TRAM OPERATIONS LIMITED

Annual Report and Financial Statements

for the Year Ended 31 March 2018

Company Registered Number: 03097532

TRAM OPERATIONS LIMITED

REPORT AND FINANCIAL STATEMENTS 2018

Contents

STRATEGIC REPORT
For the year ended 31 March 2018

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

Tramlink incident at Sandilands Junction on 9 November 2016

Investigations into the incident are ongoing and it is uncertain when they will be concluded. No proceedings have been commenced and, as such, it is not possible to assess whether any financial penalties or related costs could be incurred.

The Rail Accident Investigation Branch issued its report in December 2017 with a further update issued in October 2018.

Principal activities

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

Business review and future prospects

In the year ended 31 March 2018, turnover increased by 2.9% (2017: 3.0%). Operating loss margin was 2.7% (2017 - Profit 0.2%)

The results showed a loss before tax of £505,000 (2017 - Profit £12,000), which is detailed in the profit and loss account on page 10.

The year showed a continuation of reduced profit due to the costs of investigations into the Sandilands incident (note 19) and additional pension charges to address the deficit in the First UK Bus pension scheme (note 18), partly offset by a write back of claims provisions (note 19).

Key performance indicators

In addition to the principal financial performance measures, the company monitors the following key performance indicator: operator-controlled performance of scheduled kilometres in the year was 99.41% (2017: 99.08%). This improvement was due principally to increased tram vehicle reliability.

Principal risks and uncertainties

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

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

STRATEGIC REPORT
For the year ended 31 March 2018

Principal risks and uncertainties (continued)

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

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

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

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

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

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

STRATEGIC REPORT
For the year ended 31 March 2018

Principal risks and uncertainties (continued)

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

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

Financial risk management objectives and policies

The company's principal financial assets are bank balances, trade debtors and intercompany receivables. The company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts. The company has sufficient processes in place to ensure debtors are collected in a timely manner. The credit risk on liquid funds is limited because the counterparties are banks.

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

Tramlink Depot
Coomber Way
Croydon
CR0 4TQ

A Wlodarski
Director
21 December 2018

DIRECTORS' REPORT
For the year ended 31 March 2018

The directors submit their annual report and the audited financial statements for the year ended 31 March 2018. A review of the business for the year and future developments have been considered in the Strategic Report.

Results and dividends

The results showed a loss before tax of (£505,000) (2017: Profit of £12,000), which is detailed in the profit and loss account on page 10.

The directors have not recommended payment of a dividend (2017: nil).

Directors

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

Nicholas Chevis	
Stephen Duckering	(resigned 30 May 2018)
David Gausby	(resigned 13 December 2017)
Andrew James	
Stephen Montgomery	
John Rymer	(resigned 2 October 2017)
Michael Steward	(resigned 12 September 2017)
Adrian Wlodarski	
Jacqueline Townsend	(appointed 24 April 2018)

Going concern

As at 31st March 2018 the company had cash of £4,885,000 (2017: £5,157,000) and net assets of £2,709,000 (£3,094,000). The company operates a Retail Price Index linked government backed contract with the ability to renegotiate for changes in the cost base every five years. The most recent changes to the base contract were agreed from May 2015. Additionally, the directors have considered the consequences to the company of the incident at Sandilands Junction on 9 November 2016. There is no reliable estimate for the eventual costs of the incident. The directors consider the comprehensive insurance in place and current and projected cash balances provide adequate headroom to meet the ongoing costs of the investigations. Hence, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis in the financial statements.

Disabled persons

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

DIRECTORS' REPORT
For the year ended 31 March 2018

Colleague engagement, retention and capability

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

Audit information

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

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

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

Auditor

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

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

Tramlink Depot
Coomber Way
Croydon
CR0 4TQ

A Wlodarski
Director
21 December 2018

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and to disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Tram Operations Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Profit and Loss Account;
- the Statement of comprehensive income;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Report and Financial Statements, 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 respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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

Lucy Openshaw

Lucy Openshaw, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

21 December 2018

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2018

	Notes	2018 £000	2017 £000
Turnover	2	16,244	15,788
Operating costs	3	(16,681)	(15,750)
Operating loss/profit		(437)	38
Interest payable and similar charges	6	(68)	(26)
Loss/profit before taxation	8	(505)	12
Tax charge on Loss/profit	9	(23)	(3)
Loss/profit after taxation and for the financial year		(528)	9

