Stagecoach Group Annual Report and Financial Statements 2021

Stagecoach

Strategic and operational highlights

- Continuing delivery of our immediate priorities
  - Protecting and promoting the health and wellbeing of our colleagues and customers
  - Partnership working with government and local authorities to deliver critical public transport
  - Continuing work with government to drive, and financially support, a recovery in bus patronage
  - Protecting the long-term sustainability of our business
- Actions underway to leverage potential from new transformational government bus strategy for England
  - Significant opportunities for modal shift from car through new partnership structures, local bus service improvement plans and more bus priority measures
- New sustainability strategy and continued strong environmental performance
  - New long-term sustainability strategy finalised, with zero emissions UK bus fleet targeted by 2035
  - Key partner in UK's first All Electric Bus City in Coventry
  - London Stock Exchange Green Economy Mark and MSCI ESG "A" rating reaffirmed
  - FTSE4Good 97th (2020: 98th) percentile ranking and "low risk" rating from Sustainalytics maintained
- Further progress on delivery of business strategy
  - Protecting the business through robust cost control and planning for recovery
  - Progressing partnership opportunities and new commercial initiatives in the UK, as well as bids for overseas contracts
- Positive trends in regional bus
  - Vehicle mileage now restored to around 94% of pre-COVID-19 levels
  - Patronage and commercial revenue on improving path, underpinned by supportive government measures in England, Scotland and Wales – commercial sales now at around 68%[2] of equivalent period in 2019, compared to a pandemic low of c.12%
- Growth in London bus
  - Continuation of strong operating and financial performance
  - New contract wins

Financial highlights

- Positive profit before tax reflecting:
  - decisive action by management to respond to the COVID-19 pandemic
  - payments from governments ensuring the continuation of public transport services
- Reduction in net debt from £352.1m to £312.6m
- Net debt of 1.9 times adjusted EBITDA[1] (2020: 1.5 times), notwithstanding lower adjusted EBITDA due to the effects of the COVID-19 pandemic
- Over £875m of available liquidity[1] as at 28 June 2021

Notes
1 See definitions in note 34 to the consolidated financial statements.
2 Week ended 26 June 2021.

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Financial summary

	"Adjusted" results Results excluding separately disclosed items*		"Statutory" results	
	2021	2020	**2021**	2020
CONTINUING OPERATIONS				
Revenue (£m)	**928.2**	1,417.6	**928.2**	1,417.6
Total operating profit (£m)	**48.1**	119.7	**58.4**	87.2
Net finance costs (£m)	**(31.1)**	(28.8)	**(33.7)**	(46.6)
Profit before taxation (£m)	**17.0**	90.9	**24.7**	40.6
Earnings per share (pence)	**2.7p**	13.5p	**6.1p**	6.7p
TOTAL OPERATIONS				
Earnings per share (pence)	**2.7p**	13.5p	**6.1p**	6.4p
Full year dividend per share (pence)	**–**	3.8p	**–**	3.8p

* see definitions in note 34 to the consolidated financial statements.

Signposts

We are a public transport business, and we'd like to get you to where you want to go.

We recognise that as our annual report has grown over the years, it might have become less easy to now get to where you want. So we've provided some signposts to help you find what you're looking for.

1. Strategic report

1.1 Introduction

Stagecoach Group plc ("the Company") is the ultimate parent company of a group of companies ("the Group") principally involved in the sale and operation of passenger transport. The directors of Stagecoach Group plc ("the Directors") are pleased to present their report on the Group for the year ended 1 May 2021.

This section contains the Strategic report, which includes the information that the Group is required to produce to meet the need for a strategic report in accordance with the Companies Act 2006. Biographies of each director are contained in section 2 of this Annual Report and the Directors' report is set out in section 3.

This Strategic report is a consolidated report relating to the Group as a whole. It includes matters relating to the Company and its subsidiary undertakings.

1.2 Cautionary statement

The Strategic report has been prepared for the shareholders of the Company, as a body, and for no other persons. Its purpose is to inform shareholders of the Company and to help them assess how the Directors have performed their duty to promote the success of the Company. This Strategic report contains forward-looking statements that are subject to risk factors associated with, amongst other things, the economic, regulatory, policy and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated. No assurances can be given that the forward-looking statements in this Strategic report will be realised. The forward-looking statements reflect the knowledge and information available at the date of preparation.

1.3 Overview

Despite the challenges of the past year, we delivered positive profit before tax for the year ended 1 May 2021 and we continue to make good progress in delivering our immediate priorities as the UK emerges from the COVID-19 pandemic. Our focus is on protecting and promoting the health and wellbeing of our colleagues and customers; working in partnership with government to deliver critical public transport; and protecting the long-term sustainability of our business.

Our continuing thoughts are with all of those affected by COVID-19, particularly those we have lost in our own Stagecoach family. We remain grateful to the incredible efforts of key workers and our people in keeping the country moving. More than ever, our services are critical to our regional economies, young people returning to education, and giving communities access to the vaccination programme.

We remain confident that there is a strong and positive future for public transport as we carefully follow the roadmap out of the pandemic. Passenger volumes are growing, with demand from fare-paying passengers so far recovering more strongly than demand from concessionary passengers. We see good long-term prospects for the business and we are continuing to invest to support our long-term growth.

From March 2020, and during the year ended 1 May 2021, we took steps to address and mitigate the impact of the COVID-19 pandemic on the Group. While some of those measures are continuing, our focus is now on the recovery from COVID-19 and the long-term opportunities for the business. The steps taken included: adjustments to our bus and tram services to reflect changes in customer demand, social distancing requirements and consultation with local authorities; engaging with governments with respect to payments by them to ensure the continuation of public transport services; furloughing of employees, although most have now returned to work; freezing all but essential recruitment of staff; salary sacrifices by the Directors and other senior management; adjustments to fuel hedging to take account of changes to our services; reductions in planned capital expenditure; accessing new liquidity and securing waivers of bank covenants; other targeted cost reductions.

UK Government plans in the recently published National Bus Strategy for England, and other recent commitments by the Scottish and Welsh Governments, provide a huge opportunity to fundamentally transform travel in our communities. There is significant potential to deliver healthier and more prosperous places by moving away from towns and cities built around cars to vibrant places well-connected by easy-to-use sustainable public transport and active travel. Strong partnership working between transport operators, central government and regional government will be central to delivering on those opportunities and renewing our communities as we emerge from the pandemic.

Our environmental, social and governance credentials are already good, and we continue to strive to do even better in these areas. We have recently finalised our new sustainability strategy, which is a critical part of the roadmap for our business. It includes initiatives designed to make a difference for the people we employ, the communities we serve every day and our environment and natural resources. Our bus, coach and tram services have a critical role in tackling climate change, delivering economic recovery, and ensuring healthier and more connected communities.

Financial results

The financial results are for the 52 weeks ended 1 May 2021. To improve comparability to the 53 weeks ended 2 May 2020, we also present some prior year measures excluding the 53rd week. Revenue was £928.2m (2020: £1,417.6m) and adjusted total operating profit was £48.1m (2020: £119.7m). Revenue excludes COVID-19 grant income from government, which is reported as other operating income. The marked reduction in revenue and operating profit reflects the adverse effect of the COVID-19 situation on the performance of the regional bus operations since March 2020. Operating profit from our London bus business increased, underpinned by the contracted business model and reflecting contract wins. Unadjusted operating profit from continuing operations was £58.4m (2020: £87.2m). Adjusted earnings per share were 2.7p (2020: 13.5p). Basic, unadjusted earnings per share were 6.1p (2020: 6.4p) with the reduction principally reflecting the lower adjusted operating profit partly offset by credits related to COVID-19 that are separately disclosed items.

Dividend

Given the continuing uncertainties caused by the impact of COVID-19, we are not proposing any dividends in respect of the year ended 1 May 2021. We recognise the importance of dividends to many shareholders and, in line with previous guidance, it is our ambition to resume dividend payments in due course when supported by appropriate profit and cash flow generation, relative to our net debt and pension liabilities.

Strategic priorities

Our strategy remains focused on three objectives:

- Maximise our core business' potential in a changing market
- Manage change through our people and technology to make it simpler and better
- Grow by diversifying to balance the portfolio and open up new markets

1. **Strategic report** (continued)

The COVID-19 pandemic has accelerated several trends in society, which are changing how people work, live and travel. We are planning for a future where there is a mix of home and office working and a more diverse use of transport for individual journeys. This may reduce travel for some purposes and we expect a reconfiguration of demand within local transport networks. Prior to COVID-19, around 23% of bus journeys outside of London made by residents of England were for commuting and business. Buses are less reliant on commuters and business travel than some other modes of travel and we see an overall net positive opportunity as government policy, changing consumer attitudes, health drivers and climate change targets necessitate less use of cars and more use of sustainable public transport and active travel.

Government transport policy
We welcome the ambition in the Department for Transport's new National Bus Strategy for England, which is supported by £3 billion of investment. It includes a package of measures which will help our own extensive efforts and investment to deliver more frequent, more reliable, easier to use, better co-ordinated and better value bus services. We also welcome the Scottish Government's target of a 20% reduction in car use by 2030, with £500m investment to improve bus infrastructure and tackle road congestion. In Wales, bus operators, local authorities, Transport for Wales and the Welsh Government have signed a new agreement to deliver better bus services that meet the objective of an integrated transport system. The agreement includes an additional £37.2m of funding to continue to support the bus industry in 2021/22 and help operators to plan for the future.

Over the past 35 years, there has been a dramatic improvement in the levels of investment, service quality and passenger satisfaction as a result of private sector innovation and a focus on customer service. However, the potential of buses has remained unfulfilled due to a failure to seriously tackle car use, resulting in slower services, higher operational costs and fares, and declining passenger numbers. The Government's plan to give more priority to buses and help drive modal shift away from polluting single car trips is a positive step.

Strong partnership working between bus operators, national government and local transport authorities is fundamental to transforming the country's bus networks. We are pleased at the endorsement of partnership working in the Government's strategy. Steps to link local funding to closer joint working between bus operators and local authorities, as well as the development by transport authorities of clear Bus Service Improvement Plans and targets, will help drive growing use of buses. As we look to emerge from COVID, we also want to work closely with government on a proactive joint campaign to rebuild consumer confidence in public transport and to promote the wider green credentials of travelling by bus.

In March 2021, the Mayor of Greater Manchester announced his decision to proceed with plans for a bus franchising scheme in the region. The proposed scheme would be introduced in three phases in January 2023, January 2024 and January 2025. The majority of Stagecoach Manchester operations are in the final phase. However, in May 2021, the Mayor announced plans to seek powers and funding from the UK Government to accelerate bus franchising so that bus services in all parts of Greater Manchester are franchised by May 2024, a year earlier than previously announced. Our Manchester business earned c.£128m of annual revenue pre-COVID and an above average profit margin. We remain ready to work collaboratively with the Mayor and the Combined Authority to get through the pandemic and ensure the region has a sustainable, high quality bus network for the long-term.

Financial position
We have protected our financial position during the COVID-19 pandemic. Net debt reduced by £39.5m in the year from £352.1m to £312.6m, the net post-tax retirement benefit liabilities reflected in the consolidated balance sheet reduced by £120.9m from £334.6m to £213.7m, and we currently have over £875m of available liquidity in the form of undrawn, committed bank facilities, cash and money market balances.

We are pleased that the trustees have now concluded the 2020 triennial valuation of our main defined benefit pension scheme, having assessed the impact of recent events. The planned increase in employer contributions to the scheme is within the range we had expected. The trustees estimated the funding deficit at 30 April 2020 across the two sections of the main scheme to be £95.3m, and now expect employer contributions to the scheme to rise by £6.3m per annum, with £4.5m of this increase commencing from the start of May 2021 and the balance from May 2022.

Our people
Our employees continue to play a critical role in delivering our long-term growth strategy. Providing safe, high quality services for our customers every day drives all aspects of our business and we have a team that is truly proud to serve.

We are pleased that our most recent employee engagement survey has shown further high response rates and levels of staff satisfaction. We are continuing to invest in the training and development of our people, as well as promoting diversity and inclusion in our teams, to build on these positive results. We appreciate the understanding and support of our people as we deal with the challenges of the COVID-19 situation.

During the year, we were pleased to welcome Lynne Weedall to the Stagecoach Board as a non-executive director. She is an experienced director who has worked in a number of large organisations, bringing key expertise in business strategy, organisation design, strategic change management and employee engagement.

Outlook
We have been encouraged by the progress made on the roadmap out of COVID-19 restrictions. We have increased regional bus vehicle mileage to around 94% of pre-COVID levels and also restarted our coach networks.

It remains difficult to reliably predict the speed and extent of the recovery in the short-term, including the level of profit for the new financial year ending 30 April 2022. Nevertheless, we remain positive on the long-term outlook. The actions we have taken and the continuing support of government should ensure we continue to generate positive EBITDA and operating profit for the time being. We will look to re-build profitability closer to pre-COVID levels as the COVID-19 restrictions are eased.

Longer term, public transport can play a major role in delivering government priorities for a cleaner, greener and more resilient economy and society, tackling climate change, improving public health and delivering a permanent switch away from cars to more sustainable public transport and active travel.

1. Strategic report (continued)

Summary of financial results
Revenue, split by segment, is summarised below and excludes COVID-19 grant income from government. COVID-19 grant income is reported within other operating income:

Revenue

	2021 £m	2020 £m	Growth %	Growth excluding 53rd week %
UK Bus (regional operations)	**662.0**	1,011.9	(34.6)%	(34.0)%
UK Bus (London)	**261.7**	246.2	6.3%	8.3%
UK Rail	**4.7**	161.1		
Intra-Group revenue	**(0.2)**	(1.6)		
	928.2	1,417.6		

Operating profit, split by segment, is summarised below:

Operating profit

	2021 £m	**2021 % margin**	2020 £m	2020 % margin
UK Bus (regional operations)	**24.5**	**3.7%**	90.6	9.0%
UK Bus (London)	**18.7**	**7.1%**	16.1	6.5%
UK Rail	**10.1**		4.4	
Group overheads	**(8.7)**		(8.1)	
Restructuring costs	**(0.3)**		(0.9)	
Operating profit before joint ventures and separately disclosed items	**44.3**		102.1	
Joint ventures – share of profit/(loss) after tax				
WCT Group (formerly Virgin Rail Group)	**4.1**		15.8	
Citylink	**(0.3)**		1.8	
Total operating profit before separately disclosed items	**48.1**		119.7	
Non-software intangible asset amortisation	**(0.3)**		(0.7)	
Other separately disclosed items	**10.6**		(31.8)	
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	**58.4**		87.2	

More details on the financial results for the year are provided in section 1.6 of this Annual Report.

1.4 The Stagecoach Group

1.4.1 Overview of the Stagecoach Group and its business model

Stagecoach Group's purpose

What we do
We operate bus, coach and tram services covering locations across the UK.

Why we do it
Our purpose is to connect people – to jobs, to shops, to leisure activities, to education, to healthcare, and to each other – helping people, business and the economy to thrive. We aim to connect people in a sustainable way, which is better for the environment. To achieve that, we seek to provide safe, high quality, sustainable and reliable transport at good value for money for customers.

We support, directly and indirectly, many businesses and thousands of sustainable jobs.

How we create stakeholder value
By applying our commitment to operational and commercial excellence, we aim to provide a great experience to our customers and our people. Through our sustainable transport services, we do our bit to help the environment and wider society. We believe that in these ways, we can create long-term sustainable value for shareholders and other stakeholders.

Stagecoach Group is a leading public transport group. The Group employs around 24,000 people and operates bus, coach and tram services. The Group has three main segments – UK Bus (regional operations), UK Bus (London) and UK Rail.

We offer greener, smarter travel in the UK and our principal business is providing passenger transport services, primarily by transporting people by bus, coach or tram. Our "This is Stagecoach Group" infographic provides more information and can be found on our website at:
https://www.stagecoachgroup.com/~/media/Files/S/Stagecoach-Group/Attachments/pdf/infographic-feb-2021.pdf

This section 1.4.1 summarises the Group's business model. The remaining parts of section 1.4 are also important to an understanding of our business model and we cross-reference them where appropriate.

Stagecoach Group plc is a public limited company that is incorporated, domiciled and has its registered office in Scotland. Its ordinary shares are publicly traded and it is not under the control of any single shareholder.

Throughout this Annual Report, Stagecoach Group plc is referred to as "the Company" and the group headed by it is referred to as "Stagecoach" and/or "the Group".

Section 1.4.2 summarises our strategy and section 1.4.3 explains what we do and provides a description of each of our key business segments, markets and where appropriate, market share.

1. Strategic report (continued)

Business culture

We are committed to conducting business in a socially responsible way and we believe this to be consistent with our business objectives and strategy. Indeed, by taking a responsible approach towards the environment and the wider community, we believe we will enhance our objective to deliver organic growth.

The Group began life as a family business in 1980 and the entrepreneurism and expertise of the founding family has played a significant part in its growth. The founding family continues to play a part in the management of the Group. Although we have been publicly listed on the London Stock Exchange since 1993, we aim to maintain an entrepreneurial culture, reflecting our family heritage. That involves encouraging sensible risk taking while managing risks appropriately and responding to risks that do crystallise. It is inevitable and appropriate for a group of its size that the Group has a number of policies and procedures to ensure appropriate behaviours but these are designed to avoid stifling entrepreneurism. More information on the Group's core values and policies is provided in section 1.8 of this Annual Report.

We operate a relatively devolved management structure. That reflects our view that in operating local transport services, day-to-day decision making should be made by local managers who understand the dynamics of their particular markets. We aim to have relatively short chains of command that facilitate the effective exchange of information and enable timely decision making. Delegated authorities and other policies and procedures are in place to achieve an appropriate balance between the benefits we perceive of devolved management and the need for proportionate management of overall risk.

Sources of revenue

We have a number of revenue streams, principally arising from:
- amounts we receive from individuals or groups of individuals to travel on our transport services;
- amounts we receive from government bodies in respect of travel by individuals on our transport services – for example, in the UK, older people, people with disabilities and younger people in some parts of the country, are legally entitled to travel on our bus services at certain times free of charge but we receive revenue from government bodies in respect of that travel;
- amounts we receive from government bodies as payment to us for operating transport services under contract – for example, Transport for London pays us to run specified bus services. Any amount payable by individual passengers flows to Transport for London and our revenue would be from that authority;
- amounts we receive from corporations or others for operating transport services under contract – for example, a university might pay us to operate a bus service to shuttle students around its campus;
- subsidy we receive from government bodies to financially support the operation of transport services they consider to be socially or economically desirable;
- commissions for selling travel on other operators' transport services;
- undertaking maintenance work on other operators' vehicles;
- selling fuel to other transport operators.

We also receive other income, which may include income from:
- property rental;
- selling advertising space on vehicles and premises we operate;
- government grant income to support transport networks affected by the COVID-19 situation.

Key costs and inputs

Our main tangible fixed assets are property, buses, coaches and technology. Some of the property, buses and coaches we operate are leased.

Our people are key to providing our services. Notwithstanding developments in technology, our business remains relatively labour intensive. Over half of our consolidated operating costs are staff costs. Relationships with our people and their trade unions are important to the success of the business.

Our other major operating costs are:
- diesel and electricity to fuel or power our buses, coaches and trams;
- insurance costs and claims costs;
- materials and consumables, including replacement parts for vehicles;
- depreciation charges for the vehicles, properties and technology that we operate.

Cash conversion

For the most part, our revenues and operating costs (excluding depreciation) are converted to cash within a short timescale. Indeed, payment for travel by individuals tends to occur prior to or at the time of travel whereas costs tend to be settled in arrears. The exceptions to this are most significant in the UK Rail segment where the complex, contractual arrangements can result in greater timing differences between the recognition of items in income and the effect of those items on cash. Indeed, while all of the major rail franchises we were involved in have now expired, there remain various assets and liabilities to be settled in relation to such franchised operations.

Competitive advantages

We see our key sources of competitive advantage as being:
- Our operational excellence – providing safe, reliable, good quality, value for money, customer-focused transport services;
- Innovation – we have a long record of innovation, including being the first private company to secure a rail franchise in the UK in the 1990s and also, in disrupting the market for inter-city coach travel by introducing megabus.com in the 2000s as a low-cost, internet-only coach travel retailer;
- Our commercial expertise in designing transport networks, pricing our services and marketing our services;
- Our brands – our operational excellence and commercial expertise is reflected in our generally high customer satisfaction scores meaning that our key brands are well regarded in their respective markets;
- Our relationships – we view our relationships with employees, trade unions and government bodies, in particular, as key advantages to our business;
- The economies of scale of being a relatively large transport provider.

Value for other stakeholders

As well as the financial value we generate for our investors, lenders and people, we provide value to a wider group of stakeholders, including:
- Public transport offers environmental benefits versus wide-scale car usage and can contribute to efforts to reduce pollution and improve air quality, benefiting the public in general;
- Our services connect people to jobs, to education, to training, to healthcare, to leisure and to each other. We contribute to social inclusion and our services can be critical for people without access to a car;
- Our business generates significant tax contributions to public finances across employee, sales, corporation, property and other taxes;
- We contribute to charities as well as providing non-financial support to charities and the communities in which we operate.

1. Strategic report (continued)

Risks

We do face a number of risks. Section 1.4.5 sets out the principal risks to the achievement of our strategy and objectives.

As part of that, we comment on the effect of COVID-19 on those risks and developments in the year ended 1 May 2021 and since in relation to the principal risks. Our overall risk management approach has not changed as a result of COVID-19.

Key performance indicators

Section 1.4.6 describes how we measure and monitor progress against our objectives and strategy, and how we are performing.

Impact of COVID-19

We believe our business model remains appropriate for a post COVID-19 world. Our business model adjusted during the pandemic, with more of our income being from COVID-19 grants from government. We are engaging with government on a bridge from the current arrangements for regional bus services to commercial sustainability and a return to our pre-COVID business model. We expect our business model will continue to evolve to reflect the opportunities presented from changes in government policy and climate change, and to respond to an evolving relationship with government.

Given the short-term uncertainties presented by COVID-19, we have adjusted our risk appetite and have been more cautious on short-term investment decisions until post-COVID demand for our services is clearer.

