and continues to have, a significant adverse impact on the revenue and costs of Nexus' operations. This includes the fare box revenue from the Tyne and Wear Metro, which was adversely impacted during lockdown and continues to be below budgeted levels through the recovery phase, whilst social distancing measures remain in place. Although revenues have now started to recover, and grant funding has been made available from the Department for Transport to mitigate the revenue losses suffered, the Director of Finance and Resources of Nexus has performed a review of Nexus' budget position for 2021/22 which necessarily covers a period of 12 months after the date of the signing

**1 Accounting policies (continued)**

of these financial statements, to support the preparation of the Accounts on the 'Going Concern' basis. Based on this review, and taking a prudent view of a number of assumptions which may impact cashflows in the period, including the recovery rate, availability of ongoing grant funding, the current cash and reserves position and the other mitigating actions which are being taken, whilst there is a degree of uncertainty, the Nexus Executive Board consider that it remains appropriate to prepare the accounts on the 'Going Concern' basis.

Whilst there is a degree of uncertainty surrounding Nexus' overall financial standing, the Directors of NEMOL believe that it is still appropriate to prepare the financial statements on a going concern basis, on the grounds that they have reasonable expectation that there are adequate resources from Nexus to continue in operational existence for the foreseeable future.

**m. Financial Reporting Standard 101 – Reduced Disclosure Exemptions**

The company is a qualifying entity for the purpose of FRS101 reduced disclosure as it is a member of a group where the parent of that group prepares publicly available, consolidated financial statements which are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss).

That member is included in the consolidation and is a wholly owned subsidiary of the Tyne and Wear Passenger Transport Executive (trading as Nexus). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard. The company has taken advantage of the following disclosure exemptions under FRS 101:

- 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 IAS 24 Related Party Disclosures
- Standards issued but not yet adopted (IAS 8.30-31)
- Key management personnel remuneration (IAS 24.17 & 24.18A)
- IFRS 7 Financial Instrument disclosures

## **2 Judgements and key source of estimation uncertainty**

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date, and the amounts reported for revenues and expenses during the period. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements and sources of estimation uncertainty have had the most significant effect on the financial statements:

- **Pension costs** – The cost of a defined benefit pension plan is determined using actuarial valuations. This involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. The net liability of £13.7m includes a share of the overall Pension Fund investment assets. The Pension Fund has disclosed a material uncertainty, due to COVID-19, in respect of pension investments (direct property valuations and pooled residential property funds). A small proportion (9%) of the Pension Fund's investments are in direct property valuations and pooled residential property funds. The impact of Covid 19 has resulted in a significant reduction in the number of transactions in the market and consequently the relevant observable data available upon which to base a valuation judgement. As such, the Pension Fund's property investment manager has included a material valuation uncertainty clause in some of their valuation reports due to the possible impact of Covid 19. Therefore, there is less certainty and a higher degree of caution should be attached to the valuations of these unquoted assets than would normally be the case. There is a risk that current valuations may be under or overstated in the accounts.

## **3 Turnover**

Turnover consists of the payment NEMOL receives from Nexus to operate the Tyne and Wear Metro and maintain the fleet of Metrocars, together with commercial income received in the normal course of its business. 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.

## **4 Operating Loss**

Other operating income represents amounts receivable under RDEC (research and development expenditure credit scheme). This operating loss is stated after charging £2.099m (2019: £5.772m) in relation to an in-year actuarial pension adjustment and also includes:

	<b>Year ended 31 March 2020 £'000</b>	<b>Year ended 31 March 2019 £'000</b>
Auditors' remuneration	12	11

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**5 Tax for the year**

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Current Tax:		
Adjustment in respect of previous years	-	22
Deferred Tax:		
Origination and reversal of fixed asset timing differences	-	-
Adjustment in respect of previous years	-	4
Effect of changes in tax rates	-	-
Total Deferred Tax	-	4
Total Tax Charge/(Credit)	-	26

The charge for the year can be reconciled to the profit per the income statement as follows:

Profit/(loss) for the year	2,100	(6,099)
Tax on profit/(loss) at standard UK tax rate of 19% (2019: 19%)	399	(1,159)
Effects of:		
Expenses not deductible	3	22
Effects of group relief/other reliefs	153	(89)
Adjustments in respect of previous years	-	26
Income not taxable	(18)	-
Deferred Tax not provided	(537)	1,226
Total Tax Charge/(Credit)	-	26

**Factors that may affect future tax charges:**

The UK Budget 2020 announced that the corporation tax rate was to be held at 19% rather than reduced to 17% with effect from 1 April 2020 as previously enacted. This provision was substantially enacted on 17 March 2020 and so the deferred tax closing balances have been calculated at 19%.