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

Statement of comprehensive income
For the year ended 31 March 2018

	Notes	2018 £000	2017 £000
Loss/profit for the financial year		(528)	9
Gain/loss recognised on defined pension scheme 18(f)		147	(1,923)
Movement on deferred tax relating to pension Scheme	14	(25)	327
Reduced deferred tax asset arising from rate change	14	-	(12)
Total other comprehensive income /(cost)		122	(1,608)
Total comprehensive loss for the year		(406)	(1,599)

BALANCE SHEET
At 31 March 2018

Company Registered Number: 03097532

	Notes	£000	2018 £000	£000	2017 £000
Fixed assets					
Tangible assets	10		14		10
Intangible assets	11		98		107
			112		117
Current assets					
Debtors	12	4,490		4,599	
Cash at bank and in hand		4,885		5,157	
		9,375		9,756	
Creditors:					
Amounts falling due within one year	13	(4,183)		(3,840)	
Net current assets			5,192		5,916
Total assets less current liabilities			5,304		6,033
Defined pension obligations	18		(2,325)		(2,720)
Provisions for liabilities and charges	15		(270)		(219)
Net assets			2,709		3,094
Capital and reserves					
Called up share capital	16		-		-
Profit and loss account			2,709		3,094
Shareholder's funds			2,709		3,094

These financial statements of Tram Operations Limited registered number 03097532 were approved by the Board of Directors on 21 December 2018 and were signed on its behalf by:

A Wlodarski
Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2018

	Called up share capital £000	Profit and loss account £000	Total £000
Balance at 1 April 2016	-	4,672	4,672
Total comprehensive loss for the year	-	(1,599)	(1,599)
Share-based payment charge	-	21	21
Balance at 31 March 2017	-	3,094	3,094
Total comprehensive loss for the year	-	(406)	(406)
Share-based payment charge	-	21	21
Balance at 31 March 2018	-	2,709	2,709

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

1 Principal accounting policies

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

(a) General information and basis of preparation

Tram Operations Limited is a private company limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The registered office address is Tramlink Depot, Coomber Way, Croydon, CR0 4TQ. The nature of the company's operations and its principal activities are set out in the Strategic report on page 1. The functional currency of Tram Operations Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

The financial statements have been prepared on the historical cost basis and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

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

The company meets the definition of a qualifying entity under FRS102 and has therefore taken advantage of the disclosure exemptions in relation to share-based payments, financial instruments, preparation of a cashflow statement and remuneration of key management personnel.

(b) Tangible fixed assets and depreciation

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

Plant and equipment - 2 to 8 years straight line.

(c) Leases

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

(d) Financial assets and liabilities

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

(e) Intangible assets

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

1 Principal accounting policies (continued)

(f) Taxation

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

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

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

Deferred taxation is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(g) Employee benefits

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

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

(h) Share-based payment

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

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

1 *Principal accounting policies (continued)*

(i) Turnover

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

2 Turnover

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

3 Operating costs

	2018 £000	2017 £000
Staff costs (note 4)	13,447	10,766
Operating Expenses	3,227	4,975
Depreciation	7	9
	16,681	15,750

4 Employee numbers and costs

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

	2018 Number	2017 Number
Operations	203	203
Maintenance	1	1
Administration	14	14
	218	218

The aggregate payroll costs of these persons were as follows:

	2018 £'000	2017 £'000
Wages and salaries	10,771	9,449
Social security costs	1,106	962
Other pension costs	1,549	334
Share-based payment charge	21	21
	13,447	10,766

5 Directors' remuneration

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

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

	2018 £'000	2017 £'000
Aggregate emoluments (excluding pension contributions)	231	330
Company pension contributions to Final Salary schemes	61	77
	292	407

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

Emoluments of the highest paid director amounted to:

	£'000	£'000
Aggregate emoluments (excluding pension contributions)	80	153
Company pension contributions to Final Salary schemes	24	30
	104	183

Accrued pension balance and lump sum at the end of the year amounted to £20,165 (2017: £46,799) and £98,431 (2017: £216,928), respectively.