1.4.2 What we look to achieve (business objectives and long-term strategy)

Group strategy

Our strategy remains focused on three objectives:

- Maximise our core business' potential in a changing market
- Manage change through our people and technology to make it simpler and better
- Grow by diversifying to balance the portfolio and open up new markets

Notwithstanding the significant impact the COVID-19 pandemic has had on the business, we have made progress across these areas, and section 1.5.2 provides further detail on our initiatives.

1.4.3 What we do (description and strategy of each business segment)

UK Bus (regional operations)

Description	The UK Bus (regional operations) business connects communities in more than 100 towns and cities across the UK on bus networks stretching from the Highlands of Scotland to south west England. The business operates a fleet of around 7,000 buses and coaches across a number of regional operating units. Each regional operating unit is led by a managing director. In addition to local bus services in towns and cities, Stagecoach operates inter-urban services linking major towns within its regional operating company areas. The Group also runs the budget inter-city coach service, megabus.com. In Scotland, Stagecoach has a joint venture (Scottish Citylink Coaches Limited) with international transport group, ComfortDelGro. The joint venture is responsible for the Scottish Citylink express coach network and megabus.com branded services to, from and within Scotland. Stagecoach owns 35% of the share capital of Scottish Citylink Coaches Limited and ComfortDelGro owns the remaining 65%. The joint venture is the leading retailer of scheduled, inter-city coach services in Scotland. Stagecoach is responsible for the day-to-day operational management of the business, which is overseen by a joint board.
Regulatory environment	The current structure of the bus market in Great Britain (outside London) was established by the Transport Act 1985. This is essentially a deregulated structure: any holder of a Public Service Vehicle operator's licence may operate bus services, having first registered various details with the relevant traffic commissioner. The traffic commissioners are responsible for enforcing compliance with these registered details, including standards of maintenance, reliability and punctuality. The UK Bus (regional operations) bus and coach services are operated on a commercial basis in a largely deregulated market. Most of the revenue is ordinarily from customers paying for their own travel by bus. The business also operates tendered services, including schools contracts, on behalf of local authorities. Pre-COVID, around 10% of the UK Bus (regional operations) revenue was receivable from local authorities in respect of such tendered and school services. For some services, the Group receives revenue from passengers as well as tendered revenue from a local authority. Pre-COVID, around 24% of the UK Bus (regional operations) revenue was earned from statutory concessionary fare schemes, whereby the Group is reimbursed by public authorities for carrying older people and people with disabilities, at no charge to the passenger, on the same bus services that are also available to the wider public. The Group would typically receive both revenue from passengers and also, concessionary revenue from a local authority in respect of a single bus service and in some cases, may also receive tendered revenue for the same service. Responsibility for buses in the UK is devolved. The devolved governments in Scotland and Wales have responsibility for buses in their areas. In England, outside London, the Department for Transport oversees buses but with local authorities playing an important role. The Bus Services Act 2017 provides a legislative framework to help bus operators and local authorities in England to improve local bus services. It includes several possible models for bus services: Advanced Quality Partnerships, Enhanced Partnerships and franchising. Franchising is an established model for providing bus services and is used in London and in many cities and regions across Europe. In a franchising scheme, local authorities will determine the details of the services to be provided – where they run, when they run and the standards of the services. Typically bus operators provide their services under contract to the local authority who can let whatever sort of contract it feels is appropriate. No other local bus services can operate in the franchised area without the agreement of the franchising authority. As explained in section 1.3 of this Annual Report, the Mayor of Greater Manchester has decided to proceed with plans for a bus franchising scheme in the region.

1. Strategic report (continued)

UK Bus (regional operations)

Strategy	The strategy of the UK Bus (regional operations) business is to deliver value over time driven by organic growth in revenue and passenger volumes as a result of providing safe, reliable, good quality, customer-focused bus services at a reasonable price to customers. This may be supplemented by winning new tendered or contract work and/or acquiring businesses where appropriate opportunities arise.
Market opportunity	The Group has around 26% of the UK bus market excluding London. The UK Department for Transport's National Travel Survey ("NTS") is a household survey of personal travel within Great Britain by residents of England. The NTS found that in 2019, there was an average of 953 trips per person per year. Trips by car or van accounted for 77% of distance travelled, bus trips accounted for 4%, rail trips accounted for 10% and walking, cycling and other modes accounted for 9%. There therefore remains significant market opportunity to stimulate modal shift from car to bus. According to the NTS, around 23% of bus journeys outside of London were for commuting and business, 21% for shopping, 21% for education, 20% for leisure, 15% were for personal business (e.g. visits to services such as banks, medical consultations etc.) and for other purposes.
Macroeconomic factors	Although the UK Bus (regional operations) revenue is not immune to macroeconomic changes, it is less exposed than many other types of business. In addition, the Group can adjust the pricing and frequency of the majority of its services and is therefore well placed to respond to any changes in demand for particular services. We estimate that around 70% of the costs vary with operating miles.
Competition	The UK Bus (regional operations) face competition for customers not only from other operators of buses and coaches but also from other modes of transport. The Group regards its primary competitor as the private car and aims to encourage modal shift from car to public transport. The other major groups that operate buses in the UK outside of London are three other groups publicly quoted on the London Stock Exchange (FirstGroup, National Express Group, and Go-Ahead Group) and Arriva, which is owned by Deutsche Bahn. New, potential, sources of competition are emerging, often enabled by digital developments. Newer competitors include ride-sharing websites, digitally-driven taxi services and aggregators of travel services.
Future market developments	With the continuing uncertainty of the COVID-19 situation and the UK's recovery, it remains difficult to reliably predict financial performance for the new financial year ending 30 April 2022. In the short-term, the actions we have taken and the payments from government for continuing bus services should ensure we continue to generate positive EBITDA and operating profit. Looking further ahead, we expect a lasting effect of the COVID-19 pandemic on travel patterns with an acceleration in trends of increased working from home, shopping from home, telemedicine and home education. We anticipate that it will be some time before demand for our regional bus services returns to pre-COVID levels and we are planning for a number of scenarios. We are continuing to review our cost base, to reduce overheads and plan for adjustments to direct and semi-direct costs across a range of scenarios. At the same time, we see positive drivers for the business from a renewed societal focus on health, wellbeing and the environment. Buses across the UK can play a major role in a cleaner, greener and more resilient economy and society, tackling climate change with strong government action to reduce car use. The business does continue to face risks related to regulatory changes and availability of public funding as noted in section 1.4.5. Technological developments present both opportunities and threats to growing passenger volumes. While people's reducing propensity to travel is a risk to the business, there are positive long-term conditions for further growth in demand for UK bus services created by population growth, increasing urbanisation, rising road congestion, supportive government policy and public concerns for the environment. As Britain's biggest bus and coach operator, we have clear opportunities to grow our regional bus business and contribute to thriving communities. We continue to believe that by working together, the private sector and our local authority partners can deliver the bus services our customers want.

UK Bus (London)

Description	The Group is the fourth largest operator in the London bus market, operating from 10 depots with a fleet of around 1,200 buses serving routes in and around east and south-east London.
Regulatory environment	The UK Bus (London) business operates bus services under contract to Transport for London, receiving a fixed fee (subject to adjustment for certain inflation indices) and generally taking the cost and capital risk. Bus operators bid to win contracts and each contract is typically for a five to seven year period with the potential for it to be extended by two years. The UK Bus (London) business currently has over 80 separate contracts to provide bus services on behalf of Transport for London – this spreads the risk of financial performance being adversely affected when a contract expires and the business is unsuccessful in winning the replacement contract.
Strategy	Our strategic focus in the London bus market is on maintaining good operational performance and tight control of costs while seeking to bid competitively for new contracts.
Market opportunity	The Group operates approximately 14% of the bus operating mileage contracted by Transport for London. The Group does not seek to gain market share for its own sake and remains disciplined in ensuring that its bids for new contracts offer an acceptable trade-off of risk and reward.
Macroeconomic factors	The UK Bus (London) operations are not especially exposed to short-term changes in macroeconomic conditions because the business receives a fee from Transport for London for operating services irrespective of the passenger volumes on those services. Its costs and in particular, labour costs, can vary due to macroeconomic changes and also, in the longer term, the level of services that Transport for London offers for tender might be affected by the macroeconomy.
Competition	UK Bus (London) faces competition to win Transport for London contracts from other bus operators, the largest of which are Go-Ahead Group, Arriva, Metroline, RATP, Transit Systems and Abellio.
Future market developments	The contractual nature of the London bus business means its profitability has been much less affected by the COVID-19 situation than the profitability of the regional bus business. While financial pressure on Transport for London does present risks for the business, we have not significantly changed our London bus strategy. In the short-term, revenue growth could come from inflationary price increases, retaining work on tender but at higher rates and/or winning contracts from other operators. While bus mileage reductions by Transport for London present a risk to the business, positive government policy on public transport can contribute to a positive long-term outlook for the business.

1. Strategic report (continued)

Rail

Description	The Group continues to evaluate and bid for overseas rail opportunities and is progressing with the unwinding of the affairs of its former UK franchised rail businesses. The Group's rail operations are now limited to the Sheffield Supertram operation of a 28km light rail network incorporating three routes in the city of Sheffield, on a concession running until 2024.
Strategy	In rail, we seek to grow the business by bidding for selected new franchises where the risk/return trade-off is acceptable.
Market opportunity	The market opportunity in rail arises from the potential to win new franchises in the UK or overseas.
Competition	The main competitors that bid against the Group for rail franchises are FirstGroup, Go-Ahead Group, Arriva, MTR, Keolis, RATP, Transdev, Trenitalia, SNCF, Eurostar, Serco, Abellio, East Japan Railway Company and Mitsui.
Future market developments	The Group will assess each opportunity to bid for a new rail contract on a case-by-case basis, evaluating the risk/reward profile and considering the extent to which it is commensurate with the Group's risk appetite.

1.4.4 What we need, to do what we do (resources and relationships)

Stagecoach Group has a range of resources and relationships, including contractual relationships that underpin its business and support its strategy.

These assist in giving the Group a competitive advantage in the markets in which it operates.

Customers

Our relationship with our customers is important to us. To deliver organic growth, we need to provide services that people want to use.

We conduct customer research to monitor our performance and to determine how we can improve the quality, delivery and accessibility of our services.

We are passionate about providing good customer service and our businesses have regular and ongoing discussions with bus user groups. This includes presentations from managers on aspects of our service as well as consultation and information sharing on particular issues.

An important element of the Group's success in growing its customer base lies in its record of product innovation and new ideas on developing effective public transport systems.

Employees

Human resources are key to the Group's business and the Group's relationship with its employees is therefore fundamental to achieving its objectives. We aim to recruit and retain the best employees in our sector, offering an excellent package of benefits, which allows us to deliver good customer service. The Group invests significantly in the training and development of our people and we operate a successful graduate training scheme which provides one source of training for the managers of the future. We have established strong working relationships with trade unions and work in partnership with them on a range of issues, including training and development, occupational health matters, pensions and other employee benefits. We also communicate with our people face to face and through a number of internal publications.

The financial community

Our shareholders and lenders are critical to our business success. We have a regular programme of meetings with investors and provide updates to the markets and financial community on our performance.

We have contractual arrangements with banks and other finance providers for the provision of funds and financial products to the Group.

Government and regulatory bodies

Our managers have ongoing relationships with national and local government to ensure the effective delivery of government transport policy and to assist in meeting wider objectives. We work with local authorities, including passenger transport executives, in the delivery and planning of bus and rail services. Many of our businesses have partnership agreements in place to improve the delivery of public transport in their areas. We work closely with the Department for Transport, the Scottish Government, Transport Scotland, the Welsh Government and Transport for London.

We contract with local authorities, government bodies and other parties for the supply of bus services on a contracted or tendered basis.

We have constructive dialogue with organisations such as the Campaign for Better Transport.

Suppliers

We rely on a range of suppliers to provide goods and services linked to our bus, coach and tram operations. Our businesses have contractual relationships with suppliers, including purchase contracts with fuel suppliers, vehicle suppliers, IT companies and spare part suppliers.

Information technology is increasingly important to effectively operate our services and to meet our customers' expectations. Significant investment, internal management resource and external supplier input support the development and operation of IT systems.

Corporate reputation, brand strength and market position

Stagecoach is one of the best known public transport operators in the UK and is consistently rated highly for the quality of its services in research by independent organisations. We value our reputation, both as a public transport provider and as a key part of the communities in which we operate. The Group has a strong set of brands that support our strategy of organic growth in our business and that help maintain our leading market position.

1. Strategic report (continued)

Natural resources and manufacturing technology

Operating our bus, coach and tram services requires considerable use of natural resources, including diesel and electricity. We have arrangements in place to ensure that these resources are sourced efficiently and that our supplies are maintained to ensure the smooth functioning of our business. A number of experienced manufacturers supply our buses, coaches and trams, which are produced to detailed specifications relevant to the individual markets in which they are required.

Licences

We hold various licences giving authority to operate our public transport services and these are maintained up to date as required.

Transport and industry representation groups

We are active members of industry groups, such as the Confederation of Passenger Transport UK and UKTram.

1.4.5 The challenges we face (principal risks and uncertainties)

Like most businesses, there is a range of risks and uncertainties facing the Group and the matters described below are not intended to be an exhaustive list of all possible risks and uncertainties.

Generally, the Group is subject to risk factors both internal and external to its businesses. External risks include global political and economic conditions, competitive developments, supply interruption, regulatory changes, materials and consumables (including fuel) prices, pensions funding, climate change and environmental risks, industrial action, litigation and the risk of terrorism. Internal risks include risks related to capital expenditure, acquisitions of businesses, regulatory compliance and failure of internal controls.

The Board of Directors determines the nature and extent of the principal risks that it is willing for the Group to take in achieving its strategic objectives. Information on the risk management process is provided in section 4.12 of this Annual Report. The focus below is on those specific risks and uncertainties that the Directors believe are the most significant to the Group, taking account of the likelihood of occurrence of each risk and the potential effect on the Group. Where appropriate, the principal risks and uncertainties below include emerging risks such as the risks of lasting effects from the ongoing COVID-19 situation.

The Group's principal risks and uncertainties remain consistent with the prior year.

Description of risk	Management of risk	Developments in year ended 1 May 2021 and since	Section in Annual Report
Major event such as a serious accident			
There is a risk that the Group is involved (directly or indirectly) in a major operational incident resulting in significant human injuries or damage to property. This could have a significant impact on claims against the Group, the reputation of the Group and its chances of winning and retaining contracts or franchises. In extreme cases, services could be suspended or structural changes imposed on the Group as a result of regulatory or other action. A series of less severe incidents could have similar consequences.	While it is not possible to fully eliminate these risks, the Group has a proactive culture that puts health and safety at the top of its agenda in order to mitigate the potential for major incidents. In the event that a major incident did occur, the Group has procedures in place to respond. The Group periodically rehearses its response to a hypothetical major incident. The Group has insurance arrangements in place to reduce the financial effect on the Group of certain claims against it.	• We are the first bus operator in the UK to invest in the national roll-out of new bridge alert technology across our bus fleet. This will strengthen existing measures in place to prevent bridge strikes and build on our industry-leading use of the GreenRoad driver safety and fuel efficiency system.	1.5.2.2
Economy			
The economic environment in the geographic areas in which the Group operates affects the demand for the Group's bus services. The revenue and profit of the Group could therefore be positively or negatively affected by changes in the economy. The COVID-19 situation is having a substantial, adverse effect on the UK economy, though we currently have limited visibility over its longer term economic effect, which may lead to a prolonged period of economic, consumer and political uncertainty. That may in turn affect asset values and foreign exchange rates, which have a bearing on the amounts of our pensions, financial instruments and other balances.	Management monitors actual and projected economic trends in order to match capacity to demand and where possible, minimise the impact of adverse economic trends on the Group. External forecasts of economic trends form part of the Group's assessment and management of economic risk. Further information on the relevance of macroeconomic factors to each business segment is provided in section 1.4.3.	• The ongoing effects of the COVID-19 pandemic have led to a significant reduction in economic activity, and a related fall in passenger demand for our services. The extent and the speed of the economic recovery from the pandemic remains uncertain. • Since the December 2020 trade and co-operation agreement between the UK and the European Union came into effect, the potential adverse effect of Brexit-related operational disruption has diminished, relative to the risks previously associated with a "no deal" scenario. However, UK policy following the UK leaving the European Union may affect the UK economy, including the availability and cost of staff.	1.3, 1.6.1 and 1.7

1. Strategic report (continued)

Description of risk	Management of risk	Developments in year ended 1 May 2021 and since	Section in Annual Report
Terrorism			
There have been multiple acts of terrorism on public transport systems and other terrorist attacks that, whilst not directly targeting public transport, have discouraged travel. There is a risk that the demand for the Group's services could be adversely affected by a significant terrorist incident. Such a fall in demand would have a negative effect on the Group's revenue and financial performance.	The Group has plans in place designed to reduce the operational and financial impact of a terrorist incident. It also has checks in place such as vehicle inspections to reduce the risk.	• We have undertaken additional crisis scenario planning exercises to identify areas for operational improvement, including in our response to an act of terrorism.	
Changing customer habits			
There are opportunities for the Group to shape its services and its interaction with its customers in response to changes in customer habits such as their working patterns and shopping. People travel on the Group's bus and tram services for a variety of reasons, including in some cases, to get to and from work and/or to get to and from shopping locations. Changes in people's working patterns, shopping habits and/or other preferences could affect demand for the Group's transport services, which could in turn affect the Group's financial performance and/or financial position. For example, increases in the proportion of working time that people spend at home, or in the level of shopping undertaken online, could affect demand for travel. Continued restrictions on international travel may boost the appeal of "staycations", and increase demand for our services. It is likely that COVID-19 will accelerate trends of increased home working, home shopping, telemedicine and home schooling. To the extent the effects of that on travel patterns are not offset by modal shift to bus/tram, there will be a longer term adverse effect on the Group's revenue and potentially its financial performance and/or financial position.	The Group monitors trends in revenue and passenger numbers across its businesses. In forecasting future revenue and passenger numbers, including in respect of bids for new contracts, the Group considers research and evidence on changing customer behaviour. The Group will, from time to time, vary its timetables, pricing, range of ticket types and transport networks in response to actual or anticipated changes in demand.	• We continue to adjust the timetables for certain of our UK regional bus services to adapt to changes in demand from customers. • Accurately forecasting future revenue and financial performance remains challenging, given the scale of service changes enacted in the past year in response to COVID-19 and uncertainty on the timing and extent of a recovery in demand for our services. • The recently announced National Bus Strategy for England has the potential to deliver practical improvements, through strong partnership working, to make services faster, and more attractive to passengers. • We have commenced a major investment in new Optibus software, which will help plan the bus networks of the future to match the changes in how people travel coming out of the COVID-19 pandemic. It will help deliver more efficient timetables and rosters that offer passengers both attractive frequencies and reliability.	1.3, 1.6.1 and 1.7

1. Strategic report (continued)

Description of risk	Management of risk	Developments in year ended 1 May 2021 and since	Section in Annual Report
Pension scheme funding			
The Group participates in a number of defined benefit pension schemes. There is a risk that the reported net pension asset/liability and/or the cash contributions required to these schemes increases or decreases due to changes in factors such as investment performance, the rates used to discount liabilities and life expectancies. Intervention by regulators could also affect the contributions required. Any increase in contributions will reduce the Group's cash flows. Any significant increase in pension liabilities could affect the Group's credit ratings.	Decisions on pension scheme funding, asset allocation and benefit promises are taken by management and/or pension scheme trustees in consultation with trade unions and suitably qualified advisors. The Board oversees the Group's overall pensions strategy and participates in major decisions on the funding and design of pension schemes.	• The trustees have concluded the 2020 triennial valuation of our main defined benefit pension scheme, having assessed the impact of the COVID-19 situation. The funding deficit and the increase in employer contributions to the scheme are within the range of our previous estimates. • During the year, we de-risked our exposure to Local Government Pension Schemes by agreeing an exit (at no additional cost to the Group) from one Local Government Scheme. • We have commenced work on evaluating potential asset-backed contribution structures to further develop the long-term pensions funding arrangements. • The ongoing uncertainty around COVID-19 has contributed to continued volatility in asset values and interest rates. Pension scheme net liabilities reported in our consolidated balance sheet have reduced during the year, reflecting higher discount rates and an increase in the value of investments held by the pension schemes.	1.3, 1.6.11.2
Insurance and claims environment			
The Group receives claims in respect of traffic incidents and employee claims. The Group protects itself against the cost of such claims through third party insurance policies. An element of the claims is not insured as a result of deductibles ("excess") and loss corridors on insurance policies. There is a risk that the number or magnitude of claims are not as expected and that the cost to the Group of settling these claims is significantly higher or lower than expected. There is also a risk of fines and other regulatory action in relation to incidents.	The Group has a proactive culture that puts health and safety at the top of its agenda and this helps mitigate the potential for claims arising. Where claims do arise, they are managed by dedicated insurance and claims specialists in order to minimise the cost to the Group. Where appropriate, legal advice is obtained from appropriately qualified advisors. The balance between insured and retained risks is re-evaluated at least once a year and insurance and claims activity is monitored closely.	• The Group continues to retain some of the risks associated with the US insurance and claims arrangements that were in place prior to the disposal of its US business in April 2019 through its exposure to letters of credit and guarantees being left in place in respect of current insurance policies for up to five years post-disposal. The quantum of the risk is reducing as the US business settles claims.	
Climate change			
We see public transport as a critical part of the battle against climate change. At the same time, we recognise that climate change presents a number of risks to the Group. Section 1.8.7.4.1 of this Annual Report sets out in more detail our assessment of climate change risks.	Section 1.8.7.5.2 of this Annual Report sets out how we are managing climate change risks.	• Section 1.8.7 more broadly sets out the impact of the Group's business on the environment, our environmental policy, actions we are taking to reduce our impact on the environment and the effectiveness of our environmental policies. For the first time, the disclosures in this year's report are consistent with the recommendations of the Task Force on Climate-related Financial Disclosures.	1.8.7