The company has a defined benefit pension deficit of £13.702m (2019: £32.152m), other short-term timing differences of £0.072m (2019: £nil) and trade losses of £0.980m (2019: £nil). A possible deferred tax asset of £2.617m (2019: £5.466m) in respect of this amount, plus a deferred tax asset of £0.186m (2019: £nil) in respect of losses, have not been recognised as the company does not have reasonable expectations that they will be able to utilise the associated tax losses in future periods.

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**6 Staff Costs**

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Wages and Salaries	19,949	18,112
National Insurance	2,059	1,850
Pension	3,455	3,213
	<u>25,463</u>	<u>23,175</u>

The average monthly number of employees, including the paid Director, during the year was:-

	No.	No.
Drivers	95	174
Engineering	124	117
Customer Services	84	133
Support Services	64	105
	<u>367</u>	<u>529</u>

On 1 November 2019 all Drivers, Customer Services and Support Services employees were TUPE transferred to Nexus. These employees continued to provide services for NEMOL during the remainder of the year and their costs consequently recharged.

**7 Directors' Emoluments**

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Director's salary	96	91
Company contributions to defined benefit pension schemes	17	17
	<u>113</u>	<u>108</u>

The only Director charged to NEMOL from Nexus is the Metro Services Director who is the highest paid and received remuneration of £95,675 (2019: £90,609). The value of the company's contributions paid to a defined benefit pension scheme in respect of the highest paid Director amounted to £16,832 (2019: £16,672).

**8 Debtors and prepayments**

	2020 £'000	2019 £'000
Trade debtors	124	201
Amounts owed by group undertakings	900	522
Other debtors	2	2
Prepayments and accrued income	176	363
Deferred tax asset	-	-

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	1,202	1,088
<b>9 Creditors: amounts falling due within one year</b>		
	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Trade creditors	429	341
Amounts owed to group undertakings	692	388
Other creditors	655	1,603
Accruals and deferred income	2,027	2,189
Tax creditor	943	1,076
	<b>4,746</b>	<b>5,597</b>

**10 Called-up share capital**

	2020	2019
	£	£
<b>Allocated, called-up and fully paid equity shares</b>		
Ordinary shares of £1 each	1	1

One share with a nominal value of £1 was issued at par value on 9<sup>th</sup> January 2017.

**11 Profit and Loss Reserve**

	2020	2019
	£'000	£'000
As at start of year	(31,126)	(27,043)
Profit/(loss) for the year	16,672	(4,083)
As at end of year	<b>(14,454)</b>	<b>(31,126)</b>

Included in the Profit and Loss Reserve are cumulative liabilities on a Defined Benefit Pension Scheme of £13.702m (2019: £32.152m).

**12 Contingent liabilities**

There were no contingent liabilities at 31 March 2020 (2019: *Nil*).

**13 Ultimate parent undertaking and controlling party**

The ultimate controlling party is Tyne and Wear Passenger Transport Executive (Nexus) which is a body corporate by statute under the Transport Act 1968. During the year Tyne and Wear Passenger Transport Executive incurred costs on behalf of and made payments to North East Metro Operations Limited by way of an intercompany account. The company's results are consolidated into the financial statements of Nexus. Nexus accounts are available from their website [www.nexus.org.uk](http://www.nexus.org.uk) and their registered address as shown on page 2 of these accounts.

#### **14 Pensions**

The company participates in the Tyne and Wear Pension Fund which is a defined benefit pension scheme where contributions payable are held in a trust separately from the company. The main results and assumptions of the most recent valuation of the Tyne and Wear Pension Fund are as follows.

Contributions to the scheme have been charged to the comprehensive income statement on a cash basis. A qualified actuary has determined contribution rates and the company was charged a rate of 21.2% from April to September 2017 and following a review of the rate, 18.4% from October 2017 to March 2020.

The following information is required under FRS101 and the valuation has been updated by an independent qualified actuary on an FRS 101 basis as at 31 March 2020. As required by FRS 101 the defined benefit liabilities have been measured using the projected unit credit method.

On 1 November 2019, the pension assets and liabilities associated with the 447 employees that have TUPE transferred to Nexus have been transferred to Nexus.

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Fair value of scheme assets	29,098	63,940
Present value of scheme liabilities	(42,800)	(96,092)
<b>Funded Status</b>	<b>(13,702)</b>	<b>(32,152)</b>

The scheme assets are made up of the following allocations

	<b>2020</b>	<b>2019</b>
	<b>%</b>	<b>%</b>
Equities	54.8	65.0
Property	9.0	8.8
Government Bonds	4.1	4.1
Corporate Bonds	15.3	11.7
Cash	2.3	2.7
Other	14.5	7.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

The amounts recognised in the comprehensive income statement are based on the following assumptions and analysed as follows:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Current service cost	4,501	5,550
Past service cost	57	3,305
Exceptional gain on transfer of pension liability	(6,681)	-
Interest on defined benefit liability	704	681
<b>Total recognised in the statement of comprehensive income</b>	<b>(1,419)</b>	<b>9,536</b>