6. Interest payable and similar charges

	2018 £'000	2017 £'000
Notional interest on pensions	68	26

7 Share-based payments

Equity-settled share option plans

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

The group has allocated the expense over its participating trading subsidiaries based on employee members. The company has recognised a total expense of £21,000 (2017: £21,000) relating to equity-settled share-based payment transactions.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

8 *Profit/(loss) before taxation*

This is stated after charging	2018 £'000	2017 £'000
Auditor's remuneration for audit of company's annual accounts (No other services were provided by Deloitte LLP in either year)	8	6
Amortisation	9	9
Rentals payable under operating leases		
- plant and machinery	11	24
- other	33	33

9 Tax charge on (loss)/profit

	2018 £000	2017 £000
Current taxation		
Group relief payable	(134)	(50)
Adjustment in respect of prior years	14	61
	(120)	11
Deferred taxation		
Origination and reversal of timing differences	144	41
Effect on decrease in tax rate on opening asset	-	5
Adjustment in respect of prior years	(1)	(54)
Total deferred taxation (note 14)	143	(8)
Tax charge on (loss)/profit	23	3

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 19% (2017: 20%). The UK Government enacted legislation to reduce the main rate of UK corporation tax to 19% with effect from 1 April 2017, plus a further reduction to 17% from 1 April 2020. The impact of this rate reduction to 17% has reduced the deferred tax asset on UK timing differences.

	2018 £000	2017 £000
(Loss)/Profit for the year multiplied by the standard rate of corporation tax in the UK of 19% (2017: 20%)	(96)	2
Factors affecting charge:		
- Expenses not deductible	123	(4)
- Prior year adjustments	13	7
- Effect of decrease in tax rate on opening DT balances	-	(7)
- Effect of decrease in tax rate on origination and reversal of timing differences	(17)	5
Total tax charge on (loss)/profit	23	3

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

10 Tangible fixed assets

	Plant and equipment £'000
Cost	
At 1 April 2017	300
Additions	11
Disposals	(5)
At 31 March 2018	306
Depreciation	
At 1 April 2017	290
Charge for the year	7
Disposals	(5)
At 31 March 2018	292
Net book value	
At 31 March 2018	14
At 31 March 2017	10

11 Intangible assets

	Deferred contract costs £'000
Cost	
At 1 April 2017 and 31 March 2018	261
Amortisation	
At 1 April 2017	154
Charge for the year	9
At 31 March 2018	163
Net book value	
At 31 March 2018	98
At 31 March 2017	107

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

12 Debtors

	2018 £000	2017 £000
Amounts due within one year		
Trade debtors	1,511	1,418
Amounts owed by group undertakings	2,492	2,493
Deferred tax asset (note 14)	416	584
Prepayments and accrued income	71	104
Total Debtors	4,490	4,599

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

13 Creditors

	2018 £000	2017 £000
Amounts falling due within one year		
Trade creditors	449	451
Amounts owed to group undertakings	1,144	107
Other creditors	563	444
Accruals and deferred income	2,027	2,838
	4,183	3,840

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

14 Deferred tax

	Deferred tax £000
At 1 April 2017	584
Debited to the profit and loss account	(143)
Debited to other comprehensive income	(25)
At 31 March 2018	416

The deferred tax asset consists of the following amounts:

	2018 £000	2017 £000
Pension	395	463
Depreciation in excess of capital allowances	112	10
Other timing differences	(91)	111
Deferred tax asset	416	584

The deferred tax balance is included within Debtors note 12.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

15 Provisions for liabilities and charges

	Insurance claims provision £000
At 1 April 2017	(219)
Additions	(254)
Released to the profit and loss account	203
At 31 March 2018	(270)

The insurance claims provision arises from estimated exposures for incidents occurring prior to 31 March 2018. It is anticipated that most of these claims will be settled within the next three years.

16 Called up share capital

	2018 £000	2017 £000
Authorised:		
1,000,000 Ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid:		
2 Ordinary shares of £1 each	-	-

17 Operating leases

Commitments for payments under operating leases fall due as follows:

	2018		2017	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Within one year	33	11	33	24
Within two to five years	81	52	114	74
Total	114	63	147	98

18 Pension schemes

Railways Pension Scheme

Defined Contribution Scheme- Tram Operations Limited Section.

The company operates a defined contribution scheme for all qualifying employees. The total expense charged during the year ended 31st March 2018 was £302,000 (2017: £248,000).

FirstGroup Pension Schemes

The company is a member of defined benefit pension schemes, which are funded. Details of the FirstGroup flexible benefit scheme are disclosed in the financial statements of FirstGroup Holdings Limited (company registration number 02029363) and is funded separately by defined contributions, which have been expensed during the year ended 31st March 2018. The scheme's assets are held and managed independently of the company's finances by independent investment managers appointed by the trustees of the scheme.