1. Strategic report (continued)

Description of risk	Management of risk	Developments in year ended 1 May 2021 and since	Section in Annual Report
Regulatory changes and availability of public funding			
Public transport is subject to varying degrees of regulation across the locations in which the Group operates. There is a risk that changes to the regulatory environment could impact the Group's prospects. There remains a risk that some bus services in the UK outside London become subject to franchising (whereby a government body specifies the bus services and puts them out to tender) compared to the current model where commercial bus operators are free to design and operate their own services. Similarly, many of the Group's businesses benefit from Government investment in bus and tram services, including grants, tax rebates, the provision of equipment, contracted services and concessionary travel schemes for passengers. There is a risk that the availability of government finances changes due to political, regulatory or other reasons. In the year ended 1 May 2021, the UK Bus (regional operations) earned £67.9m of Bus Service Operators Grant, essentially a rebate of fuel tax. Those operations also earned £114.0m in tender/school revenue and £243.0m in concessionary revenue from local government bodies. Also, the vast majority of the reported revenue of the UK Bus (London operations) is earned from contracts with Transport for London. The Group is receiving significant payments from government to ensure the continuation of public transport services in light of the COVID-19 situation. That includes continuing payments to some extent of concessionary revenue, tender revenue and Bus Service Operators Grant. The Group is also receiving grants under the Coronavirus Job Retention Scheme ("CJRS"), the COVID-19 Bus Services Support Grant ("CBSSG") scheme in England, the COVID-19 Support Grant ("CSG") scheme in Scotland and the Bus Emergency Scheme ("BES") in Wales. There is a risk that the extent of the payments available to the Group reduces faster than improvements in the underlying financial performance of its businesses. That could adversely affect the Group's financial performance and financial position. There is a risk that government COVID-19 related public messaging or requirements, such as in respect of face coverings and physical distancing, suppress demand for our services and/or our capacity to transport passengers. There is a risk that government policy decisions to improve air quality and/or lessen road congestion result in increased capital expenditure and/or operating costs for the Group and that such additional costs are not fully offset by increased revenue. There is also a risk that the Group suffers financial or reputational damage as a result of non-compliance with laws or regulations or as a result of the Group having a different interpretation of laws or regulations from others. In addition, in the case of tax, there is a risk the Group suffers reputational damage because of how others perceive the Group's approach to a tax matter even where the Group has complied with the applicable laws and regulations.	Management, including at a senior level, has been closely engaged with government and industry colleagues throughout the COVID-19 pandemic. Engagement has focused on ensuring the health and wellbeing of our people and customers, determining the appropriate level of services to operate, and discussing the level of payments from government for those services. In recent months, we, and other bus operators, have been working closely with the Department for Transport and devolved administrations to establish a framework to ensure bus networks successfully bridge from the current funding arrangements to long-term sustainability. Management closely monitors relevant proposals for changes in the regulatory environment and communicates the Group's views to key decision makers and bodies. The Group actively participates in trade bodies and government forums. The Group seeks to maintain good, cooperative relationships with all levels of government, by developing and promoting ideas that offer cost effective ways of improving public transport. Where regulatory changes are known or reasonably likely, the Group develops plans to seek to mitigate any adverse effects on it. The Group uses internal and/or external experts to advise it on compliance and management in specialist areas such as tax and transport law.	• The Group has received COVID-19 related payments from government for periods since mid-March 2020, and we expect these to continue until when social distancing is no longer required on buses. Based on the current roadmap for the easing of COVID-19 restrictions in England, we would expect CBSSG or a similar arrangement to now continue until late August 2021. • The COVID-19 Support Grant Restart ("CSG") payments for continuing bus services in Scotland have now been extended to cover the period to 3 October 2021. • In Wales, a new voluntary partnership arrangement, Bus Emergency Scheme 2 ("BES 2"), is expected to run from April 2021 until July 2022. Under BES 2, there is scope for bus operators to earn a modest profit under a form of "cost plus" arrangement. • In March 2021, the UK Government announced a National Bus Strategy for England with a commitment to maximise the potential of buses to help achieve the country's objectives. Access to related funding will require closer partnership working, with Local Transport Authorities ("LTAs") either entering into enhanced partnerships with operators or pursuing franchising schemes. While this additional funding has the potential to reverse the long-term decline in passenger volumes, there is a risk that franchising of bus services or new partnership working could adversely affect the revenue and profit of the Group's bus businesses in England (outside London). • The Mayor of Greater Manchester decided in March 2021 to proceed with plans for a bus franchising scheme in the region. The proposed scheme would be introduced in three phases in January 2023, January 2024 and January 2025. The majority of the Group's operations in Manchester are in the final phase. However, in May 2021, the Mayor announced plans to seek powers and funding from the UK Government to accelerate bus franchising so that bus services in all parts of Greater Manchester are franchised by May 2024, a year earlier than previously announced. As noted above for the National Bus Strategy for England, the implementation of franchising may adversely affect the revenue and profit of the Group's bus business in Manchester.	

1. Strategic report (continued)

Description of risk	Management of risk	Developments in year ended 1 May 2021 and since	Section in Annual Report
People and culture			
The is a risk that the Group is unable to attract, develop and retain an appropriately skilled, diverse and responsible workforce and leadership team, and maintain a healthy business culture which encourages and supports ethical behaviours and decision making.	As explained in section 1.8.2 of this Annual Report, we have clear, established corporate values, which are set out in our Code of Conduct. We value an open, transparent and safe working environment where our people feel able to speak up and can raise serious concerns constructively without fear of victimisation, subsequent discrimination or disadvantage. Our whistleblowing policy and guide helps employees understand their rights and responsibilities. It sets out how the Group will investigate any concerns raised and the action it may take. We have employment policies in place as described in section 1.8.4.2 of this Annual Report. Employees' roles and responsibilities are defined and we aim to reward employee contributions through fair pay and benefits. We recognise the value and benefit of having an inclusive and diverse workforce, as further explained in section 1.8.5 of this Annual Report. Training, development and succession planning arrangements are in place, which take account of the potential future skills that the business may require. The Nomination Committee considers succession planning for the Directors and senior management, as described in section 6.6 of this Annual Report. The Board monitors the Group's culture, including through the Stagecoach Colleague Forums (see section 1.8.4.5), the results of staff surveys, reports from the Risk Assurance function, reports of any employee fraud and reports from the whistleblowing process.	• During the year ended 1 May 2021, we have observed a reduction in driver turnover, which we largely attribute to the softening in the labour market associated with the COVID-19 pandemic. • Employee engagement forums, attended by non-executive directors, have taken place during the year. Topics covered at the forums include the impact of the pandemic on employees and their families and various wellbeing initiatives across the Group. • Our new sustainability strategy, recently approved by the Board, includes goals and targets around workforce diversity, training and development, internal succession, employee wellbeing and recruitment.	1.4.1, 1.8.2, 1.8.4, 1.8.5, and 6.6
Disease			
There is a risk that demand for the Group's services could be adversely affected by a significant outbreak of disease. Such a fall in demand would have a negative impact on the Group's revenue and financial performance. This was identified by the Board as a principal risk some years ago but the COVID-19 situation is a clear and substantial crystallisation of the risk. To the extent any further waves of the current pandemic materialised, that would stall the recovery in passenger demand.	The Group has plans in place to respond to any significant outbreak of disease. As a result, it was able to respond swiftly and decisively to the COVID-19 situation.	• The COVID-19 pandemic continues to have a significant adverse effect on the Group's financial performance. In spite of additional sector-specific government funding, the Group's current financial performance is nevertheless significantly below previous expectations.	1.3
Information security			
There is a risk that confidential and/or commercially sensitive information relating to and/or held by the Group is subject to unauthorised access, use, disclosure, modification, perusal, recording or destruction. There is also a risk that the Group's information and/or systems are subject to disruption, corruption or failure due to security breaches.	An Information Security Board oversees the management of information security risks, and takes appropriate advice from suitably experienced third party consultants and internal experts. Investment is made in appropriate policies, people and technology to reduce the severity and likelihood of information security risks crystallising.	• Due to the prolonged period of employees working from home, we have continued to implement additional security measures to reflect the heightened level of risk of cyber security breaches. • We have assessed our information security maturity against the NIST Cyber Security Framework, and have an ongoing programme in place to progress against a comprehensive set of security capabilities.	

1. Strategic report (continued)

Description of risk	Management of risk	Developments in year ended 1 May 2021 and since	Section in Annual Report
Information technology			
The Group is reliant on information technology for sales, operations and back office functions. Information technology failures or interruptions could adversely affect the Group. An increasing proportion of the Group's sales are made digitally. There is a risk that the Group's capability to make sales digitally either fails or cannot meet levels of demand and the time taken to implement restorative actions is unacceptably long due to insufficient resource being available and/or over reliance on a small number of service providers. This risk could result in significant levels of lost revenue.	The Group is continually investing in its information technology systems, people and suppliers to ensure the robustness of its information technology. It is developing new digital platforms and continues to look to ensure that it secures reliable service provision.	• We continue to make targeted investment in fleet and technology enhancements to improve the efficiency and reliability of our systems.	1.5.2.2
Competition			
Loss of business to existing competitors or new entrants to the markets in which we operate could have a significant impact on our business. We face competition for customers not only from other operators of trams, coaches and buses but also from other modes of transport. The Group regards its primary competitor as the private car and aims to encourage modal shift from car to public transport. Developments in new technology and/or new business models could affect the competitive environment in which the Group operates. Technological developments could enable new competitors and/or business models to be developed that disrupt or compete with the Group's business. Section 1.4.3 of this Annual Report includes comments on competition in the context of each of the Group's key segments.	We monitor competitive developments in each of our markets and respond as appropriate. That includes monitoring developments in technology and business models that could affect the competitive landscape. We work with local authorities, including passenger transport executives and regional transport committees, in the delivery and planning of bus and tram services.	• Private car usage has recovered more quickly than public transport as the country has emerged from various lockdown measures over the past year. We believe this is partly attributable to the messaging during the pandemic to discourage use of public transport. The recently published National Bus Strategy for England offers an opportunity to stimulate modal shift from car to public transport over time.	

Details of the Group's treasury risks are discussed in note 25 to the consolidated financial statements, and include the risk to operating costs arising from movements in fuel prices.

1. Strategic report (continued)

1.4.6 How we measure our performance (key performance indicators)

The Group uses a wide range of key performance indicators ("KPIs") across its various businesses and at a Group level to measure the Group's progress in achieving its objectives. The most important of these KPIs at a Group level focus on five key areas:

- Profitability
- Organic growth
- Safety
- Service delivery
- Carbon saved by modal shift

KPI 1 – profitability

The overall strategy of the Group is intended to promote the success of the Group and create long-term value to shareholders. In the shorter term, we measure progress towards this overall aspiration by monitoring growth in adjusted earnings per share.

KPI 2 – organic growth

To create long-term value, we aim to deliver organic growth in revenue. We measure progress on this by segment, looking at like-for-like growth in passenger volumes and/or revenue as we consider most appropriate for the particular business.

KPIs 3 and 4 – safety and service delivery

To deliver organic growth in revenue, we aim to provide safe and reliable transport services that people want to use. We measure safety and service delivery using a range of measures appropriate for each business.

Further details on how we calculate these key performance indicators, our targets and our recent performance is summarised below.

KPI 5 – Carbon saved by modal shift

The Board uses a number of metrics in respect of climate change matters. We view carbon saved by modal shift as a key metric because it captures not only the direct emissions from our operations, but also the emissions saved from replacing car journeys with public transport. Details of the metrics we use to manage relevant climate-related risks and opportunities are set out in section 1.8.7.6 of this Annual Report.

Profitability

Adjusted earnings per share is earnings per share before separately disclosed items ("Adjusted EPS"). Adjusted EPS is calculated based on the profit attributable to equity shareholders (adjusted to exclude separately disclosed items) divided by the weighted average number of ordinary shares ranking for dividend during the relevant period.

Adjusted EPS was as follows:

		Year ended		
	Target	**1 May 2021 pence**	2 May 2020 pence	27 April 2019 pence
Adjusted EPS	To increase in excess of the UK Consumer Prices Index	**2.7p**	13.5p	22.1p

Sections 1.3 and 1.6 of this Annual Report include comments on the development of the Group's profitability.

Organic growth

The following measures of organic growth are monitored:

- UK Bus (regional operations) – growth in passenger journeys measured as the percentage increase in the number of passenger journeys relative to the equivalent period in the previous year.
- UK Bus (London) – growth in revenue measured as the percentage increase in revenue relative to the equivalent period in the previous year.
- UK Rail – growth in passenger miles measured as the percentage increase in the number of miles travelled by passengers relative to the equivalent period in the previous year.

The measures vary by business reflecting differences in the underlying businesses – for example, almost all of the revenue in UK Bus (London) is not determined on a "per passenger" basis.

Throughout this Annual Report, references to passenger volume growth for UK Bus or UK Rail businesses mean growth determined on the basis set out here. Certain of these growth KPIs involve a degree of estimation in respect of passenger volumes. All of the organic growth KPIs are normalised to exclude businesses that have not been held by the Group for the whole of the relevant year and the preceding year. The growth figures are also normalised for differences in the number of days in each year.

	Target	**Year ended 1 May 2021 Growth %**	Year ended 2 May 2020 Growth %	Year ended 27 April 2019 Growth %
UK Bus (regional operations) passenger journeys		**(58.0)%**	(10.0)%	–
UK Bus (London) revenue	Positive growth each year	**8.3%**	(4.4)%	0.4%
UK Rail passenger miles				
– East Midlands Trains		**n/a**	n/a	(1.6)%
– WCT Group (formerly Virgin Rail Group) – West Coast Trains		**n/a**	n/a	1.6%

The fall in UK Bus (regional operations) passenger journeys in the years ended 1 May 2021 and 2 May 2020 principally reflects the effect of the COVID-19 situation on customer demand from mid-March 2020. The stabilisation in passenger journeys in the year ended 27 April 2019 reflects the good performance during the year, particularly since vehicle miles operated for the year were 0.4% lower than in the prior year.

1. Strategic report (continued)

The significant increase in UK Bus (London) revenue in the year ended 1 May 2021 reflects the commencement of new contracts won in the previous year, and operating a full service from the early part of the year, having made temporary reductions in collaboration with Transport for London at the outset of the pandemic. The fall in revenue in the year ended 2 May 2020 reflects the effects of contracts lost when tendered the previous year and the cost savings passed to Transport for London from COVID-related service reductions. The modest increase in revenue in the year ended 27 April 2019 reflects the impact of contracts won in the prior year, partially offset by tenders lost in the first half of the year.

The reduction in passenger miles at East Midlands Trains in the year ended 27 April 2019 is due to the effects of both the reduced services to accommodate changes to the Thameslink network effective May 2018 and the resignalling programme at Derby railway station during the year.

Safety

Safety is monitored in various ways, including through a range of KPIs. Businesses acquired or disposed of in the year are excluded from the safety KPIs. Four of the more important safety KPIs are reported below:

	Target	**Year ended 1 May 2021**	Year ended 2 May 2020	Year ended 27 April 2019
UK Bus (regional operations) – number of blameworthy accidents per 1 million miles travelled	To decrease each year – ultimate target is zero	**16.7**	23.3	19.8
UK Bus (London) – number of blameworthy accidents per 1 million miles travelled		**34.1**	41.8	47.2
East Midlands Trains – workforce lost time injuries per 1,000 staff		**n/a**	n/a	0.7
WCT Group (formerly Virgin Rail Group) – West Coast – workforce lost time injuries per 1,000 staff		**n/a**	n/a	1.0

We believe the marked reduction in blameworthy accidents across both our UK Bus (regional operations) and UK Bus (London) businesses in the year ended 1 May 2021 principally reflects the impact of COVID-19, due to a decrease in private road vehicle usage, reflecting government restrictions around non-essential travel.

We believe the increase in blameworthy accidents across our UK Bus (regional operations) in the year ended 2 May 2020 partly reflects improved reporting of minor vehicle damage incidents which did not cause personal injury. These include contact with overhanging trees and minor incidents involving vehicle wing mirrors. Autumn 2019 also saw an increase in other operating incidents which corresponds to a period of poor weather and challenging operating conditions for some of our regional bus businesses.

Service delivery

Our measures of service delivery include:
- UK Bus (regional operations) and UK Bus (London) – reliability measured as the percentage of planned miles to be operated that were operated.
- UK Rail – punctuality measured on the basis of the Department for Transport's Public Performance Measure (moving annual average) being the percentage of trains that arrive at their final destination within 5 minutes (or 10 minutes for inter-city services) of their scheduled arrival time having called at all scheduled stations.

Service delivery KPIs are not reported for businesses acquired or disposed of in the year.

The service delivery KPIs were as follows:

	Target	**Year ended 1 May 2021 %**	Year ended 2 May 2020 %	Year ended 27 April 2019 %
UK Bus (regional operations) reliability	**>99.0%**	**99.7%**	99.4%	99.4%
UK Bus (London) reliability	**>99.0%**	**99.2%**	98.8%	98.4%
UK Rail punctuality				
– East Midlands Trains	**>85.0%**	**n/a**	n/a	89.6%
– WCT Group (formerly Virgin Rail Group) – West Coast Trains	**>85.0%**	**n/a**	n/a	84.1%

The improved operational liability in the year ended 1 May 2021 reflects the reduced disruption to bus services due to less traffic congestion during the COVID-19 pandemic and increased vehicle availability whilst lower levels of vehicle mileage were being operated.

The deterioration in punctuality during the year ended 27 April 2019 at East Midlands Trains from 91.6% to 89.6% reflects the continued poor operational performance of Network Rail across the network.

1.5 Strategic and operating review

1.5.1 Strategic background and market environment

Our transport services are key to delivering a green economic recovery, tackling climate change, levelling up our regions, and ensuring connected and cohesive communities.

We have made further progress during 2020/21 in the delivery of our business strategy and objectives. Our immediate focus has been on the health and wellbeing of our colleagues and customers; working with central and regional government to deliver critical public transport services; and protecting the business for the future.

1. **Strategic report** (continued)

While COVID-19 has affected the timeline of some elements of our strategy, we are continuing to explore opportunities to grow and diversify. This includes new commercial products, exploring potential partnerships and maximising the value of our significant estate. We are also progressing new opportunities overseas. While we have yet to succeed in winning new work from any of our recent overseas bids, our bidding continues and we are pleased to be shortlisted for contracts in Scandinavia and Dubai.

We welcome the renewed focus on the importance of bus services by the UK Government and devolved administrations in Scotland and Wales. We are engaging with the Department for Transport around the implementation of its plans as part of the National Bus Strategy for England, as well as working with local government partners to shape flexible and effective Enhanced Partnerships.

1.5.2 Strategic objectives and initiatives

Notwithstanding the unprecedented environment caused by the COVID-19 pandemic, we see significant long-term opportunities in our key markets. Our strategic objectives and initiatives remain focused on the business action we believe will best realise these opportunities.

1.5.2.1 Maximise our core business potential in a changing market

UK Bus (regional operations)
Our UK Bus (regional operations) business continues to deliver critical links in communities across the UK, supporting the economic health of towns and cities. We see a positive long-term outlook for our regional bus business, with supportive government policy, including the new National Bus Strategy for England.

Safety remains our absolute priority as we look to welcome back our customers. All our bus, tram and coach services have been accredited with Visit Britain's "We're Good to Go" official mark, recognising the work carried out to meet government and industry COVID-19 guidelines. Comprehensive hygiene measures are in place to help customers feel safe and confident. These include mandatory facemasks, contactless payment, additional regular cleaning, ventilation, anti-virus air filters, as well as our Busy Bus app feature to help customers travel at quieter times.

We are also continuing to focus on delivering high quality services for customers and are proud that during the year our Stagecoach East Scotland business won Scotland's Public Transport Operator of the Year award for the second year running.

As towns and cities across the UK develop initiatives to re-define their high streets and put in place new destination marketing strategies to attract visitors post the COVID-19 pandemic, we believe there is a clear role for our transport services to connect people with these opportunities. We are working closely with local authorities and other partners seeking to access new recovery funding streams, particularly in England, to boost town and city centres.

During the 2020/21 financial year, we launched a new customer rewards scheme with special offers right across the UK in the leisure sector, including visitor attractions, places to eat out and hotels. Stagecoach Rewards provides exclusive discounts to our bus customers and will help support those local businesses in the communities we serve.

Demand for our regional bus services has continued to follow the changing pattern of COVID-19 restrictions across the UK. We are currently operating regional bus vehicle mileage at around 94% of the level operated around this time in 2019. We saw commercial sales recover to around 60% of 2019 levels in autumn 2020. Sales then dropped from December 2020 as COVID-19 related restrictions were tightened across the UK, with lockdown restrictions applying in most areas. As COVID-19 restrictions have eased, our commercial sales have begun to recover and are now (seven days ended 26 June 2021) at around 68% of the equivalent period in 2019. We are confident of further recovery in commercial sales as restrictions continue to be eased and people regain confidence in travel and in using public transport.

As previously reported, the respective governments in England, Scotland and Wales, and our local authority partners, have put in place measures to protect the continuity of local bus services. The Department for Transport has indicated that COVID-19 Bus Services Support Grant Restart ("CBSSG") for local bus services in England, excluding London, will continue to cover the period until when social distancing is no longer required on buses. Based on the current roadmap for the easing of COVID-19 restrictions in England, we would expect CBSSG or a similar arrangement to now continue until late August 2021. The Department has confirmed that it remains the case that it will give eight weeks' notice of CBSSG coming to an end.

We, and other bus operators, continue to work closely with the Department to establish a framework to ensure bus networks successfully bridge from the current CBSSG arrangements to long-term commercial sustainability. We welcome the recent publication of a National Bus Strategy for England, and in particular the Government's commitment to grow bus patronage and maximise the potential of buses. The governments across the UK have demonstrated during the COVID-19 pandemic the importance they place on continuing bus services, and the new National Bus Strategy for England and similar ambitions in Scotland and Wales, underline their longer term ambitions to grow bus usage and make bus services better. Pursuant to the National Bus Strategy, each local authority in England, excluding London, has been invited to confirm by 30 June 2021 whether it intends to pursue bus franchising, an Enhanced Partnership for local bus services, or neither. Two or more local authorities may work together on franchising or an Enhanced Partnership. Greater Manchester has already confirmed its intention to progress with bus franchising, whereas we currently expect most other local authorities to pursue Enhanced Partnerships.

Franchising is an established model for providing bus services and is used in London and in many cities and regions across Europe. In a franchising scheme, local authorities will determine the details of the services to be provided – where they run, when they run and the standards of the services. Typically bus operators provide their services under contract to the local authority who can let whatever sort of contract it feels is appropriate. No other local bus services can operate in the franchised area without the agreement of the franchising authority. An Enhanced Partnership is a statutory arrangement under the Bus Services Act 2017. The legislation does not prescribe the detailed contents of an Enhanced Partnership agreement, and that requires negotiation between a local authority and bus operators in the area to agree on the scope of the partnership.