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**14 Pensions (continued)**

Re-measurement gains/(losses) on assets taken to other comprehensive income	12,236	2,427
Re-measurement gains/(losses) on liabilities taken to other comprehensive income	2,336	(385)
<b>Total amount recognised in other comprehensive income</b>	<b>14,572</b>	<b>2,042</b>

<b>Main assumptions</b>	<b>2020</b>	<b>2019</b>
Discount rate	2.30%	2.50%
CPI inflation	1.90%	2.10%
Pension increases	1.90%	2.10%
Pension accounts revaluation rate	1.90%	2.10%
Salary increases	3.40%	3.60%

<b>Mortality assumptions</b>	<b>2020</b>	<b>2019</b>
Male members aged 65 at accounting date	21.8	22.2
Male members aged 45 at accounting date	23.5	23.9
Female members aged 65 at accounting date	25.0	25.3
Female members aged 45 at accounting date	26.8	27.2

The above figures are sample life expectancies, in years, resulting from assumptions used by the actuaries. Changes to the present value of the defined benefit obligations are analysed as follows:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Opening defined benefit obligation	96,092	85,222
Current service cost	4,501	5,550
Past service cost	57	3,305
Interest expense on defined benefit obligation	1,810	2,209
Contributions by participants	883	1,136
Actuarial (gains)/losses on liabilities	(2,336)	385
Net benefits paid out	(1,861)	(1,715)
Net decrease in liabilities on transfer to Nexus	(56,346)	-
<b>Closing defined benefit obligation</b>	<b>42,800</b>	<b>96,092</b>

Changes to the fair value of assets are analysed as follows

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Opening fair value of assets	63,940	57,481
Interest income on assets	1,106	1,528
Re-measurement gains/(losses) on assets	12,236	2,427
Contributions by the employer	2,459	3,083
Contributions by participants	883	1,136
Net benefits paid out	(1,861)	(1,715)
Net decrease in assets on transfer to Nexus	(49,665)	-
<b>Closing fair value of assets</b>	<b>29,098</b>	<b>63,940</b>



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**14 Pensions (continued)**

<b>Movement in pension scheme deficit in the year</b>	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
As at start of year	(32,152)	(27,741)
Net interest cost	(704)	(681)
Current service cost	(4,501)	(5,550)
Past service cost	(57)	(3,305)
Contributions by the employer	2,459	3,083
Actuarial gains	14,572	2,042
Net decrease on Transfer to Nexus	6,681	-
<b>As at end of year</b>	<b>(13,702)</b>	<b>(32,152)</b>

Expected employer contributions for the next year are £0.380m (2019: £3.155m). The duration of liabilities for NEMOL is 25.6 years.

**Sensitivity Analysis**

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2020 and the projected service cost for the year ending 31 March 2021 is set out below.

In each case, only the assumption mentioned is altered; all other assumptions remain the same and are summarised above. We have not included sensitivity of unfunded benefits (where applicable) on materiality grounds.

**Funded LGPS benefits**

<b>Discount Rate Assumptions</b>	<b>+0.1%</b>	<b>Base</b>	<b>-0.1%</b>
<b>Adjustment to discount rate</b>	<b>p.a.</b>	<b>Figure</b>	<b>p.a.</b>
Present value of total obligation (£m)	41.730	42.800	43.913
Change in present value of total obligation	-2.5%		2.6%
Projected service cost (£m)	1.390	1.443	1.498
Approximate change in projected service cost	-3.7%		3.8%
<b>Rate of general increase in salaries</b>	<b>+0.1%</b>	<b>Base</b>	<b>-0.1%</b>
<b>Adjustment to salary increase rate</b>	<b>p.a.</b>	<b>Figure</b>	<b>p.a.</b>
Present value of total obligation (£m)	42.971	42.800	42.629
Change in present value of total obligation	0.4%		-0.4%
Projected service cost (£m)	1.443	1.443	1.443
Approximate change in projected service cost	0.0%		0.0%
<b>Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption</b>	<b>+0.1%</b>	<b>Base</b>	<b>-0.1%</b>
<b>Adjustment to pension increase rate</b>	<b>p.a.</b>	<b>Figure</b>	<b>p.a.</b>
Present value of total obligation (£m)	43.699	42.800	41.901
Change in present value of total obligation	2.1%		-2.1%
Projected service cost (£m)	1.498	1.443	1.390
Approximate change in projected service cost	3.8%		-3.7%

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**14 Pensions (continued)**

Post retirement mortality assumption		Base	
Adjustment to mortality age rating assumption*	-1 year	Figure	+1 year
Present value of total obligation (£m)	44.170	42.800	41.473
Change in present value of total obligation	3.2%		-3.1%
Projected service cost (£m)	1.498	1.443	1.388
Approximate change in projected service cost	3.8%		-3.8%

*\*A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them*

**15 Post balance sheet events**

There have been no material post balance sheet events that would affect these accounts.