18 Pension schemes (continued)

FirstGroup Pension Schemes (continued)

The funding level of the scheme on 5 April 2017 failed to reach a pre-agreed funding level, and as such, the scheme closed to defined benefit accrual on 5 April 2018.

As from April 2018 all new and existing members have been enrolled in the defined contribution scheme SIPP.

The First UK Bus Pension Scheme

This provides pension benefits to employees in Tram Operations Limited. Historically it provided salary related benefits on a shared cost basis, but from April 2013, all new members have been enrolled in the defined contribution section.

The funding level of the scheme on 5 April 2017 failed to reach a pre-agreed funding level, and as such, the scheme closed to defined benefit accrual on 5 April 2018.

As from April 2018 all new and existing members have been enrolled in a defined contribution scheme SIPP.

As at 31 March 2018 FirstGroup is committed to make deficit recovery payments with a net present value of £207m (2017: £131m), over the period to 5 April 2029, in respect of the First UK Bus Pension Scheme. The company expensed £1,244,000 in respect of these deficit contributions in the current year.

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

	2018	2017
Discount rate	2.70%	2.80%
Expected rate of salary increases	2.05%	2.00%
Inflation – CPI	2.05%	3.10%
Rate of increase of pensions in payment	2.05%	2.00%
Rate of increase of pensions in deferment	2.05%	2.00%

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

18 Pension schemes (continued)

(a) Profit and Loss account

Amounts credited/(charged) to the Profit and loss account in respect of these defined benefit schemes are as follows:

	2018	2017
	£000	£000
Current service cost	(129)	(145)
Administrative cost	(80)	(26)
	(209)	(171)
Net interest cost comprises:		
Interest cost	(632)	(700)
Interest income on assets	564	674
	(68)	(26)

During the year £80,000 (2017: £58,000) of administrative expenses were incurred. Actuarial gains and losses have been reported in the statement of comprehensive income.

Reconciliation of the actual return on scheme assets:

Interest income on assets	564	674
Actuarial (loss) / gain on assets	(30)	2,155
Actual return on scheme assets	534	2,829

(b) Balance sheet

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

	2018	2017
	£000	£000
Fair value of scheme assets	20,487	20,310
Present value of defined benefit obligations	(22,812)	(23,030)
Deficit in the scheme	(2,325)	(2,720)
Related deferred tax liability	395	463
Net pension liability	(1,930)	(2,257)

(c) Asset allocation

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

	2018	2017
The assets in the scheme at the balance sheet date were:	£000	£000
Equities and other return seeking assets	4,856	9,404
Bonds	5,696	9,769
Property	655	1,584
Other	9,792	-
Cash	(512)	(447)
	20,487	20,310

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

18 Pension schemes (continued)

(d) Defined benefit obligations (DBO)

Movement in the present value of DBO were as follows:

	2018 £000	2017 £000
At 1 April	23,030	19,392
Current service cost	129	87
Employer administration expenses	80	58
Interest cost	632	700
Employee contributions	146	182
Experience gain / (loss) on DBO	(564)	(328)
Loss / (gain) on change of assumptions (financial)	489	4,406
Gain on change of assumptions (demographic)	(102)	-
Benefit payments	(1,028)	(1,467)
At 31 March	22,812	23,030

(e) Fair value of scheme assets

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

	2018 £000	2017 £000
At 1 April	20,310	18,322
Interest income on assets	564	674
Company contributions	525	444
Employee contributions	146	182
Actuarial (loss) / gain	(30)	2,155
Benefit payments	(1,028)	(1,467)
At 31 March	20,487	20,310

(f) Statement of comprehensive income

Amounts presented in the statement of comprehensive income comprise:

	2018 £000	2017 £000
Actuarial (loss)/ gain on DBO	177	(4,078)
Actuarial (loss)/ gain on assets	(30)	2,155
Actuarial (Gains) / losses on defined benefit schemes	147	(1,923)

19 Contingent Liabilities

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

Following the signing of the revised Operating Agreement in July 2017 there has been more clarity about certain historic liabilities held on the balance sheet. Consequently, there has been a release of provisions to the profit and loss account during the year.

20 Related party transactions

The company is taking advantage of exemption under FRS102 paragraph 33.1A not to disclose transactions with wholly-owned group companies that are related parties. Details of outstanding balances with related parties can be found in notes 12 and 13.

21 Ultimate and immediate parent company and controlling party

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

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

Copies of the accounts of FirstGroup plc can be obtained from its registered address: 395 King Street, Aberdeen AB24 5RP.