An Enhanced Partnership might, for example, specify requirements in respect of timetables and multi-operator ticketing. The main difference between an Enhanced Partnership and franchising is that bus operators have a much greater role in developing an Enhanced Partnership, working with the local authority to develop and deliver improvements for passengers and having a real say on how bus services should be improved. Enhanced Partnerships also offer significantly more flexibility than franchising. We are mindful that franchising and/or Enhanced Partnerships could adversely affect the Group's revenue, costs and profitability as our relationship with government evolves but, on balance, we see Enhanced Partnerships as an opportunity for the Group to grow our business with strong commitments and new funding from government.

We also welcome the Scottish Government's target of a 20% reduction in car use by 2030, with £500m investment to improve bus infrastructure and tackle road congestion. The COVID-19 Support Grant Restart ("CSG") payments for continuing bus services in Scotland have now been extended to cover the period to 3 October 2021. We continue to work with other operators and Transport Scotland on the development of a mechanism to see bus services successfully transition from the current framework to that of long-term commercial sustainability.

1. Strategic report (continued)

Our bus business in Wales represents around 3% to 4% of our overall regional bus business. In Wales, a new voluntary partnership arrangement, Bus Emergency Scheme 2 ("BES 2"), is expected to run from April 2021 until July 2022. Under BES 2, there is scope for bus operators to earn a modest profit under a form of "cost plus" arrangement. A bus operator can opt out of the BES 2 scheme if it feels ready to return to the more usual form of commercial operation.

We are pleased that since late March 2021, we have restarted some of our inter-city coach services. Our megabus brand is now operating around 58% of pre-COVID service levels connecting key towns and cities across the UK. Services continued to run in Scotland throughout the year for essential journeys, and additional cross-border services have also been introduced. A further ramp up of services is planned for the summer period and we are encouraged by current forward-booking levels. We have also re-introduced Oxford Tube services seven days a week. The entire Oxford Tube coach fleet has been replaced following a £13m investment.

During the year, we have continued to work to reduce costs in light of the effects of the pandemic on the business, and to ensure the business is efficient and agile when emerging from this period. We have implemented around £17m of annualised cost savings to date across the Group's entire operations.

London bus operations
We are pleased with the continued strong operational and financial performance of our London business. We are operating at normal levels with full service restored, and continue to work collaboratively with Transport for London in response to the COVID-19 situation. During the 2020/21 year, new contract wins have come on stream and we have introduced 47 new electric buses in London as part of Transport for London's 2030 zero emissions strategy. In September 2021, we will commence two new routes with a fleet of 34 vehicles, of which 25 will be electric.

1.5.2.2 Manage change through our people and technology to make it simpler and better

Enhanced safety systems
We announced earlier this year that we will become the first bus operator in the country to invest in the national roll-out of new bridge alert technology across our fleet. The £4m project will strengthen existing measures in place to prevent bridge strikes and build on Stagecoach's industry-leading use of the GreenRoad driver safety and fuel efficiency system. The intelligent GreenRoad system will use GPS vehicle location data and mapping services to alert the driver to nearby low bridges, allowing a safe route that avoids the bridge. The technology will be installed on Stagecoach buses across the country by the end of summer 2021.

People initiatives
At this challenging time, we are focusing our People team resources on our welfare and wellbeing support for our employees, including progressing our employee engagement and recognition programmes. We are also continuing to deliver our industry-leading driver and engineering apprenticeship programmes, with around 800 apprentices currently in place in the business, as well as planning for the future with further steps to ensure we are an even more agile and customer-focused business.

Green fleet development
We have a shared ambition with government and other bus operators to transition to zero emission buses. We are targeting our bus fleet in the UK to be 100% zero emissions by 2035. This means we are well placed as the UK Government consults on setting a deadline for when the sale of new diesel buses will end. We support a 2030 date for ending the sale of new diesel buses, with some Ultra Low Emission Vehicle ("ULEV") buses being available after that date where zero emission alternatives are not available. This would ensure alignment with the end of sale for new petrol/diesel cars and vans in the UK.

The current capital cost of new zero emission vehicles is significantly greater than the equivalent diesel vehicles. An electric bus is broadly twice the cost of the comparative diesel vehicle, while a hydrogen bus is even more expensive. Furthermore, investment in new infrastructure is often required to enable the introduction of zero emission vehicles. While that presents some challenges and risks, there are a number of offsetting factors. Reflecting the ambition of governments in the UK to grow bus journeys, reduce car journeys and lower emissions, financial support has been available from governments towards the cost of zero emission buses. While there is no certainty of the extent to which such support will continue, the UK governments continue to consider how best to incentivise the transition to zero emission vehicles. In addition, the cost of new electric cars can also exceed their diesel equivalents and so the competitive position of bus versus car might be less affected – indeed, the bus can offer a convenient, cost-effective alternative to electric cars for some individuals and journeys. We are continuing to work with governments, vehicle manufacturers, funders and other industry partners on our goal of a 100% zero emission bus fleet in the UK by 2035.

We are delighted to be part of the plans for Coventry to become the UK's first All Electric Bus City. Under the ground-breaking project, every bus in Coventry will be electric powered by 2025, leading to improved air quality, reduced greenhouse gas emissions and lower running costs. The Department for Transport is providing £50m in funding to West Midlands Combined Authority to help deliver the project.

Our fleet of 32 electric double-decker buses in Greater Manchester, one of the biggest investments of its kind in Europe, has already delivered over 700,000 carbon free miles after a successful first year in service.

In March, we announced plans for a further 46 new fully electric buses, representing an investment of £21.4m across Scotland. The Scottish Government is providing £9m of the funding towards the new buses under the Scottish Ultra-Low Emission Bus Scheme ("SULEBS"), which will also support related infrastructure investment. Our net investment will be around £12m. In September 2020, the Scottish Government awarded £1.2m to the Group to help deliver more than 60 cleaner buses in local communities in East Scotland. The funding from the Bus Emissions Abatement Retrofit programme will help us retrofit 63 buses and bring them up to the latest clean Euro VI standard. We are also continuing to engage with Transport Scotland and the relevant local authorities around the introduction of Low Emission Zones between February 2022 and May 2022 to improve air quality in Glasgow, Edinburgh, Dundee and Aberdeen.

Simpler ticketing and better value fares
For many years, we have led the bus sector in delivering value travel and independent research has found that we have consistently offered the lowest weekly bus travel of any major bus operator in the UK. However, we believe it is important to make ticketing simpler and more integrated, ensuring it provides customers with easy access to the flexible travel they need and providing them with confidence that they are securing the best value fares regardless of the journeys they make.

We are working independently and with our sector partners to widen the availability of multi-operator ticketing, building on our successful investment and roll-out of Britain's biggest bus contactless payment technology.

We have taken further steps during the year to simplify our own tickets and fares, with improvements introduced in Scotland in March 2021. These included simpler and more consistent fares and our new Flexi 5 ticket, available via our Stagecoach app, which offers five day tickets for the price of four to help meet the changes we are seeing in travel patterns. There are plans for similar enhancements in other parts of the UK later this year as we assess the impact of the new customer offer and more flexible tickets.

Network planning

We are investing in new bus network planning technology. The Optibus software platform, which is used in more than 450 cities around the world, is being rolled out across our operating companies. It uses a combination of state-of-the-art artificial intelligence, advanced algorithms and cloud computing to deliver smarter timetables and networks and keep up with the continually evolving demand for travel. The system will help deliver the most efficient timetables and rosters that offer customers both attractive frequencies and reliability. It will also reduce carbon emissions, as buses can be planned more effectively, and support the roll-out of electric vehicles by ensuring factors such as charging locations and charging times are included in schedule planning.

1.5.2.3 Grow by diversifying to balance the portfolio and open up new markets

We are continuing to seek out new opportunities to diversify and grow the business. During the year, we launched our Stagecoach Solutions one-stop-shop to help businesses, the education sector and event organisers. Stagecoach Solutions offers a range of tailored transport solutions. The new product offer, which builds on our core bus services, is designed to respond to the "new normal" and meet the need for flexible mobility services. Stagecoach Solutions offers tailored shuttle buses, education bus services, on demand services and simplified corporate travel. It also includes our long established rail replacement business and offers travel support for major events and festivals.

Aberdeen City Council and the University of Kent are among the first organisations to sign up to our newly developed, digital and direct corporate sales platform through a bespoke corporate app. We are looking to focus on business parks and major employers in rapidly growing cities with constrained parking, particularly those with a growing emphasis on demonstrating they are responsible employers. There is also an opportunity to deliver ready-made solutions in areas that may be investigating the introduction of workplace charging levies. We are pleased to have agreed a significant ticketing initiative with NHS Scotland, which employs around 140,000 people at several hundred sites.

The UK Government's new National Bus Strategy envisages increasing use of on demand services. We already operate the Tees Flex on-demand bus service on behalf of Tees Valley Combined Authority. The three-year pilot was launched in February 2020, and during its first year, it has helped local people in more isolated communities make around 45,000 journeys. Tees Flex has also helped North Tees and Hartlepool NHS Foundation Trust to get vulnerable patients to and from hospital during the coronavirus pandemic free of charge. More widely, we have also been working closely with the NHS, the UK's biggest employer, to operate on-demand employee shuttles connecting several hospital sites in England.

We are examining domestic contract opportunities, including those linked to major events where we have expertise and a successful track record. In addition, we are exploring potential partnerships and initiatives to maximise the value of our significant estate, including the potential for our extensive depot footprint across the UK as part of logistics networks.

As part of our diversification strategy, we are progressing targeted, value-adding opportunities in overseas markets where we see relatively low political/regulatory risk, contracts that offer an appropriate risk-reward balance, and geographies with positive demographics and economic outlook. We are continuing to examine potential bus, metro, rail and light rail opportunities in the Scandinavian market. Separately, we are also actively exploring potential bus and long distance coach contracts in the United Arab Emirates and we are expecting to submit a bid for significant bus contracts in Dubai in July 2021.

1.6 Financial review

1.6.1 UK Bus (regional operations)

Summary

- Modest operating profit with revenue and journey numbers adversely affected by COVID-19
- Strengthened relationship with government, through partnership working in response to COVID-19
- Payments from government and local authority partners for essential services
- Engagement with government on supporting the recovery and returning to commercial sustainability
- Positive long-term drivers for the business

Financial performance

The financial performance of the UK Bus (regional operations) for the year ended 1 May 2021 is summarised below:

	2021 £m	2020 £m	Change
Revenue	**662.0**	1,011.9	(34.6)%
Like-for-like* revenue	**661.5**	1,002.6	(34.0)%
Operating profit*	**24.5**	90.6	(73.0)%
Operating margin*	**3.7%**	9.0%	(530)bp

* see definitions in note 34 to the consolidated financial statements

Our UK Bus (regional operations) business has been significantly affected by the substantial fall in passenger demand for public transport in response to the COVID-19 pandemic. Nevertheless, the business reported an operating profit for the year ended 1 May 2021, with government payments for essential local bus services designed to ensure those services operate at a break-even level. The payments from government, which cover the majority of our regional bus operations, include amounts in respect of an allocation of finance costs and overheads. The positive regional bus operating profit should therefore be considered in conjunction with Group overheads and net finance costs, which are separately included in the consolidated income statement.

The scale of like-for-like revenue decline has fluctuated over the course of the year, with passenger demand following the changing pattern of COVID-19 restrictions across the UK. Passenger journey numbers are recovering, with journeys by fare-paying passengers currently recovering faster than concessionary journeys. Commercial sales are currently (seven days ended 26 June 2021) at around 68% of the equivalent period in 2019, compared to a pandemic low of 12%. We are currently operating vehicle mileage at around 94% of 2019 levels. We remain confident that as COVID-19 restrictions are eased, in particular social distancing, our sales will grow.

1. Strategic report (continued)

Like-for-like vehicle miles operated in the year were 15.8% lower than the previous year. Like-for-like revenue per vehicle mile reduced 21.7% and like-for-like revenue per journey increased 57.1%. The reduction in revenue per mile reflects that the COVID-related fall in year-on-year revenue exceeds the year-on-year reduction in vehicle mileage, with government grant payments for continuing bus services. Revenue per mile can be thought of as the sum of (a) operating profit per mile and (b) operating costs and other operating income per mile. COVID-related grant income is not included within revenue. It is reported within operating income, which has resulted in lower operating costs and other operating income per mile than in the prior year. Operating profit per mile is also lower as the government payments for bus services are designed to deliver a break-even position on the relevant services. The significant increase in revenue per journey is largely attributable to the continuation of concessionary revenue payments at close to pre-COVID revenue rates despite the suppressed concessionary journey numbers throughout the year.

Like-for-like revenue was built up as follows:

	2021 £m	2020 £m	Change
Commercial on and off bus revenue			
– megabus.com	**3.9**	26.4	(85.2)%
– other	**264.0**	583.5	(54.8)%
Concessionary revenue	**243.0**	251.8	(3.5)%
Commercial & concessionary revenue	**510.9**	861.7	(40.7)%
Tendered and school revenue	**113.8**	102.6	10.9%
Contract and other revenue	**36.8**	38.3	(3.9)%
Like-for-like revenue	**661.5**	1,002.6	(34.0)%

Commercial revenue was significantly impacted by a fall in customer demand in response to COVID-19. At the start of the year, commercial sales across our companies were at around 15% of prior year levels. Over the course of the year, passenger demand has moved in line with the COVID-related restrictions in place. As restrictions were relaxed over the course of the last two months of the year, we have seen a gradual increase in demand.

The substantial fall year-on-year in megabus revenue partly reflects our decision to suspend megabus services in England and Wales for much of the past year. The Department for Transport COVID-related payments for bus services do not cover inter-city coach operations. We resumed some services from March 2021 to help reconnect people across the UK.

The decline in revenue receivable from public authorities in respect of concessionary revenue has been more modest, with that revenue generally continuing at closer to pre-COVID levels despite reductions in vehicle mileage and patronage.

The increase in tendered and school revenue includes the effect of a wider trend of smaller operators exiting the market, resulting in further market consolidation, and demand from local authorities to provide additional school services to support social distancing.

The reduction in contract and other revenue is partly attributable to reduced rail replacement work on the East Midlands railway and Sheffield Supertram networks. We have continued to operate some profitable contract services for private sector organisations and those are excluded from the government COVID-19 regimes for local bus services.

Outlook

With the continuing uncertainty of the COVID-19 situation and the UK's recovery, it remains difficult to accurately forecast the precise timing and extent of how our profitability will recover. We anticipate that it will take some time for demand for our regional bus services to return to pre-COVID levels, with the timing of easing of government restrictions impacting on the speed of that recovery. We are therefore planning for a number of scenarios, and are continuing to review our cost base across a range of scenarios. With the various government support arrangements in place, we expect to continue to generate positive EBITDA and operating profit for the time being.

We continue to engage with government on a bridge from the current funding arrangements to commercial sustainability, supporting recovery, while avoiding substantial reductions in overall bus services.

The cost per vehicle mile of our regional bus operations is now a little higher than it was pre-COVID, notwithstanding the management action taken to reduce non-mileage related costs. The increased cost per vehicle mile reflects the costs of enhanced cleaning, lower driver turnover meaning that average pay costs have increased as the average driver is more experienced, modest inflation in wage rates over the last 16 months, and other cost inflation. Accordingly, were we to operate the same services we operated pre-COVID, then in order to achieve pre-COVID profitability, we would need to achieve a little more than 100% of pre-COVID revenue in the absence of additional grant income. In practice, we expect the position to be more nuanced than that. We will shape our local services to respond to emerging local demand in consultation with government. Otherwise less profitable or loss-making services may see vehicle mileage reduced, or additional support from government to maintain or grow mileage. The new National Bus Strategy in England, and similar ambitions in Scotland and Wales, present strong opportunities to match and then exceed pre-COVID revenue. That, together with the flexibility of our networks and operating costs, means we remain optimistic in returning to a reasonable operating profit but we do recognise that the extent of demand post-COVID and the effects of new government policy remain uncertain.

We continue to see good long-term prospects for the business, with the UK Government's recently announced National Bus Strategy for England demonstrating a commitment to increase bus patronage with significant funding to support that. Strong partnership working between bus operators, national government and local transport authorities is fundamental to transforming the country's bus networks, making services faster and more affordable, and reducing unnecessary car journeys.

1.6.2 UK Bus (London)

Summary

- Continuation of strong operational and financial performance
- Collaborative approach with Transport for London to adjust services in response to COVID-19
- New contract wins

Financial performance

The financial performance of UK Bus (London) for the year ended 1 May 2021 is summarised below:

	2021 £m	2020 £m	Change
Revenue	**261.7**	246.2	6.3%
Like-for-like revenue	**261.7**	241.7	8.3%
Operating profit	**18.7**	16.1	16.1%
Operating margin	**7.1%**	6.5%	60bp

We are pleased with the continued strong operational and financial performance of our London business. As anticipated, operating profit has increased relative to the prior year, reflecting the new contracts that we secured in 2019/20.

The increase in revenue reflects those new contracts, partly offset by the reductions in vehicle mileage we agreed with Transport for London in response to the COVID-19 situation at the start of the year. We agreed with Transport for London that the contract payments we receive from it would be reduced by the amount of savings in variable costs achieved because of operating less mileage.

The movement in operating margin was built up as follows:

Operating margin 2019/20	**6.5%**
Change in:	
Staff costs	**(2.8)%**
Government grant income	**1.5%**
Fuel costs	**1.0%**
Insurance and claims costs	**1.1%**
Quality Incentive Contract Income	**0.3%**
Other	**(0.5)%**
Operating margin 2020/21	**7.1%**

The main changes in the operating margin shown above are:

- Staff costs have increased reflecting the impact of protecting the wellbeing of more vulnerable employees and related staff absences. Most of these higher costs have been mitigated through grant income recognised under the Coronavirus Job Retention Scheme for employees furloughed.
- Fuel costs have decreased as a proportion of revenue, due to lower hedged prices and better fuel efficiency, largely arising from reduced traffic levels on our routes and changes in the composition of our vehicle fleet.
- Insurance and claims costs have reduced reflecting our latest assessment of the self-insured portion of claims.
- Quality Incentive Contract income has increased £1.3m year-on-year reflecting new contracts and a one-off benefit relating to the timing of settlement recognition.
- Other costs have increased as expected, principally due to a one-off rates rebate at one of our depots in the prior year.

Outlook

We have worked collaboratively with Transport for London throughout the COVID-19 pandemic, and contract payments are now at normal levels with full service restored. We have agreed changes with Transport for London on how contract price adjustments are determined on an ongoing basis. We note the further funding recently announced by the Department for Transport to support the continuation of essential Transport for London services. We will maintain our discipline in bidding for new contracts as well as our focus on strong operational delivery. We see good prospects for further profit growth in 2021/22.

1.6.3 UK Rail

Summary

- Continuing positive progress on unwinding our former train operating companies
- Sheffield Supertram supported by further government payments for essential services

Financial performance

The financial performance of UK Rail for the year ended 1 May 2021 is summarised below:

	2021 £m	2020 £m
Revenue	**4.7**	161.1
Like-for-like revenue	**5.9**	13.0
Operating profit	**10.1**	4.4

The reported UK Rail revenue of £4.7m for the year ended 1 May 2021 includes revenue of £5.9m from our ongoing Sheffield Supertram business, offset by a £1.2m increase in the liability for refunds payable to customers of our expired rail franchises.

The reported revenue for the prior year includes revenue at the East Midlands Trains franchise that ended in August 2019. The substantial fall in reported revenue reflects the end of that franchise.

1. Strategic report (continued)

The like-for-like revenue is in respect of the ongoing Sheffield Supertram business, with the year-on-year reduction principally reflecting the effect of the COVID-19 situation on passenger demand.

The operating profit for the year principally reflects positive progress in concluding matters in relation to our former involvement in the UK train operating market. The reported profit also includes the costs of our commercial and business development team, the majority of whose work is focused on unwinding our former rail franchises, and evaluating and bidding for future contract opportunities.

Outlook

Similar to our local regional bus businesses, our Sheffield Supertram business is receiving government payments in the form of Light Rail Revenue Restart Grant ("LRRRG") income for continuing the essential tram services it provides. The LRRRG payments are committed through until 19 July 2021, and UKTram and the Urban Transport Group continue to engage with the Department for Transport around arrangements beyond that date.

We continue to hold an onerous contract provision, albeit at a reduced amount, for the estimated net costs of fulfilling our contractual obligations at Sheffield Supertram.

Our commercial and business development team continues to explore, and bid for, new opportunities. We will continue to balance the costs of those business development activities with our assessment of the prospective risk-reward of the available opportunities.

1.6.4 Joint Ventures

1.6.4.1 WCT Group (formerly Virgin Rail Group)

Summary

- Positive progress on concluding contractual matters on West Coast rail franchise

Financial performance

Our Virgin Rail Group joint venture was re-named WCT Group in March 2021. The financial performance of the joint venture for the year ended 1 May 2021 is summarised below:

49% share	**2021 £m**	2020 £m
Revenue	**4.9**	388.0
Operating profit	**5.4**	18.9
Net finance income	**0.1**	0.4
Taxation	**(1.4)**	(3.5)
Profit after tax	**4.1**	15.8

WCT Group's West Coast rail franchise ran until 8 December 2019. Our joint venture partner, Virgin, and we remain focused on concluding contractual matters associated with that franchise. We have made positive progress during the past year in that regard, including agreeing a full and final settlement with the Department for Transport in respect of the franchise.

1.6.5 Adjusted EBITDA, depreciation and intangible asset amortisation

Earnings before interest, taxation, depreciation, software amortisation and separately disclosed items ("adjusted EBITDA") amounted to £166.7m (2020: £237.3m). Adjusted EBITDA can be reconciled to the consolidated financial statements as follows:

	2021 £m	2020 £m
Total operating profit	**58.4**	87.2
Separately disclosed items	**(10.3)**	32.5
Software amortisation	**2.9**	4.5
Depreciation	**107.7**	109.2
Non-separately disclosed impairment losses	**6.8**	0.3
Add back joint venture finance income & tax	**1.2**	3.6
Adjusted EBITDA	**166.7**	237.3

The year-on-year decrease in adjusted EBITDA principally reflects the substantial fall in demand for public transport in response to the COVID-19 pandemic.

Depreciation and software amortisation of £110.6m is broadly in line with the £113.7m for the prior year. The impairment losses of £6.8m (2020: £0.3m) include £2.9m in respect of land and buildings, and £3.9m in respect of coaches, that have become surplus to the Group's requirements. The carrying amounts of the relevant assets have been written down to their estimated recoverable amounts.

1.6.6 Separately disclosed items

The Directors believe that there are certain items that we should separately disclose to help explain the consolidated results. We summarise those "separately disclosed items" in note 4 to the consolidated financial statements and further explain them below.

Non-software intangible asset amortisation
We separately disclose non-software intangible asset amortisation because analysts have told us that they find separate disclosure helpful, a number of our peers separately disclose such costs and the costs generally arise from business acquisitions and/or contract wins.

Non-software amortisation for the year ended 1 May 2021 amounted to £0.3m (2020: £0.7m).

Re-organisation costs
As part of our response to the COVID-19 situation, the Group took steps to deliver further efficiencies. As part of that programme, we have reshaped our cost base by reducing the size of our back-office activities. The restructuring costs, net of related grant income receivable, associated with those changes amounted to £2.8m in the year ended 1 May 2021.

Reassessment of onerous contract provision
An expense of £16.5m was separately disclosed for the year ended 2 May 2020 in respect of impairment losses and onerous contract provisions. As part of that, an onerous contract provision was recorded as at 2 May 2020 in respect of the Sheffield Supertram concession. Since 2 May 2020, the Department for Transport and South Yorkshire Passenger Transport Executive have made further COVID-related payments to our Sheffield Supertram business to allow us to continue running essential services. We have recalculated the onerous contract provision, reflecting the benefit of these payments in a revised forecast for the business, and recorded a separately disclosed profit for Sheffield Supertram of £2.5m in the year ended 1 May 2021.

Discontinued fuel hedges
The Group significantly reduced its vehicle mileage in light of reduced customer demand from March 2020 as the public followed government advice to avoid all but essential travel in light of the COVID–19 pandemic. As a result, the Group significantly reduced its forecast of the level of future fuel consumption that it considered highly probable and discontinued hedge accounting in mid–March 2020 for certain of the fuel hedges covering the period from mid–March 2020 to April 2021.

Amounts previously recognised in the statement of comprehensive income in respect of those now discontinued hedges were transferred to the income statement with effect from March 2020 to the extent that the forecast fuel consumption was no longer expected to occur. The income statement effect of that, and for subsequent movements in the fair value of fuel derivatives that are not accounted for as hedges, has been presented as a separately disclosed item, resulting in a gain of £4.0m (2020: loss of £12.9m) recognised in the year ended 1 May 2021.

Grant income recognised in the year ended 1 May 2021 includes amounts intended to compensate the Group for cash payable by it pursuant to fuel derivatives. To the extent that grant income relates to the fuel derivatives for which hedge accounting was discontinued, and for which the related expenses on those derivatives is reported within separately disclosed items (either in the year ended 2 May 2020 or in the year ended 1 May 2021), the related grant income of £6.9m (2020: £Nil) in the year ended 1 May 2021 has also been reported within separately disclosed items.

Changes in the fair value of Deferred Payment Instrument
We received a Deferred Payment Instrument as deferred consideration for the sale of the North American business. The instrument, which is accounted for at fair value through profit or loss, has a maturity date of October 2024 and due to the credit and other recoverability risks associated with the instrument, its carrying value is at a discount to its face value. The Group's exposure to the purchaser of the North American business ranks behind the secured lenders. The carrying value of the instrument was £4.5m as at 2 May 2020. We estimated the carrying value of the instrument to be £1.9m as at 1 May 2021, resulting in a loss of £2.6m (2020: £17.8m) recognised in finance costs in the year ended 1 May 2021.

Tax credit
The net effect of separately disclosed items from continuing and discontinued operations was a pre-tax profit of £7.7m (2020: loss of £51.6m).

The separately disclosed tax credit of £10.8m for the year ended 1 May 2021 (2020: £12.8m) includes the tax effect of the pre–tax separately disclosed items, as well as a tax credit of £5.0m (2020: £3.4m) in respect of tax deductions claimed on losses, which are now certain, relating to expired rail franchises and a tax credit of £7.3m in respect of financing of overseas operations, whereby the Group has benefitted from the Finance Company Exemption contained in the UK's Controlled Foreign Company ("CFC") legislation.

1.6.7 Net finance costs

Net finance costs, excluding separately disclosed items, for the year ended 1 May 2021 were £31.1m (2020: £28.8m) and can be further analysed as follows:

	2021 £m	2020 £m
Finance costs		
Interest payable and other facility costs on bank loans, loan notes, overdrafts and trade finance	**2.7**	3.3
Lease interest payable	**2.5**	2.8
Interest payable and other finance costs on bonds	**16.7**	17.2
Interest payable on Covid Corporate Financing Facility commercial paper	**1.8**	–
Effect of interest rate swaps	**0.1**	–
Unwinding of discount on provisions	**1.0**	1.3
Interest charge on defined benefit pension schemes	**6.8**	5.1
	31.6	29.7
Finance income		
Interest receivable on cash and money market deposits	**(0.5)**	(0.9)
Net finance costs, excluding separately disclosed items ("adjusted net finance costs")	**31.1**	28.8

The increase in adjusted net finance costs is principally due to the higher pensions finance charges arising from the prior year increase in net pension liabilities, in addition to higher interest on increased borrowings.

1.6.8 Taxation

Our share of profit from joint ventures is reported after tax in arriving at the profit before tax from continuing operations in the consolidated income statement. To better understand the Group's effective tax rate, we show below the Group's tax charge from continuing operations, including our share of joint ventures' tax, relative to the Group's profit before tax from continuing operations excluding joint ventures' tax. On that basis, the effective tax rate for the year ended 1 May 2021, excluding separately disclosed items, was 18.0% (2020: 21.1%).

1. Strategic report (continued)

The tax charge on profit from continuing operations can be analysed as follows:

Year to 1 May 2021	Pre-tax profit £m	Tax £m	Rate %
Excluding separately disclosed items	**18.3**	**(3.3)**	**18.0%**
Non-software intangible asset amortisation	**(0.3)**	**–**	
Other separately disclosed items	**8.0**	**10.8**	
With joint venture taxation gross	**26.0**	**7.5**	
Reclassify joint venture taxation for reporting purposes	**(1.3)**	**1.3**	
Reported in income statement	**24.7**	**8.8**	

The effective tax rate on profit from continuing operations, excluding separately disclosed items, of 18.0% is lower than the 19.0% rate of UK corporation tax for the year, principally due to adjustments in respect of prior year estimates.

The cash tax paid in the year of £2.6m (2020: £Nil) compares to the tax credit for Group companies of £8.8m (2020: charge of £3.2m). The difference of £11.4m principally reflects the £12.3m of tax credits for the financing of overseas operations and for expired rail franchises, explained in section 1.6.6. There are no cash receipts in the year in respect of those income statement credits.

The separately disclosed tax credit of £10.8m (2020: £12.8m) is explained in section 1.6.6.

Taking into account the recently enacted increase in the rate of UK corporation tax to 25%, which will be effective from 1 April 2023 following the substantive enactment on 24 May 2021, assuming there are no changes to tax laws in the UK and assuming that the composition of the Group remains broadly unchanged, we expect the Group's future effective tax rate (excluding separately disclosed items and excluding the one-off effect of the rate change on deferred tax balances) to be 18% to 20% in the next two years, rising to 24% to 26% thereafter.

Had the planned increase in the UK corporation tax rate been substantively enacted as at 1 May 2021, the estimated impact would have been an increase of £0.3m in the deferred tax liability, with an estimated tax charge of £16.1m in the consolidated income statement and an estimated tax credit of £15.8m in the consolidated statement of comprehensive income.

1.6.9 Cash flows and net debt

Consolidated net debt (as analysed in note 29(c) to the consolidated financial statements) has reduced from 2 May 2020, reflecting the actions we have taken during the COVID-19 situation to protect liquidity and cash flow.

We have voluntarily re-stated the consolidated statement of cash flows for the year ended 2 May 2020 to revise the presentation of capital grants received. Previously, we included capital grants received within cash flows from operating activities as part of the movement in payables. As we progress our transition to zero emission vehicles, we are receiving capital grants to support the investment in those vehicles and related infrastructure. Those grants form part of our investment decision making. We now therefore consider it more appropriate to separately highlight capital grants received as a component of cash flows from investing activities. We will also separately highlight the amortisation of capital grants received as part of the reconciliation of operating profit to cash generated by operations.

Net cash from operating activities before tax for the year ended 1 May 2021 was £117.7m (2020 restated: £155.3m) and can be further analysed as follows:

	2021 £m	2020 (restated) £m
EBITDA of Group companies before separately disclosed items	**161.7**	216.1
Cash effect of current year separately disclosed items	**(7.3)**	(2.4)
Loss/(gain) on disposal of property, plant and equipment	**1.5**	(0.9)
Capital grant amortisation	**(0.9)**	(0.8)
Share based payment movements	**1.6**	0.9
Working capital movements	**(20.4)**	(63.4)
Net interest paid	**(20.9)**	(21.5)
Dividends from joint ventures	**2.4**	27.3
Net cash flows from operating activities before taxation	**117.7**	155.3

The working capital outflow of £20.4m (2020 restated: £63.4m) for the year ended 1 May 2021 includes:

- £4.7m in respect of employer pension contributions in excess of the related pension expense included in operating profit;
- A £7.4m decrease in provisions principally due to the settlement of costs in respect of rail litigation, and the release to profit of the unused provision in relation to the litigation;
- A £8.6m increase in the net receivables for COVID-19 bus support grants.

Net debt decreased from £352.1m at 2 May 2020 to £312.6m at 1 May 2021. The movement in net debt was:

Year to 1 May 2021	£m
Net cash flows from operating activities before taxation	**117.7**
Tax paid	**(2.6)**
Investing activities	**(73.0)**
Other	**(2.6)**
Movement in net debt	**39.5**
Opening net debt	**(352.1)**
Closing net debt	**(312.6)**

1. Strategic report (continued)

Even after including the significant COVID-related payments received from government, EBITDA and cash flows from operating activities were adversely affected by COVID-19 in the year ended 1 May 2021, with significantly reduced demand for our regional bus services. However, our decisions to reduce planned capital expenditure and suspend dividend payments, together with active management of working capital, have assisted us in maintaining strong available liquidity and reducing net debt over the year to 1 May 2021.

As at 1 May 2021, all of the major rail franchises previously operated by Group subsidiaries had ended. Therefore, as at 1 May 2021, there is no restricted cash held by train operating companies. However, the settlement of the train operating company assets, liabilities and contractual positions continues for some time following the end of the relevant franchises. As at 1 May 2021, the consolidated net assets/liabilities included net liabilities (excluding cash) of £88.4m (2020: £101.0m) in respect of such items. Accordingly, if all items were to be settled at their 1 May 2021 carrying values, consolidated net debt would increase by £88.4m (2020: £101.0m). Consolidated net debt plus those outstanding train operating company net liabilities as at 1 May 2021 was £401.0m (2020: £453.1m).

The net impact on net debt of purchases and disposals of property, plant and equipment, split by segment, was:

	2021 £m	2020 (restated) £m
UK Bus (regional operations)	**48.4**	72.8
UK Bus (London)	**18.4**	21.6
UK Rail	**–**	(3.1)
	66.8	91.3

Net capital expenditure reconciles to the consolidated financial statements as follows:

	2021 £m	2020 (restated) £m
Cash flow from:		
– Purchase of property, plant and equipment	**56.6**	93.3
– Disposal of property, plant and equipment	**(1.8)**	(8.6)
– Capital grants received	**(5.5)**	(9.3)
Decrease in net debt from sale and leaseback of property	**(0.8)**	–
Increase in net debt from other new leases in year	**18.3**	15.9
Net capital expenditure	**66.8**	91.3

In addition to the amounts shown in the table above, the impact of purchases of intangible assets was £6.0m (2020: £5.5m). £Nil (2020: £0.5m) of cash was received from disposals of intangible assets.

The net capital expenditure and purchases of intangible assets total £72.7m in 2020/21, broadly consistent with the guidance we gave in May 2020 of around £74m. That is below our view of the appropriate long-term average annual net capital expenditure. We will keep our capital expenditure plans for 2021/22 under review as we see how customer demand develops and what opportunities emerge as the UK, and our business, recovers from COVID-19.

As we transition our bus fleet to zero emission vehicles, in line with our ambition of having a 100% zero emission bus fleet in the UK by 2035, we are mindful of the additional up-front capital cost of zero emission buses (versus their diesel equivalents) as well as the potentially higher total cost of ownership. We comment on this further in section 1.5.2.2 of this Annual Report, and also in section 1.8.7.4.1.3.

1.6.10 Financial position and liquidity

The Group maintains a solid financial position with investment grade credit ratings and appropriate headroom under its debt facilities.

The Group remains well positioned to navigate this period of ongoing uncertainty, as evidenced by:

- We currently have available liquidity of over £875m, and monitor our liquidity and cash flow daily.
- In June 2020, we secured waivers of the net debt to EBITDA and EBITDA to interest covenant tests in our £325m of core bank facilities. The waivers cover the years ending 31 October 2020 and 1 May 2021. During the year, as a precautionary measure, we have secured further waivers in November 2020 and March 2021, covering the years ending 30 October 2021 and 30 April 2022 respectively. As things stand, the next testing of those covenants will be in late 2022 in respect of the year ending 29 October 2022. In the meantime, the Group has agreed with the banks to maintain a minimum level of available liquidity.
- Notwithstanding the covenant waivers, we would nevertheless have complied with the covenants for the year ended 1 May 2021.
- The ratio of net debt at 1 May 2021 to adjusted EBITDA for the year ended 1 May 2021 was 1.9 times (2020: 1.5 times).
- Adjusted EBITDA for the year ended 1 May 2021 was 5.4 times (2020: 8.4 times) adjusted net finance charges (including our share of joint venture net finance income).
- Two major credit rating agencies – S&P and Moody's – continue to assign investment grade credit ratings to the Group, with ratings outlooks at negative.

1.6.11 Year-end financial position of the Group

1.6.11.1 Net assets

Net assets at 1 May 2021 were £61.0m (2020: net liabilities of £130.2m).

The improvement in the net assets/liabilities reflects the actuarial gains on defined benefit pension schemes, gains on cash flow hedges and the profit for the year ended 1 May 2021.

1.6.11.2 Retirement benefits

The reported net assets of £61.0m (2020: net liabilities of £130.2m) that are shown on the consolidated balance sheet are after taking account of net pre-tax retirement benefit liabilities of £263.8m (2020: £413.1m), and associated deferred tax assets of £50.1m (2020: £78.5m).

The Group recognised pre-tax actuarial gains of £154.9m in the year (2020: losses of £220.1m). The discount rate used to determine pension scheme liabilities as at 1 May 2021 was 2.0%, which was an increase on the discount rate of 1.6% applied as at 2 May 2020.

1. Strategic report (continued)

We are pleased that the trustees have now concluded the 2020 triennial valuation of our main defined benefit pension scheme, having assessed the impact of recent events. The planned increase in employer contributions to the scheme is within the range we had expected. The funding deficit at 30 April 2020 across the two sections of the main scheme was £95.3m, and we expect employer contributions to the scheme to rise by £6.3m per annum, with £4.5m of this increase commencing from the start of May 2021 and the balance by May 2022. The trustees estimate that by 30 April 2021, the main scheme was in surplus on the scheme funding basis.

1.6.11.3 Capital

The Group regards its capital as comprising its equity, cash, gross debt and any similar items. As at 1 May 2021, the Group's capital comprised:

	2021 £m	2020 £m
Market value of ordinary shares in issue (excluding shares held in treasury)	**496.3**	393.9
Cash	**483.2**	348.3
Gross debt	**(795.8)**	(700.4)
Net debt (see section 1.6.9)	**(312.6)**	(352.1)

The Group manages its capital centrally. Its objective in managing capital is to optimise the returns to its shareholders whilst safeguarding the Group's ability to continue as a going concern and as such its ability to continue to generate returns for its shareholders. The Group takes account of the interests of other stakeholders when making decisions on its capital structure.

The capital structure of the Group is kept under regular review and will be adjusted from time to time to take account of changes in the size or structure of the Group, economic developments and other changes in the Group's risk profile. The Group will adjust its capital structure from time to time by any of the following: issue of new shares, dividends, return of value to shareholders and borrowing/repayment of debt. There are a number of factors that the Group considers in evaluating capital structure. The Directors' principal focus is on maintaining an investment grade credit rating. As well as considering the measures applied by credit rating agencies, the other principal ratios that the Directors consider are (1) Net Debt to EBITDA, (2) EBITDA to interest and (3) Net Debt to market capitalisation. It is a matter of judgement as to what the optimal levels are for these ratios.

The Group will continue to regularly review its financial strategy and capital structure.

1.6.12 Dividend policy

The Board has proposed no dividends in respect of the year ended 1 May 2021.

The Group takes account of its performance, financial position and prospects when setting dividends. It does not have a prescribed formula for determining each year's dividends and has not set specific targets for dividend growth or dividend cover ratios for the following reasons:
- The Group does not wish such targets to be viewed as a commitment or promise by the Board which, in turn, could act as pressure to pay certain levels of dividend in the future even when at that future point in time, that might not be in the best interests of the Company and its stakeholders.
- The appropriate pay-out ratio may vary based on many factors including factors affecting the outlook that are not reflected in the historically reported figures.
- Earnings may be volatile from year-to-year. Although we have paused dividend payments, we would generally look for dividend rates to be more stable and not to fluctuate as significantly as earnings simply to achieve target cover ratios.

As at 1 May 2021, the Company's distributable reserves totalled £185.4m (2020: £164.8m), which compares to dividends paid in cash in the year ended 1 May 2021 of £Nil (2020: £42.6m).

The Group continues to have substantial available liquidity and it is our ambition to resume dividend payments in due course. We anticipate that being when our profit and cash flow generation have returned to a level, which relative to our net debt and pension liabilities, supports the resumption of dividend payments. While the current uncertainty caused by the COVID-19 situation makes it difficult to accurately forecast the timing and extent of profit recovery, we continue to see good long-term opportunities for the Group and a major role in a cleaner, greener and more resilient economy and society, tackling climate change with strong government action to reduce car use.

1.6.13 Treasury policies and objectives

Treasury risk management is carried out by a treasury committee and a central treasury department (together, "Group Treasury") under policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in co-operation with the Group's operating units. The Board provides written principles for overall treasury risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

The funding policy is to finance the Group through a mixture of bank, lease and hire purchase debt, capital markets issues and cash generated by the business.

See note 25 to the consolidated financial statements, for details of
- the Group's exposure to financial risks;
- the Group's treasury risk management;
- the Group's management of interest rate risk;
- the Group's fuel hedging;
- the Group's management of foreign currency risk; and
- the Group's management of credit risk.

1.6.14 Use of non-GAAP measures

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") in conformity with the Companies Act 2006, and IFRS adopted pursuant to Regulation (EC) No. 160/2002 as it applies in the European Union. In measuring our performance, the financial measures that we use include those which have been derived from our reported results in order to eliminate factors which distort period-on-period comparisons. These are considered non-GAAP financial measures, and include measures such as like-for-like revenue, adjusted EBITDA and net debt. We believe this information, along with comparable GAAP measurements, is useful to shareholders and analysts in providing a basis for measuring our financial performance. Note 34 to the consolidated financial statements provides further information on these non-GAAP financial measures.

1. Strategic report (continued)

1.7 Outlook

We see a lasting effect of the COVID-19 pandemic on travel patterns with an acceleration in trends of increased working from home, shopping from home, telemedicine and home education. We anticipate that it will be some time before demand for our public transport services returns to pre-COVID levels and we have planned for a number of scenarios.

However, we remain confident that there is a strong and positive future for public transport as we emerge from the COVID-19 pandemic. Government commitments in the recently published National Bus Strategy for England, and similar ambitions in Scotland and Wales, provide a huge opportunity to fundamentally transform travel, moving away from towns and cities built around cars to more vibrant and prosperous places, well-connected by easy-to-use sustainable public transport and active travel.

Looking ahead, our bus, coach and tram services have a critical role in tackling climate change, delivering economic recovery and ensuring healthier and more connected communities.

1.8 Non-financial information statement

The non-financial information statement provided in this section 1.8 is a consolidated report relating to the Group as a whole.

Section 1.4.1 of this Annual Report contains a description of the Group's business model.

1.8.1 Corporate social responsibility

For more than 40 years, our transport services have served a clear purpose: connecting people and communities. Our services have enabled billions of journeys, helped to build strong local economies and provided a greener way to travel. Our importance to the country and our communities has been even more evident during the COVID-19 pandemic.

As the UK's biggest bus and coach operator, our operations serve communities in major cities as well as other urban and rural locations. We connect people with jobs, skills and training, bring customers to our high streets and draw families, friends and communities together, supporting the country's economic growth and reducing social exclusion.

Independent research by the Centre for Economics and Business Research shows that Stagecoach supports more than £1.6 billion in annual value to the UK economy and society. We are one of the country's biggest private sector employers, providing direct employment for around 24,000 people in the UK and supporting around a further 10,000 jobs nationally across the economy.

We also contribute towards making the nation more active, delivering cleaner air, reducing congestion on our roads and making our communities safer. People using Stagecoach buses rather than cars helps avoid millions of pounds of wasted resources and negative impacts on our environment every year, with the savings able to be invested in better public services.

A copy of the full report, How we support Britain's economy and communities, can be accessed here:
https://www.stagecoachgroup.com/stagecoachs-contribution-to-britains-economy-and-communities.pdf

We seek to work responsibly and in partnership with all of our stakeholders. Our values inform our approach to engaging with our people and our customers; promoting safety, health, wellbeing and security; delivering accessible and affordable transport services; taking care of our environment and striving for sustainability; demonstrating good governance; and building collaborative community relationships.

As a responsible business, our new sustainability strategy includes a package of environmental, social and governance initiatives and targets. This is core to our overall business strategy.

We undertake an independent annual stakeholder survey as part of our efforts to track performance and identify improvements. The most recent survey in 2020/21 by Savanta ComRes found we had a higher net promoter score than our peer group and we continually strive to out-perform other transport operators. We are also using the findings from the survey to implement tailored stakeholder engagement plans in each of our regional operating companies.

We are proud that our strong customer focus, commitment to sustainability, and sector-leading reputation has been independently recognised by a range of organisations. Stagecoach continues to retain the London Stock Exchange Green Economy Mark for its contribution to a more sustainable economy and has also achieved the FTSE4Good global corporate responsibility standard for the 20th consecutive year.

This section 1.8 of our report includes an overview, and selected examples of our work, to demonstrate the steps we are taking to meet our responsibilities.

Further information on our approach to corporate social responsibility can be found on our website at the following link:
https://www.stagecoachgroup.com/sustainability.aspx

1. Strategic report (continued)

1.8.2 Our corporate values

1.8.2.1 Corporate values and Code of Conduct

We have a set of core values and policies, which are detailed in our Group Code of Conduct. Our five shared values to drive our people and the brands they represent across our business are: We're go getting; We do the right thing; We're in it together; We keep it simple and We care. We promote a culture of openness across all our businesses and our objective is to ensure the highest standards of probity and accountability.

The Code of Conduct sets out key principles and provides practical examples and guidance to help shape employees' behaviour across all levels of the business. The Board of Directors remains committed to ensuring appropriate processes, controls, governance and culture exists to support the maintenance of these values and behaviours. The Code of Conduct is subject to periodic review and can be found at the following link: https://www.stagecoachgroup.com/code-of-conduct.pdf

1.8.2.2 Whistleblowing

The Board ensures that appropriate arrangements are in place to receive and act proportionately upon a complaint about malpractice. Our "Speak Up" whistleblowing platform is now well-established in the business, and this provides a channel for employees to anonymously report concerns they have, while enabling us to ensure that all reported concerns are systematically investigated and tracked.

The "Speak Up" whistleblowing policy sets out how the Group will investigate any concerns raised and the action it may take. We value an open, transparent and safe working environment where our people feel able to speak up and can raise serious concerns constructively without fear of victimisation, subsequent discrimination or disadvantage. A copy of the document is available at: www.stagecoachgroup.com/whistleblowing-policy.pdf

The Board reviews summaries of matters raised through the "Speak Up" platform and through other whistleblowing reporting channels.

1.8.3 Health and safety

We have a clear vision to consistently strive for excellence in health and safety in all our operating companies. We believe that, now more than ever, good visible health and safety arrangements are essential to building confidence in public transport.

Over the past year, our relentless focus has been on protecting our employees and customers in response to the COVID-19 pandemic. We have done this whilst continuing to provide vital services for key workers, schools and the communities we serve, throughout the different levels of restrictions imposed at different times in Scotland, England and Wales. Our people have been remarkable in the way that they have adapted to the challenges that COVID-19 has brought and have been determined to keep the country moving. We are incredibly proud of all our key workers.

The close contact risk associated with the transmission of COVID-19 and the introduction of social distancing in all aspects of life has meant we have had to quickly understand risk, adapting and implementing new ways of working safely. This has included measures like enhanced cleaning on vehicles and in depots, operating vehicles with protective screens, introducing COVID-Age Risk Assessments for our more vulnerable employees and launching a "Busy Bus" App to enable our customers to understand how they can best plan to socially distance. At every stage, we have ensured our approach follows the best scientific advice from the relevant governments and public health bodies. We have worked closely with the Confederation of Passenger Transport and UKTram to make sure that our approach is aligned with the sectors in which we operate.

We are devastated to have lost members of the Stagecoach family to COVID-19. Our thoughts are with their families and loved ones, and we have worked with the Woodland Trust to provide lasting memorials to them.

Our overarching approach to safety management is articulated through the Stagecoach Strategic Safety Framework. Understanding safety risk and being compliant with, or exceeding, the health and safety regulations for the different modes of transport our business delivers is core to this Framework. Our Health, Safety and Environmental Committee, chaired by a non-executive director, has recently approved our new five-year Safety Plan. The Plan, a continuation of our established Safety Always Programme, focuses on enhancing our positive safety culture and continuously improving our safety risk management and assurance processes. We are also investing in technology to help us design out risk, including a new bridge collision warning system. We have introduced a new set of safety leading indicators, to add to our existing suite of indicators to enable the Committee to monitor performance and report to the Board on health and safety matters.

Our operating companies have safety management systems in place which are appropriate for their respective risk profile and regulatory requirements. This includes policies, risk assessments and safe working procedures to make sure that safety risks are managed and controlled. Performance is measured and reviewed at operating company and Group level. This is supported by analysis of audit results and review of civil liabilities claims to address any issues around policies and working procedures.

A key strength of Stagecoach is our business structure, which gives us the opportunity to be able to co-ordinate change across our businesses whilst making sure that the local leadership teams have clear accountability for the delivery of safety. Our approach is collaborative, and our companies have worked hard to improve engagement on safety by listening to our people and taking action to improve. For example, there are now multiple channels through which our people can report safety concerns, confidentially should they choose to. We have improved the way in which we assess risk and the way we provide assurance that we are doing the right thing. We have invested in safety training, enabling our managers to gain a recognised safety qualification. To support these ongoing improvements, we have created a business partner model for safety, bringing in new expertise from other safety critical industries to complement our existing expertise and support our teams. We expect our suppliers and contractors to have the same commitment as our employees to complying with appropriate health and safety regulations and policies.

1.8.4 Employees

1.8.4.1 Our employees

We are passionate about putting our people at the front and centre of what we do. Our employees are fundamental to the successful development and performance of the business. We aim to recruit and retain the best employees in our sector, offering a competitive package of benefits, which enables us to deliver a good customer service proposition.

We are building a strong and trusting culture integrated with our values, where our people are empowered to do the right thing and be themselves at work. We are supporting our people to realise their full potential through delivering our three-year people plan:

- **INVOLVE**
Continuing to build a strong and trusting culture in which we celebrate our differences. Our colleagues are empowered to do the right thing and feel that they are part of an inclusive business where everyone is supported and can flourish.
- **INSPIRE**
Providing opportunities for our people to thrive both personally and professionally.
- **INNOVATE**
Investing in technology to transform and modernise our ways of working to create a future-focused approach to our people offering.

1.8.4.2 Employment policies

Being an inclusive and diverse employer is key to our success. It is our policy that all people should be treated fairly and with respect. Each of our businesses has detailed employment policies in place that are appropriate to the relevant business and its employees. Across the Group, we aim to have a motivated team of people that will meet the expectations of our customers, improve our business and be rewarded for their commitment.

We value, and have a policy of, equality of opportunity, regardless of disability, gender, sexual orientation, religion, belief, age, nationality, race or ethnic origin. We also provide training, career development and equal consideration for promotion.

The Group is committed to employee participation and we use a variety of methods to inform, consult and involve employees. Employees participate directly in the success of the business through the Group's bonus and other remuneration schemes.

1.8.4.3 Effectiveness of employment policies

Our employment policies give our people and managers the guidance they need to support a positive culture. We measure the effectiveness of our employment policies in a number of ways. The results of our annual employee engagement survey help us understand how our people feel about key areas such as diversity, reward, training and development, health and safety and speaking up. Our individual businesses have worked with their teams to create action plans that will drive improvements that will have the biggest impact for our people, for example improving the workplace environment, communications, training and development, and rewards and benefits. We monitor employee attrition rates and investigate the reasons for any unusual trends.

1.8.4.4 Employee training and development

Our training priority focus during the pandemic has been on ensuring we have continued to complete essential Driver Certificate of Professional Competence ("CPC") training for our drivers whilst we have had stringent social distancing rules to follow when training. We have also encouraged our drivers and engineers completing apprenticeship programmes to continue with their core training where possible, either socially distanced face-to-face, or remotely whilst they have been furloughed.

Whilst we paused development for our leaders during the pandemic, we recognise the importance of investing in our current and future leaders of our business and we will be prioritising development for our supervisors and frontline managers in the year ahead.

1.8.4.5 Employee engagement

Our engagement strategy is built around gaining meaningful insights so we can continually improve and help people feel part of our business.

A key area of focus this year has been centred on supporting our managers and leaders to keep our furloughed employees informed, engaged and motivated during their time away from work and we have kept our trade unions informed and engaged throughout. We have used rotational furlough where we can to ensure that people have not been isolated and away from their work for the duration of the pandemic. We have also provided support for people returning from furlough to help them return confidently, especially our clinically vulnerable employees who have been away from work for long periods during the last 12 months. Our managers and leaders have supported their teams when working remotely where they have been able to work from home, whilst supporting our colleagues to work safely where they have had to be in work to help keep our communities connected.

We continued to hold a group-wide employee survey in 2020/21, listening to the views of our people. We adapted our approach given the pressures of the pandemic and asked a shorter set of questions focused on how people feel about working for Stagecoach, the immediate priorities of safety, wellbeing, communication and customer focus, as well as people's views on how we responded to the COVID-19 crisis. While the response rate achieved (68.5%) was slightly lower than previous years, the survey was held during a period of lockdown (November 2020) and over two rather than three weeks, and is still a fair representation of our employee population. The overall engagement score was 68%. This is a 2-point decrease from 2019/20, and highlights that while we have some key areas to focus on improving, there had not been a significant reduction in how engaged our people feel.

To gather more qualitative insights into how our people feel, we have established a "Stagecoach Colleague Forum" which acts as a workforce advisory panel. Twice a year, a group of employees from across the business meet with certain non-executive directors. We held two 'virtual' forums in June 2020 and November 2020. The purpose of the forums is to:

- Enable members of the Board to hear, and report to the Board, the views of our people so that the Board can consider them in discussions and decision-making.
- Facilitate discussion around the results of our employee engagement survey.
- Acknowledge that forum attendees will want to ask questions and comment on issues that are close to their heart and make time to do this in the meetings.
- Facilitate networking by employees from across the business.

At the Colleague Forum meeting, seventeen and sixteen colleagues in June and November respectively met with two non-executive directors. Some of our executive team also attended to provide colleagues with a business update. The colleagues attending both meetings were from a variety of geographical locations, covered a wide range of business roles and included some who had experienced being furloughed. There was good level engagement from those who attended. The June meeting included discussion around our COVID-19 response; the preparedness of the business for a second spike in COVID-19 cases; the rollout of the Group's new brand identity; the feasibility of a "one driver, one vehicle" policy; training; operating cashless transport services; targeting modal shift from car to bus; the value for money and pricing of our services versus alternative transport modes; employee furloughing and rotation; furloughed employees returning to work and the need for personalised communications; and enforcing the use of face coverings. In November, themes included: diversifying our business; wellbeing activity; the creation of employee networks to support our diversity and inclusion agenda and supporting different groups of people; how we can work smarter and leaner; and what barriers we need to overcome to attract talent from wider pools. All participants received copies of notes and information on follow up actions.

1. Strategic report (continued)

In previous years, our Board has met annually over dinner with employees that have been identified as "emerging talent". They are typically employees who are seen as having potential to progress and develop further within the Group and who are often already in managerial positions. The dinners have allowed an exchange of views on a wide range of topics, with each employee generally given the opportunity to speak on what they see as key challenges and opportunities. While we have not been able to hold a dinner during the past year due to COVID-19 restrictions, the Board has previously found the discussions at these events to be lively and informative. At the most recent dinner in August 2019, discussion topics included bus driver recruitment and retention, our approach to inclusion and diversity, defining the role of an operations manager, and looking ahead to new digital opportunities. Amongst other matters, these dinners have given the Board an insight into current issues in the business, including workforce issues and views.

We have continued to evolve and improve our communications approach to ensure we are able to reach our diverse and mobile workforce. COVID-19 restrictions have made it more challenging for our local leaders to meet and share messages in person, however they have continued to do so as much as possible in a safe and compliant way. Our employee communications app, Blink, helps increase our employee voice and reach a wider audience through a modern digital platform. It has become a vital tool in reaching a wide audience quickly with important updates throughout the crisis, and helped us stay in touch with people on furlough or shielding alongside more traditional ways of keeping in contact. We have also enhanced our senior leader communications with more regular updates and videos from our Chief Executive and other members of our senior management team. Our employee magazine, Focus, enables us to share our people's stories and help everyone understand how they contribute towards the success of our business. It has especially helped us celebrate and thank our key workers and heroes throughout the pandemic, as well as showcasing good news stories about how our business will recover.

We continued with our successful Stagecoach Star of the Month recognition scheme, which recognises and rewards our people for their outstanding performance and behaviours, pausing briefly from March to September 2020 when we instead celebrated daily and weekly Stagecoach Heroes for their efforts through the pandemic. We had also evolved our approach to our annual awards, with our Stagecoach Stars annual ceremony which we held in February 2020 celebrating the outstanding efforts of our people in 11 different categories. While we have not been able to hold a similar event this year due to restrictions, we aim to celebrate the best of the best at a future awards ceremony.

We have established strong working relationships with trade unions and work in partnership with them on a range of issues, including delivering safe working environments during the pandemic, pay, terms and conditions and pensions. We will continue to build on those relationships and to support our people as we move forward.

Section 1.9 of this Annual Report summarises, amongst other matters, how the Directors have regard to employee interests, and the effect of that regard, including on decisions taken during the year ended 1 May 2021.

1.8.4.6 Employee health and wellbeing

Our continuing work to promote the health and wellbeing of our people has had a particular focus on physical, financial and mental health. During 2020/21, we held two Health & Wellbeing Champions events with representatives from our businesses to ensure our focus is consistent, whilst encouraging ownership from our front line operations to deliver local initiatives to complement our overall strategy. A health and wellbeing calendar has been introduced to ensure we have a planned approach throughout the year and act upon key areas. In our continued commitment to our "Time to Change" pledge, we supported "Time to Talk Day" with posts and personal story telling on Blink, our digital employee engagement tool, and highlighted areas of good practice in our Focus magazine.

Recognising the particular importance of wellbeing during, and emerging from, the pandemic, we have moved our health and wellbeing engagement and delivery to Blink, with frequent communication of the support available to ensure we continue to support our people. We also launched an eight-week checklist campaign, which encourages people to achieve small steps to improve their own wellbeing.

Our benefits platform provides our employees with easy access to a whole host of wellbeing resources alongside offering discounts for shopping and entertainment. We have become increasingly aware of the growing need to improve the support we provide around financial wellbeing. Our partnership with Salary Finance helps our people to take practical steps to adopt good money habits and use tools and education to make them more financially resilient.

1.8.5 Workforce diversity and inclusion

1.8.5.1 Workforce diversity policy

We have set out to achieve a business-wide culture shift, celebrating our differences to bring us together, and challenging our business for the better. We want our colleagues to feel they belong, and are represented and respected whatever their role within the business.

We recognise the importance of celebrating and embracing diversity and inclusion in our business, and being representative of the customers and communities we serve. We value the individuality and diversity that each employee brings to the business. We have a diversity and inclusion programme to support us in attracting and retaining a more diverse workforce as well as creating an inclusive environment for all our colleagues.

1.8.5.2 Gender diversity and pay

The table below shows the gender split at different levels within the organisation, as at 1 May 2021. The Group's workforce is around 87% male and this high proportion is common in the ground transportation industry.

Population	Male	Female	Total	% Male	% Female
Board	6	2	8	75.0%	25.0%
Executive Committee members & their direct reports (excluding personal assistants)	26	16	42	61.9%	38.1%
Senior management*	42	10	52	80.8%	19.2%
Whole workforce	21,057	3,078	24,135	87.2%	12.8%

* Senior management is defined as those employees who receive awards under the Group's Executive Participation Plan and individuals who are statutory directors of the corporate entities whose financial information is included in the Group's 2021 consolidated financial statements in the Annual Report. This satisfies the definition set out in the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

1. **Strategic report** (continued)

The equivalent figures as at 2 May 2020 were:

Population	Male	Female	Total	% Male	% Female
Board	7	1	8	87.5%	12.5%
Senior management	44	9	53	83.0%	17.0%
Whole workforce	21,633	3,201	24,834	87.1%	12.9%

We have recently submitted our 2020 Gender Pay Gap Report, which shows a mean gender pay gap of less than 3.0%, substantially lower than the UK average of 15.5%. For further detail on the 2020 Gender Pay Gap report, please go to:
https://www.stagecoachgroup.com/~/media/Files/S/Stagecoach-Group/Attachments/our-performance/gender-pay-gap-reporting-2020.pdf

1.8.5.3 Actions to strengthen diversity and inclusion

We are committed to taking steps to improve the gender balance and we are proud that we now have a more equal balance of senior females leading our businesses, demonstrated by a higher proportion of females in our higher pay quartiles. We have also continued to remain focused on creating a more inclusive culture throughout the COVID-19 pandemic. There remains a lot of work to do and our approach to strengthening diversity and inclusion across the Group is focused on three key areas:

Improved support for our female colleagues We are growing and developing our female networks, including through the introduction of 'Women@Stagecoach', to raise the profile of women in our business and support them to further progress their careers, as well as by creating an employee network to support parents and carers.

Better awareness of career opportunities for current and future employees
We are committed to recruiting and retaining the best people in our business. To ensure we achieve this, we are appealing to the widest possible talent pool through the following actions:

- Continuing to track the gender diversity of applications for all roles through our Application Tracking System to monitor the response to recruitment campaigns.
- Using more innovative and creative job adverts and broadening our advertising approach to ensure we attract a diverse talent pool for all roles.
- Using a standardised driver recruitment process across all of our operating companies to help increase female diversity. Our pilot highlighted an increase in female applications by 34%, which is encouraging.
- Encouraging more applications from female candidates.
- Showcasing our female engineers, showing the opportunities that are available and demonstrating our commitment to encouraging more females into engineering roles.
- Working with selected partner schools to develop initiatives to promote the bus industry as an attractive career choice for young people, changing the perception of gender stereotypical roles such as engineers and bus drivers.
- Encouraging internal progression through our succession planning programme which has recently seen two senior leader appointments filled internally by our own talented female leaders.
- External recognition for our contribution to raising awareness of gender equality with two senior female leaders joining the Northern Power Women list and one female leader joining the Future List.

Development and training
We will be continuing to make sure that there is no gender bias in any of our training and development initiatives, and everyone has the same access to development relevant to their roles. We are also raising awareness among our people leaders to help reduce unconscious bias during the recruitment process as part of our commitment to developing recruitment skills capability. In addition, we will strengthen our focus on how we develop our supervisors and managers of the future and we will be encouraging our female drivers, engineers and supervisors to develop their careers further, increasing the gender balance within this important and influential people leader population.

1.8.6 Accessible and affordable travel

Making our services more accessible and delivering better value travel is central to our strategy to encourage people to switch from single use car trips to more sustainable public transport.

Independent research by transport consultants has consistently found that we offer the lowest average weekly bus fares of Britain's four main national operators, and lower weekly bus travel than in London where fares are subsidised.

We continue to take steps to deliver fare simplification to improve customer perception of value for money and help drive more use of our buses and trams. Initiatives are progressing to deliver single operator day and weekly fares capping using contactless payment technology to give customers confidence that they are receiving the best value for the journeys they make.

Contactless payment facilities cover all of our regional bus fleet following the biggest roll-out of the technology by any bus operator in Britain, making it easier for people to use our services and providing a platform for further ticket simplification.

All of our local bus fleets in the UK are fully accessible as a result of significant investment over many years. Our new vehicles feature CCTV and USB charging points, and "talking bus" audio visual systems are fitted as standard, providing next-stop information. This is designed to improve accessibility for blind and partially sighted people and we have worked with sight loss organisations, including the Royal National Institute of Blind People and Guide Dogs, to raise awareness of potential barriers to travel among excluded groups.

Automatic vehicle location technology is fully deployed across our UK regional bus fleet, providing real time service information to customers via our smartphone app and online. During the year, and in response to the COVID-19 pandemic, we enhanced our Stagecoach bus app with the launch of a "busy bus" indicator to help customers plan their journeys with confidence. The new feature uses data and artificial intelligence to provide a traffic light indicator to help customers choose quieter services and maintain social distancing.

In March 2021, we launched a new app for our Oxford Tube coach services, providing simple mobile ticketing. It offers a journey planning tool, which uses interactive maps and the smartphone's GPS system to help customers identify their nearest coach stop. Passengers can also access live running times and pinpoint their location during their journey.

1. Strategic report (continued)

As part of our "Proud to Serve" ethos where every customer matters, we offer Journey Assistance Cards for passengers who need additional help when using the bus. We are also working with other partners to help raise awareness of the needs of all passengers. In 2020, we used our marketing channels to support the Department for Transport's 'It's Everyone's Journey' advertising campaign to highlight how we can all play a part in making public transport inclusive, particularly for those people with non-visible impairments.

We have also been working with government to promote bus use as a way of combating loneliness in our society. During the year, we partnered with The People's Friend and charity, Re-engage, to launch a colourful knitted bus to tour the length of the country. The bus delivered magazines and knitting to care homes, as well as collecting funds for Re-engage's new telephone befriending service to ensure that those most vulnerable to isolation remain connected to the outside world.

For further information on our initiatives, please go to: https://www.stagecoachgroup.com/sustainability/accessibility-affordability.aspx

1.8.7 Environmental matters and climate change

1.8.7.1 Introduction

Climate change, air quality and a green recovery from the COVID-19 pandemic continue be national and international priorities for governments. The UK Government and the Welsh Government are targeting to achieve net zero greenhouse gas emissions by 2050, while the Scottish Government is targeting that by 2045. In the post-pandemic world, the Group sees huge opportunity because the target cannot be met without modal shift from the car to mass transit. Positive political action, such as the commitments made in the first English National Bus Strategy, should also be positive for the future development, performance and position of the Group.

Surface transport is the single largest producer of carbon emissions in the UK. The National Audit Office found that greenhouse gas emissions from cars had declined by only 1% since 2011, largely as a result of the widespread switch to sports utility vehicles ("SUV"). The CEBR report for Stagecoach, published in early 2020 and based on data from 2017, estimates the benefit of modal shift to our UK bus services: "Without Stagecoach bus services, there would be an annual increase of 190,000 tonnes of CO_2 through passengers using alternative transport, mainly cars." These factors mean that the forecast for the rate of CO_2 reduction from transport is too slow to meet the UK Government's net zero target for 2050. There needs to be a switch to electric vehicles and a reduction in car mileage to achieve this.

There is a compelling case for the increased use of bus, coach and tram in the transition to the zero-carbon economy. Bus, coach and tram travel provides an accessible, affordable and attractive alternative to single person car journeys, which we believe is the transport equivalent to single use plastic bags. The Group continues to actively promote the use of public transport by providing safe, reliable, good quality and customer focused services. COVID-19 has shown us what a vital role public transport plays in making sure essential services can continue to keep the community working and that it is possible, through changed behaviours, to have a cleaner, greener future.

During 2021, we have refreshed our sustainability strategy to reflect the increased focus on climate change and other environmental, social and governance matters. Our new sustainability strategy includes our carbon reduction plan and we have set new environmental targets to drive our work to reduce our environmental impact.

Our disclosures in this section 1.8.7 are consistent with the recommendations of the Taskforce on Climate-related Financial Disclosures ("TCFD"). The disclosures are consistent with the four recommendations and the eleven recommended disclosures set out in Figure 4 of Section 3 of the document entitled "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures" published in June 2017 by the TCFD. We have used the framework of the TCFD for the first time this year. To undertake scenario planning, we have used The Guidance on Scenario Analysis for Non-Financial Companies published by the TCFD in October 2020.

1.8.7.2 Policy

1.8.7.2.1 Environmental policy

We are committed to making continuing progress in improving the environmental management of our operations. It is the Group's policy to help reduce the impact of transport on the environment by transitioning to a zero emission UK bus fleet and by improving efficiency in our estate. Increasing public transport use could result in increased public transport miles and higher emissions but the Group would still regard that as positive to the extent those higher emissions are more than offset by reduced emissions from cars and the carbon intensity of individual journeys is reduced.

1.8.7.2.2 Actions we are taking to reduce our impact on the environment

Around 95% of the Group's carbon emissions are from the operation of vehicles. Over the past ten years to 1 May 2021, we have acquired new greener vehicles for the UK with a value of over £1 billion. New Euro 6 buses emit fewer emissions overall than a Euro 6 car, as well as having up to 20 times the carrying capacity. Almost all of our vehicles are Euro 3 or above, and around 43% are Euro 6, ultra-low emission or zero emission. The first National Bus Strategy for England was published by the UK Government in March 2021, and sets out a vision of less journeys by car, more journeys by bus, and a reduction in greenhouse gas emissions. The strategy also sets out a vision for a future of zero emission buses and a consultation was undertaken to set a date for the end of the sale of new diesel buses. We are working towards purchasing only zero emission buses as soon as is possible with the target of having a fully zero emission UK bus fleet by 2035. Similarly, the Scottish Government plans to set a target to cut car use. Among the policies "designed to propel Scotland toward becoming a net zero society", is a pledge to reduce the use of cars by 20% by 2030. In Scotland, there will also be a £500m investment to improve bus infrastructure and tackle road congestion, as well as government investment in zero emission buses.

For our property estate, we invest in energy from renewable sources and continue to invest in upgrading our heating and lighting systems. We have a plan in place to reduce our use of natural resources and improve our management of waste so that we divert more waste from landfill.

1.8.7.2.3 Effectiveness of environmental policies

Stagecoach Group's most recent environmental targets were set to reduce carbon emissions, cut water consumption and increase the proportion of waste diverted from landfill. These targets covered our wholly owned bus operations in the UK. The COVID-19 pandemic has impacted environmental performance. Our total carbon emissions reduced as the level of bus and tram services that we operated changed throughout 2020 and early 2021, in line with the reduced demand caused by restrictions to prevent the spread of the virus. Conversely, our waste from the disposal of personal protective equipment and cleaning materials increased as new cleaning regimes were applied and wearing face covers was mandated in many situations. Our water usage has also risen as a result of enhanced cleaning regimes. Further detail on environmental performance, including our latest metrics and targets, is included in section 1.8.7.6 below.

1.8.7.3 Governance

This section 1.8.7.3 summarises the Group's governance around climate-related risks and opportunities.

1.8.7.3.1 The Board's oversight of climate-related risks and opportunities

The Board of Directors of the Company has oversight of climate-related and other environmental matters across the Group. For many years, the Group has had a Health, Safety and Environmental Committee. That Committee typically meets four times each year and reports to the Board after each meeting. The Committee has delegated responsibility to the Board for overseeing environmental matters, allowing it to consider such matters in more detail. In recognition of the importance of environmental matters, including climate change, the Committee's responsibilities include:

- considering the environmental aspects of the Group's strategy (and, where appropriate, any separate sustainability strategy) and making recommendations to the Board on those;
- considering environmental (including climate change) risks and opportunities affecting the Group;
- reviewing the implementation of the environmental aspects of the Group's strategy and reporting to the Board on this implementation;
- providing support and encouragement to those executives implementing the environmental aspects of the Group's strategy and providing a forum for those executives to test ideas;
- reviewing the Group's performance against its environmental targets and ambitions, including in respect of the composition of its bus fleet;
- considering the Group's public reporting on environmental matters prior to its release (including in the Group's Annual Report and in any separate Sustainability Report);
- monitoring and considering any regulatory changes in relation to environmental matters that affect the business and/or strategy of the Group;
- reviewing the suitability of, and making recommendations to the Remuneration Committee in relation to, any environmental metrics forming part of determining the variable remuneration of the Directors and senior management.

Further information on the work of the Health, Safety and Environmental Committee is set out in section 7 of this Annual Report.

The Audit Committee also considers climate-related issues to the extent they might affect considerations on financial reporting and disclosure. The Directors have considered the relevance of material climate-related matters, including the risks of climate change and transition risks associated with the goals of the Paris Agreement, when preparing and signing the consolidated financial statements. For example, as explained in note 1(e) to the consolidated financial statements, the Directors noted estimation uncertainty arising from climate change considerations in estimating the useful lives of passenger service vehicles. As further examples, the Directors considered how climate change might affect forecast amounts used in determining the valuation of the Deferred Payment Instrument, assessing the existence and valuation of onerous contracts, and assessing non-current assets for impairment.

The Board and its committees consider climate-related issues when reviewing and guiding strategy. The Board recently considered the Group's overall corporate strategy, re-confirming its commitment to work in partnership with government partners to seek to grow bus journeys and reduce car journeys to help tackle climate change. It also re-confirmed its ambition to have a fully zero emission UK bus fleet by 2035. The Board also considers climate-related issues when considering major plans of action, risk management, annual budgets and business plans as well as when setting performance objectives, monitoring performance and overseeing major capital expenditure, acquisitions and disposals.

The Group has recently established new goals and targets for addressing climate-related issues. Performance against these goals and targets will be reported to the Health, Safety and Environmental Committee on a regular basis, which in turn reports to the Board.

1.8.7.3.2 Management's role in assessing and managing climate-related risks and opportunities

The Chief Executive is responsible for the day-to-day running of the Group, including managing climate-change responsibilities. He is supported by the UK Managing Director in managing the UK business, and she is supported by a dedicated Health, Safety & Environment Director. Each of those senior executives regularly attends meetings of the Health, Safety and Environmental Committee. The executive monitor performance against climate-related goals and targets.

The Chief Executive chairs a Sustainability Group, which brings together a number of the Group's executives with a wide range of expertise and insights. The Group includes individuals with expertise in environmental matters, operations, risk management, communications and financial disclosures. The focus of the Sustainability Group over the last year has been on developing a new Sustainability Strategy covering environmental, social and governance matters. That forms part of the Group's overall corporate strategy and sets new goals and targets in the relevant areas. The development of the strategy took account of climate-related risks and opportunities, and the goals and targets reflect those.

1.8.7.4 Strategy

This section 1.8.7.4 summarises what we see as the actual and potential impacts of climate-related risks and opportunities on the Group's businesses, strategy and financial planning.

1.8.7.4.1 Climate-related risks and opportunities

We have identified a range of climate-related risks and opportunities facing the Group, which we summarise in this section 1.8.7.4, and which are taken account of in the development of our corporate strategy.

1.8.7.4.1.1 Planning horizons

Our most valuable physical assets are our vehicles. Our vehicles generally have useful economic lives from new of up to 16 years, although we do operate some vehicles beyond their sixteenth anniversary. Our next most valuable physical assets are our land and buildings, particularly our portfolio of operating depots (garages). Our buildings generally have useful economic lives of up to 50 years, although again we do operate some buildings beyond that.

Taking into account the useful economic lives of our assets and infrastructure, we view our short-term planning horizon as up to three years, our medium-term planning horizon as three to 10 years, and our long-term planning horizon as 10 to 30 years. While it is difficult to forecast with certainty even over the short-term, particularly taking account of the uncertainties stemming from the COVID-19 pandemic, we recognise that climate-related issues often manifest themselves over the medium and longer term. In addition, some of our own climate-related goals are long-term goals such as our target to have a zero emission UK bus fleet by 2035, but that target is also supported by short-term and medium-term targets that work towards the long-term target.

1. **Strategic report** (continued)

1.8.7.4.1.2 Climate-related opportunities

In June 2019, the UK became the first major economy in the world to pass laws to end its contribution to global warming by 2050. As a result, the UK is committed to a legally binding target of net zero emissions by 2050. As noted in section 1.8.7.1, that commitment cannot be achieved without a reduction in car journeys and an increased use of public transport. In April 2021, the UK Government announced a further commitment to reduce emissions by 78% by 2035, compared to 1990 levels.

We support the Government's ambitions for increased bus use, and less car journeys. By working in partnership with government, we see a significant opportunity for growing demand for public transport services.

As the public becomes increasingly concerned about the climate emergency and the need to protect our environment, we expect individuals to make choices based on those concerns. We see a significant climate-related opportunity for more individuals to choose bus/tram travel and align with our brands, as we contribute to a reduction in overall emissions from transport by replacing car journeys with bus and tram journeys.

We see the climate-related opportunity to grow bus use as a short to medium-term opportunity. In England, for example, which accounts for approximately 79% of our regional bus business, the UK Government has already set out an ambitious National Bus Strategy. The strategy includes plans to support the recovery in bus journeys as we emerge from the COVID-19 pandemic as part of a "recovery phase" through to April 2022. It then includes ambitions to continue to grow bus use, replacing car journeys and reducing greenhouse gas emissions, through partnerships between bus operators and government. While it will take time for some of the initiatives to positively affect bus use, the strategy is backed by significant government investment and we are optimistic on the short-to-medium term opportunity it presents to grow bus use. Similarly, in Scotland, the devolved Government has set ambitious short to medium-term climate-related targets, including to cut car use by 20% by 2030.

1.8.7.4.1.3 Climate-related risks

Public transport can play a major role in addressing climate change, poor air quality and crippling road congestion. Positive political action in tackling these threats should also be positive for the future development, performance and position of the Group.

At the same time, climate change presents a number of risks to the Group, including:

Transitional impacts

- **Changing customer habits.** The risk of changing customer habits is also explained in the summary of the Group's principal risks and uncertainties in section 1.4.5 of this Annual Report. Demand for public transport could change in response to climate change concerns. For example, people may seek to reduce their carbon footprint by travelling less by say, working more from home, shopping more from home, shopping more locally, etc. Actions by environmentally conscious corporates and other organisations could add to a trend of increased working from home. The COVID-19 situation could have a lasting effect on travel patterns accelerating a trend of increased working from home, shopping from home, telemedicine and home learning. We see the risk of changing customer habits as highest in the short-term as we await to see how customer habits settle post-COVID. While we do see changing customer habits over the medium-term and long-term as being a risk, we expect those changes to be more gradual than the more immediate question of how customer behaviour settles post-COVID.
- **Technology.** We anticipate that future zero emission vehicles deployed by the Group will be battery electric, although we have previously operated hydrogen-powered buses and some local transport authorities in areas that we serve are considering further deployment of hydrogen power. Electric vehicle technology is still developing and there remains some uncertainty about the full life costs and expected useful lives of the vehicles, which means that policy interventions might continue to be needed to address higher costs. The current capital cost of new zero emission vehicles is significantly greater than the equivalent diesel vehicles. An electric bus is broadly twice the cost of the comparative diesel vehicle, while a hydrogen bus is even more expensive. Furthermore, investment in new infrastructure is often required to enable the introduction of zero emission vehicles. While the cost of operating electric vehicles is less than the cost of operating diesel vehicles, that saving does not fully offset the additional capital cost. There is a risk that the transition to zero emission vehicles increases the Group's costs. There is a risk that the Group is unable to fully offset those additional costs through increased revenue, hence seeing an adverse effect on its profitability. There are, however, a number of factors that reduce the likelihood and severity of those risks. Reflecting the ambition of governments in the UK to grow bus journeys, reduce car journeys and lower emissions, financial support has been available from governments towards the cost of zero emission buses. While there is no certainty of the extent to which such support will continue, the UK governments continue to consider how best to incentivise the transition to zero emission vehicles. In addition, the cost of electric cars also exceeds their diesel equivalents and so the competitive position of bus versus car might be less affected – indeed, the bus can offer a convenient, cost-effective alternative to electric cars for some individuals and journeys. We see this as a short-term, medium-term and long-term risk as we transition from a largely diesel bus fleet to a fully zero emission UK bus fleet over our target timeframe to 2035 – how government policy, the relative cost of cars, the capital costs of new buses and the operating costs of new buses each evolve over that period will have bearing on the Group's financial performance.
- **Public policy and legislative changes.** The broader risk of regulatory changes is explained in the summary of the Group's principal risks and uncertainties in section 1.4.5 of this Annual Report. Regulatory changes could be a response to climate change concerns and could be positive or negative. We know that the Government's legally binding and ambitious carbon commitments cannot be met without significant modal shift to mass transit. Conversely, for example, requirements restricting the use of certain vehicle types or adding to the cost of operating certain vehicle types (for example, requiring payments for diesel buses to operate in city centres) could result in increased costs for the Group. While the UK Government is consulting on a date after which the sale of new diesel buses will be prohibited in the UK, the indications are that the date will likely be between 2025 and 2035, and be manageable for the Group. There is no currently disclosed intention to stipulate a date from when diesel vehicles may not be operated on the roads and there is no currently disclosed intention to stipulate any dates in relation to the sale of new diesel coaches (as opposed to buses). There is an opportunity and a risk that the Group's competitiveness for new UK contract opportunities is affected by the UK Government's plan to require bidders for contracts over £5m per annum to commit to net zero by 2050 and to have published a carbon reduction plan. There is a risk that public policies that are intended to tackle climate change, or be seen to tackle climate change, or have other motives but the justification given is climate change, have an adverse effect on the Group. For example, requiring payment for certain types of buses to enter a city centre while not requiring payment for any types of private car, is unlikely to materially mitigate climate change but could adversely affect public transport operators. We see the risk of public policy and regulatory changes as highest in the short-term as we await clarity on: how the new National Bus Strategy in England is implemented; which local authorities in England seek to develop bus franchising and which seek to develop enhanced partnerships with bus operators; and government policy on the transition to zero emission vehicles. Of course, however, it is also an enduring risk over the medium-term and long-term as government policy can change at any time.
- **Operational risks.** The transition from diesel vehicles to zero emission vehicles presents several operational considerations and risks. There is a risk that accommodating new infrastructure to support zero emission vehicles adversely affects the operating costs, capacity and/or efficiency of bus depots (garages). There is a risk that the efficiency of our bus services and/or the number of buses required is affected by the re-scheduling of bus services to take account of the capabilities of zero emission vehicles. That could include adjustments to allow for the mileage that an electric vehicle is capable of on a single charge being less than the mileage an equivalent diesel vehicle is capable of on a single tank of diesel. There is a risk that the availability of power from the electricity grid could adversely affect operating costs and/or the practicalities of operating sufficient electric vehicles.

- **Accounting risks.** As explained in note 1(e) to the consolidated financial statements, the Directors noted estimation uncertainty arising from climate change considerations in estimating the useful lives of passenger service vehicles. Changes in regulation around the use of vehicles could result in impairment losses or increased depreciation charges.

Physical impacts – acute and chronic physical risks

- **Weather patterns.** We have clear evidence that demand for our bus and tram services is influenced by weather. Demand drops during periods of particularly poor weather such as heavy rainfall, snow and strong winds. Extreme weather can also impair our ability to reliably operate all of our services. Accordingly, there is a risk that both our revenue and operating costs are adversely affected by climate change causing an increased frequency of more extreme, bad weather. There is also a risk that we incur additional costs or experience disruption to our services from such factors – for example, as a result of bus depots flooding. However, our experience shows that bus and coach services are less impacted by severe weather events than other transport modes, such as rail services that operate on a fixed infrastructure. We see this as a long-term risk and see less risk of changing weather patterns materially affecting the Group's financial performance or financial position over the short to medium-term.

1.8.7.4.2 The impact on Stagecoach businesses, strategy and financial planning

Our corporate strategy takes account of climate-related risks and opportunities. Our strategy is designed to grow demand for our bus and tram services over time by replacing car journeys with more carbon-efficient bus and tram journeys. Government policy currently supports that strategy. Our strategy also recognises a need to adopt new technology as we migrate our bus fleet to zero emission buses and our plans reflect that.

We generally prepare financial forecasts for the short-term (up to three years). We take account of medium to long-term risks in financial planning through scenario modelling. For example, we model the implications on financial performance and financial position for differing levels of government financial support for the introduction of zero emission vehicles over the medium-term.

1.8.7.4.3 Climate change scenarios

We have undertaken a scenario planning exercise in accordance with the requirements of the TCFD. Our work on scenario planning was led by an external consultant, with input from colleagues with responsibility for strategy, business development, external affairs, corporate communications, finance, health, safety and environment.

The question we chose is "How could climate change plausibly impact Stagecoach's UK bus and coach operations by 2050?" We chose 2050 to align with the UK Government's legally binding net zero carbon target. Our tram operations were excluded from our considerations as they represent a small (c.1%) proportion of our Group and the current concession has less than three years to run.

We see the principal climate-related risks we face being primarily transition risks related to public policy, regulatory change, technology and customer habits. While we are exposed to physical risks, such as those related to weather, we see the potential financial impact on the Group to be greater from transition risks than physical risks. In light of that, we decided not to undertake quantified climate-related scenario analysis as such and we have not quantitatively considered a 2°C or lower scenario, or other scenarios consistent with increased physical climate-related risks.

We reviewed publicly available scenarios and proprietary models but concluded these were not particularly helpful for our scenario analysis and so we decided to develop our own exploratory scenarios.

The key drivers which we identified and considered are shown below.

Social	Technology	Economic
Shift in working patterns	Cost differential between zero emission vehicles and diesel equivalents	Decoupling of GDP and growth in transport
Rebirth or repurposing of the High Street	Automated vehicle technology	Changing cost of car ownership
Changing leisure and business travel	Digital technology for customer experience	Rise in economic inequality
Rise of sharing economy and retail platforms	**Environmental**	**Political**
Change in car use	Adaptation to changing weather	Declining revenue for fuel/car tax
	Concern about quality of local environment	Devolved power to the regions
		Focus on technology, infrastructure, behaviour change or levelling up

From this work, we derived the two major themes to create the scenarios based on their potential impact and uncertainty. These themes were: 1. Net zero policy quickly and centrally driven or slowly and inconsistently implemented; and 2. Higher overall travel demand or lower overall travel demand. For each scenario, we considered the implications for our business and prepared a narrative description of the key features and implications of the scenario, including in respect of: public policy, travel demand, transport infrastructure, transport modes, technology and customer experiences.

The results of our scenario planning are used to inform our strategy, our ongoing assessment of risks and opportunities, and our action plans. We have reasonable confidence that we can adapt our strategy for any of the four core scenarios considered, while recognising that our strategy would not be resilient to more extreme public policy or demand outcomes.

1.8.7.5 Risk Management

1.8.7.5.1 Processes for identifying and assessing climate-related risks

We identify climate-related risks in a number of ways, including:

- We held a climate-related risk workshop in 2021 with executives from a range of areas, and an external expert, to brainstorm climate-related risks;
- We consider regional and functional risk trackers (see section 1.8.7.5.3) for climate-related risks identified by colleagues across the business;
- Our Health, Safety and Environmental Committee reviews and considers climate-related risks, with non-executive directors bringing insight from their experience with other businesses;
- We review reports from other transport operators and consider the extent to which climate-related risks they identify are also applicable to us;
- We review reports from selected businesses in other sectors and consider the extent to which climate-related risks they identify are also applicable to us;

1. Strategic report (continued)

- We monitor and consider existing and emerging regulatory requirements related to climate change, including sector-specific requirements such as those related to vehicle types;
- We maintain relationships with government bodies to understand, anticipate and help shape future policy and regulatory changes related to climate change.

For each risk identified, we assess the nature, potential severity and likelihood of its impact by involving appropriate executives and/or external experts.

1.8.7.5.2 Processes for managing climate-related risks

Consistent with other risks, we determine the potential severity and likelihood of each climate-related risk occurring, and prioritise risks based on that. We consider if and how to mitigate, transfer, accept or control each risk. Section 1.8.7.4.1.3 summarises the principal climate-related risks we have identified and we seek to manage these risks by:

- Seeking to work in partnership with government bodies to achieve shared objectives to grow bus journeys, reduce car journeys, tackle climate change, improve air quality and reduce road congestion;
- Monitoring public policy proposals, seeking to influence decision makers to avoid tokenistic policies and implement transport policies that can meaningfully and affordably help reduce emissions;
- Lobbying Government and others to promote public transport as part of the solution to climate change with an objective to reduce car journeys by promoting the alternative of public transport;
- Encouraging positive public policies that discourage car use such as funding to improve public transport, car congestion charging etc. Given the significance we see of this, we appointed a new Policy & External Affairs Director in 2021;
- Promoting the environmental benefits of public transport versus car to the general public;
- Developing our corporate sales offering, leveraging the environmental benefits of bus and tram travel versus car travel;
- Reducing the emissions per vehicle mile of our vehicle fleet over time by increasing the percentage of Euro 6, ultra-low emission and zero emission vehicles in the fleet, working towards our target of a fully zero emission bus fleet in the UK by 2035;
- Continuing our broader programme to reduce our own carbon emissions;
- Considering climate change factors (e.g. flood risk) in decision making on our property portfolio.

1.8.7.5.3 Integration with the Group's overall risk management

Climate-related risks and opportunities are considered as part of the Group's risk management process and in conjunction with the Group's consideration of strategy. The Group's strategy is set by the Board. The Board considers the key risks to achieving the Group's strategic objectives. Risk discussions are embedded in strategic planning and decision making. Twice yearly, the Board will review and consider the principal risks, being those risks that present the greatest threats to achieving the Group's strategic objectives. The report of principal risks is supported by more detailed risk trackers for each region and for certain "functional" areas. A climate change risk assessment has been undertaken as part of that wider risk assessment. The Group Financial Controller, who co-ordinates the risk management process, reviews the regional and functional risk trackers and ensures that overall principal risks reflect those where appropriate. Input is obtained from a range of executives, as well as the Board, with the breadth of functional representation assisting in identifying and assessing not only current risks but also emerging risks.

1.8.7.6 Metrics and Targets

In this section 1.8.7.6, we consider the metrics and targets that we use to assess and manage relevant climate-related risks and opportunities where such information is material. Our strategy and approach to climate-related risks and opportunities are evolving, and so are the metrics and targets we use. We expect to see some change in our metrics and targets as our approach develops, and also as climate-related reporting by companies more generally evolves.

Not all of the climate-related risks and opportunities that we have identified can be easily assessed and managed by quantified metrics. For example, the climate-related risks and opportunities arising from changes in government policy are difficult to reduce to quantified metrics. However, we do use a number of metrics to assess climate-related risks and opportunities.

Each of the main metrics we use to assess climate-related risks and opportunities are described below. For each metric, we also describe any targets we use to manage climate-related risks and opportunities, and performance against those targets.

We have already taken steps over a number of years to reduce our environmental impact, meaning that our baseline position already reflects more progress than some other organisations. That is relevant in comparing targets for future percentage changes between organisations.

The metrics and targets reported in this section 1.8.7.6 have not been independently audited.

1.8.7.6.1 Greenhouse gas ("GHG") emissions

We measure our Scope 1, Scope 2 and Scope 3 greenhouse gas ("GHG") emissions. We seek to reduce our GHG emissions over time as we believe that the lower our emissions are, the less our business will be less exposed to the risks of public policy and regulatory change, and changing customer habits. Furthermore, as we lower our own emissions, we see public policy and changing customer habits becoming greater opportunities for us as we promote the environmental benefits of bus travel.

For the year ended 1 May 2021, our total energy consumption was 1,806,538,122 KWh and the total carbon emissions associated with our reported energy use were 515,644 tonnes of CO_2e.

During the COVID-19 pandemic, demand for our bus services has reduced and we reduced our vehicle mileage. As a result our GHG emissions reduced but we recognise that, all other things being equal, our GHG emissions will increase again in the short-term as demand and vehicle mileage increase. A comparison of the Group's total energy consumption and location-based greenhouse emissions for 2020/21 and 2019/20 (including the East Midlands Trains franchise in 2019/20, with the Group's operation of that business ending in August 2019) is summarised as follows:

1. **Strategic report** (continued)

Source	Unit	**2020/21 (52 weeks)** Quantity	**Emissions (tCO_2e)**	2019/20 (53 weeks) Quantity	Emissions (tCO_2e)
Scope 1					
Fuel					
– Gas	kwh	38,854,478	7,144	59,130,545	10,905
– Liquid fuel	litres	166,309,026	395,905	219,550,764	517,423
Refrigerants	kg	1,472	2,136	970	1,476
Total Scope 1	Gwh	1,767	405,185	2,356	529,804
Scope 2					
Purchased electricity	Gwh	40	9,300	46	11,784
Scope 3			101,159		135,058
Totals Scope 1, 2 and 3			515,644		676,646

The data below shows our greenhouse gas emissions for the year ended 1 May 2021 with comparative data for the year ended 2 May 2020. To enhance comparability, the greenhouse gas emissions presented below for both 2020/21 and 2019/20 exclude the East Midlands Trains franchise (which ended in August 2019).

Greenhouse Gas Emission Source	**2020/21 (52 weeks)**	2019/20 (53 weeks)	% change
Scope 1 (tCO_2e)	405,185	482,412	(16.0)%
Scope 2 (tCO_2e)	9,300	10,700	(13.1)%
Scope 3 (tCO_2e)	101,159	123,954	(18.4)%
Total emissions (tCO_2e)	515,644	617,066	(16.4)%

The Group is reporting against the Streamlined Energy and Carbon Reporting ("SECR") framework. The 2020/21 reporting period is 3 May 2020 to 1 May 2021.

The methodology used is the WBCSD/WRI Greenhouse Gas Protocol: a corporate accounting standard revised edition in conjunction with UK Government environmental reporting guidelines including SECR guidance. A financial control approach has been taken. We have used the UK Government greenhouse gas conversion factors for company reporting 2020. Scope 2 emissions from purchased electricity have been measured using a location-based approach.

We define our organisational boundary using the financial control approach and use a materiality threshold for the Group of 5% of estimated greenhouse gas emissions. We have reported on all the emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. All of these sources fall within businesses that are included in our consolidated financial statements.

The Group uses biodiesel fuel and biofuel-blend petrol for some of its bus fleet. As recommended in the UK Government Environmental Reporting Guidelines, biogenic CO_2 from this was reported separately, whereas biogenic CH_4 and N_2O emissions were accounted for in Scope 1 fuel combustion. To estimate energy use for Scope 1 and 2 emissions from fuel, the fuel volumes used were converted to kWh. We used BEIS GHG emissions conversion factors for 2020 and 2021 to convert the 2020/21 fuel volumes to energy use.

Scope 3 emissions are indirect emissions which take place outside of the Group's direct operations. The Scope 3 emissions that we have reported above include emissions from:

- Business travel by means not owned or controlled by us (including by public transport and personal vehicles used for business purposes, determined with reference to expense claims by employees);
- Transportation and distribution, which for the Group is "well to tank" for diesel/petrol and "transmission and distribution" for electricity.

The Scope 3 emissions reported above do not include emissions in respect of:

- Our wider supply chain;
- Purchased goods and services;
- Waste disposal (although we do have a plan to include emissions from waste disposal in our reported scope 3 emissions, starting in two years' time);
- Employee commuting;
- Investments.

Like-for-like changes in emissions refer to changes in the Group's emissions, excluding the expired East Midlands Trains business. Like-for-like Scope 1 emissions have decreased by 16.0%. The main contributors to this were a reduction in vehicle mileage reflecting the COVID-19 pandemic. Like-for-like Scope 2 emissions have decreased by 13.1%. Reductions in Scope 2 emissions has been across the Group, with the impact of the COVID-19 pandemic being a factor in the emission reduction. The decarbonisation of the UK Grid has also contributed to reduction in Scope 2 emissions. Like-for-like Scope 3 emissions for fuel and energy-related activities have decreased by 18.4%, and for business travel by around 75%. The reduction in business travel necessitated by the restrictions on travel has been the main driver for this reduction. Scope 3 emissions for fuel and energy-related activities are driven by the same activities as Scope 1 and 2 emissions, so reflect the changes in total Scope 1 and 2 emissions.

We have not set specific targets for our Scope 1, 2 and 3 GHG emissions but we have set targets for our GHG emissions normalised for revenue, vehicle miles and passenger journeys (see sections 1.8.7.6.3 to 1.8.7.6.5 below).

1. Strategic report (continued)

1.8.7.6.2 Carbon saved by modal shift

Ordinarily, our services reduce overall carbon emissions by replacing car journeys with more carbon-efficient bus and tram services. While that has not been the case over the last year due to reduced use of public transport during the pandemic, as bus use rebounds, so too will the emissions saved. We track our "Carbon saved by modal shift", being the estimated direct greenhouse gas emissions of our operations less the estimated greenhouse gas emissions saved by reducing car journeys. While that does involve some estimation, we consider it to better reflect the environmental impact of our business than a consideration of our direct emissions alone.

We see climate-related opportunities from changes in public policy and customer habits resulting in bus and tram journeys replacing car journeys. Our Carbon saved by modal shift metric helps us assess and manage that by focusing not just on our own GHG emissions but on the net position.

While we reduced our vehicle mileage in 2020/21, the reduction in demand (as passenger did not make journeys, or made them by modes such as car or taxi instead) was greater than the reduction in our vehicle mileage and so our load factors reduced. As a result of this, our own emissions reduced during the pandemic but each of our vehicles was replacing fewer journeys by other modes, with a smaller associated impact on emissions. As a result of these factors, our own emissions reduced during the pandemic but so did the car journeys we replaced. These factors combined have had a significant negative impact on the carbon saved by the use of public transport and illustrate how essential it is to encourage modal shift away from car journeys. Our estimated Carbon saved by modal shift for 2020/21 and 2019/20 are shown below (excluding the East Midlands Trains franchise from both years, with the Group's operation of that business ending in August 2019):

	2020/21 (52 weeks) Emissions (tCO_2e)	2019/20 (53 weeks) Emissions (tCO_2e)
Total Scope 1 & 2 emissions (see table in section 1.8.7.6.1 above)	**(414,485)**	(493,112)
Estimated emissions saved by replacing journeys by other modes	**291,600**	681,776
(Net emissions)/carbon saved by modal shift	**(122,885)**	188,664

We are targeting to improve our Carbon saved by modal shift, principally by:
- Reducing the emissions of our fleet by moving more of our fleet to cleaner diesel, ultra-low emission and zero emission vehicles, and ultimately to having a fully zero emission UK bus fleet by 2035;
- Growing bus journeys, replacing car journeys and increasing our load factors.

We are currently developing our short, medium and long-term targets for Carbon saved by modal shift.

1.8.7.6.3 Emissions per £ of revenue

The Group has chosen to use a revenue intensity metric and as such, report emissions as kilograms of carbon dioxide equivalent per total revenue ($kgCO_2e$/£ of revenue). Our emissions per £ of revenue (excluding the East Midlands Trains franchise, with the Group's operation of that business ending in August 2019) are summarised below:

	2020/21	2019/20
Revenue (£m)	**929.4**	1,269.6
Total Scope 1 & 2 emissions tonnes (tCO_2e)	**414,485**	493,112
Intensity ratio Total Scope 1 & 2 emissions ($kgCO_2e$/£ of revenue)	**0.45**	0.39

Our emissions per £ of revenue increased in 2020/21. That is because, as agreed with government, we reduced our vehicle miles by less than the reduction in demand for our services to ensure vital bus and tram services were maintained while allowing effective social distancing on vehicles. All of our revenue is derived from services designed for a lower-carbon economy and so while revenue has reduced during the COVID-19 pandemic, growing revenue from our services is positive for decarbonisation. We expect our emissions per £ of revenue to reduce as demand recovers and social distancing requirements are relaxed.

Our short, medium and long-term targets for emissions per £ of revenue are as follows:

	2021/22	2022/23	2023/24	2030/31	2050/51
Total Scope 1 & 2 emissions ($kgCO_2e$/£ of revenue)	0.39	0.34	0.31	0.13	Net zero

1.8.7.6.4 Emissions per vehicle mile

We also report emissions per vehicle mile as follows (excluding the East Midlands Trains franchise, with the Group's operation of that business ending in August 2019):

Group metrics	**2020/21**	2019/20
Vehicle miles (m)	**315.9**	367.6
Total Scope 1 & 2 emissions tonnes (tCO_2e)	**414,485**	493,112
Intensity ratio Total Scope 1 & 2 emissions ($kgCO_2e$/vehicle mile)	**1.31**	1.34

While we ran lower vehicle mileage during 2020/21, we sought to use our most environmentally friendly vehicles and, at some times, overall traffic volume was lighter. These factors contributed to the improvement in emissions per vehicle mile.

Our short, medium and long-term targets for emissions per vehicle mile are as follows:

	2021/22	2022/23	2023/24	2030/31	2050/51
Total Scope 1 & 2 emissions ($kgCO_2e$/vehicle mile)	1.27	1.21	1.13	0.57	Net zero

1.8.7.6.5 Emissions per passenger journey

We also report emissions per passenger journey. This provides data to compare our emissions per journey with other modes of transport, as we seek to manage the risks and opportunities associated with changing customer habits.

Emissions per passenger journey in 2019/20 and 2020/21 were as follows (excluding the East Midlands Trains franchise, with the Group's operation of that business ending in August 2019):

	2020/21	2019/20
Passenger journeys (m)	**365.4**	832.7
Total Scope 1 & 2 emissions tonnes (tCO_2e)	**414,485**	493,112
Intensity ratio Total Scope 1 & 2 emissions ($kgCO_2e$/passenger journey)	**1.13**	0.59

Our emissions per passenger journey increased in 2020/21 for similar reasons for the increases in emissions per £ of revenue, explained in section 1.8.7.6.3.

Our short, medium and long-term targets for emissions per passenger journey are as follows:

	2021/22	2022/23	2023/24	2030/31	2050/51
Total Scope 1 & 2 emissions ($kgCO_2e$/passenger journey)	0.71	0.56	0.49	0.25	Net zero

1.8.7.6.6 Fleet composition

We also track our bus and coach fleet composition as we assess and manage risks associated with the cost of new vehicles and regulatory changes. As shown below, we have made further progress in reducing the emissions impact of our bus and coach fleet:

	1 May 2021 % of fleet	2 May 2020 % of fleet	Change
Percentage of fleet which is Euro 3 or above, ultra-low emission or zero emission	99.6%	99.3%	30bp
Percentage of fleet which is Euro 6 or above, ultra-low emission or zero emission	43.1%	40.1%	300bp
Percentage of fleet which is ultra-low emission or zero emission	11.9%	9.8%	210bp
Percentage of fleet which is zero emission	1.8%	1.1%	70bp

Our short, medium and long-term targets for the percentage of the UK bus and coach fleet which is zero emission are as follows:

	2021/22	2022/23	2023/24	2030/31	2050/51
Percentage of fleet which is zero emission	2.2%	9.5%	17.4%	70.4%	100.0%

1.8.7.6.7 Government net promoter score

Given the importance of our relationship with government in the context of growing public transport use and public policy, we measure our government net promoter score through an independently conducted survey of key government stakeholders. Key government stakeholders for this purpose include passenger transport executives, local transport authorities, combined authorities, the UK Government and devolved governments. 2020/21 was the first year in which the survey determined net promoter scores and we were encouraged that the survey placed us ahead of our peers in that regard.

	2020/21
Government net promoter score	**+23**

Our short, medium and long-term targets for the government promoter score are to continue to maintain a score in excess of our UK public transport peers.

1.8.7.6.8 Carbon prices

We do not use any internal carbon prices.

1.8.7.6.9 Other metrics and goals

In addition to the metrics described in the preceding sections, we monitor a number of other metrics in relation to environmental matters:

- levels of public transport use by mode based on available government data;
- our Independently determined risk rating (currently low) from Sustainalytics;
- our independently determined rating (currently A) from MSCI;
- the percentage of electricity purchased for our buildings and our electric vehicles, which is from renewable sources;
- the percentage of our waste diverted from landfill;
- water consumption.

In addition to the targets set out in the preceding sections, our environment-related goals include:

- use only Forest Stewardship Council certified paper for customer communications from 2022;
- start reporting waste in scope 3 emissions by 2023;
- implement an energy management system and achieve ISO50001 alignment by 2025;
- implement a climate adaption programme to assess our sites on a risk basis to enable us to plan how to protect them.

1. Strategic report (continued)

1.8.8 Social and community matters

Our bus, coach and tram networks provide safe, efficient public transport to our communities, providing opportunities for social inclusion and mobility and helping to address major societal issues such as loneliness. Our purpose is set out in section 1.4.1 of this Annual Report. We operate transport services to connect people. Many jobs, including many lower paid jobs, require the employee to physically travel to work. Those include thousands of jobs in retail, healthcare and construction. Our services help connect people with jobs as well as to shops, leisure, education, healthcare and each other. As the UK recovers from COVID-19, our services help connect the unemployed to new job opportunities, make life easier for people with no access to a car, and reduce social isolation.

1.8.8.1 Social and community policies

Since we were founded in 1980, we have sought to play an active part in the communities we serve and have continued to invest part of our profits into good causes.

Every year, we contribute time, money and sponsorship to causes in our local communities and nationally across the UK. Moving forward, based on the insight we have from customers, employees and stakeholders, we have identified a national framework of causes that demonstrate what we stand for and that we will look to support. These causes are health and wellbeing; young people, skills and employment; loneliness and social isolation; and accessibility and opportunity.

1.8.8.2 Effectiveness of social and community policies

During the year ended 1 May 2021, our usual financial support for charitable causes and community projects has been significantly reduced to £0.1m (2020: £0.5m) as we have focused resources on delivering critical public transport services to support local communities during the COVID-19 pandemic. We have sought to help individual projects extend the fundraising efforts of our own people for a variety of good causes where we can. In addition, both nationally and through our regional operating companies, we have also provided in-kind support, such as complimentary travel or the use of our vehicles for events.

We have continued to leverage our position as the UK's largest bus and coach operator to play a crucial role in the country's response to the COVID-19 outbreak. We have delivered shuttle services and on demand bus services to help support NHS and other key workers as well as providing dedicated bus services to help the country's vaccination roll-out programme.

We have supported the NHS through the introduction of a new discounted fare scheme for all NHS Scotland employees, offering a 10% discount on multi-journey tickets. In Kent, we also helped to fund an NHS wellbeing service in the form of a double-decker bus to support the charity, Project Wingman.

Our employees have also been out in force supporting their local communities during the pandemic. We are proud that one of our Yorkshire drivers, Paul Billam, was named in the Covid-19 Queen's Birthday Honours list for his extensive fundraising work which has helped to support Bluebell Wood Children's Hospice.

October 2020 marked our official 40th anniversary as a business and four decades of proudly connecting our communities and people right across the UK. To mark the milestone, we launched a search for the unsung heroes in the communities we serve. We received hundreds of nominations, with the winner named as Martin Macdougall from Inverness for the work he has done in supporting local children by providing them with free books and crafts during lockdown.

Our operating companies continue to support local initiatives. A team of drivers in London helped to raise money for Macmillan Cancer Support by running, cycling and walking their usual bus routes. This is part of an ongoing partnership which has seen our London business raise over £54,000 for Macmillan.

In Oxford, we have launched a year of support for the Oxford Hospitals Charity. As well as providing a 'dementia bus stop' at Banbury's Horton General Hospital, the partnership will see our employees carrying out fundraising activities throughout the year, contributing towards specialist medical equipment and features to improve patient wellbeing.

In the north-east of Scotland, we have donated a double-decker bus to Grampian Autistic Society to be transformed into a sensory experience for youngsters with colour changing panels, acrylic mirrors, fibre optics and a projector.

We have partnered with other transport providers to launch a new Hate Crime Charter for transport in Scotland. The charter is also supported by Transport Scotland, Disability Equality Scotland, SEStran, People First, Police Scotland and British Transport Police. It encourages transport providers, members of the public and other services to support a zero-tolerance approach to hate crime and report any incidents.

More information on our community support and programmes is available at: https://www.stagecoachgroup.com/sustainability/community.aspx

1.8.9 Human rights

The Group does not see human rights matters as presenting material issues or risks for the Group and therefore the Group does not have specific, detailed policies in respect of human rights. However, in the Group's Code of Conduct (see section 1.8.2), the Group recognises the fundamental civil, political, economic and social human rights and freedoms of every individual and strives to reflect this in its business. A respect for human rights is reflected in our wider policies and in how we do business with customers, suppliers, employees and other stakeholders.

It is our policy to respect the rights of individuals to hold personal political views, to undertake political activity and to personally support or be members of particular organisations. We support the objectives of the Modern Slavery Act 2015 of eliminating slavery and human trafficking. We have provided a statement on these matters at: https://www.stagecoachgroup.com/~/media/Files/S/Stagecoach-Group/Attachments/modern-slavery-act-transparency-statements/modern-slavery-act-transparency-statement-2020.pdf

1.8.10 Anti-corruption and anti-bribery

1.8.10.1 Anti-corruption and anti-bribery policy

The Group has an anti-bribery and anti-corruption framework in place. The Group's attitude to bribery and corruption is set by the Board of Directors and is reflected in the Group Code of Conduct (see section 1.8.2). It is our policy:

- not to tolerate any form of bribery or inducements for any purpose whether directly or through a third party;
- to prohibit the giving of "facilitation payments" or "grease payments" even in jurisdictions where these might be legally permitted or expected by local custom;
- that officers, employees and representatives of the Group shall not seek, accept, offer or provide gifts from/to any other party that has, could have or might be perceived to have a business relationship or potential business relationship with the Group unless the value of the gift(s) is clearly insignificant;
- that officers, employees and representatives of the Group shall not accept, offer or provide hospitality from/to any other party that has, could have or might be perceived to have a business relationship or potential business relationship with the Group unless the hospitality is reasonable in terms of its frequency, nature and cost;
- that officers, employees and representatives of the Group should seek to avoid actual, perceived or potential conflicts of interest, as these may jeopardise their reputation as well as the Group's;
- that share price-sensitive information must be properly safeguarded and no individual should profit from undisclosed price-sensitive information;
- that we do not make political contributions and, therefore, no company within the Group is permitted to make political contributions; and
- that all officers, employees and representatives of Stagecoach must use the Group's property and information technology appropriately and responsibly.

1.8.10.2 Effectiveness of anti-corruption and anti-bribery polices

Any known instance of fraud, bribery or attempted bribery that was designed to give an advantage to the Group is reported to the Audit Committee for consideration and appropriate follow up. There were no such matters arising during the year ended 1 May 2021 that were material. The whistleblowing policy (see section 1.8.2.2) provides a channel for the reporting of fraud, bribery or attempted bribery where reporting through other channels is not appropriate.

1.8.10.3 Anti-corruption and anti-bribery procedures

A Group Compliance Committee is in place to monitor compliance with laws and regulations and to monitor the effectiveness of the anti-corruption framework, policies and procedures. The Group Compliance Committee assesses the nature and extent of the risks relating to bribery and corruption to which the Group is exposed. The Committee considers not only bribery and corruption risks within the Group itself but also within the Group's supply chain. Our procurement group considers anti-corruption and anti-bribery risks in the supply chain and what steps should be taken to reduce those risks. We generally consider such risks to be low given the countries in which we operate and the countries in which the majority of our suppliers are based. Supplier due diligence is undertaken as considered appropriate. All centrally contracted suppliers are requested to complete a questionnaire as part of the Group's supplier due diligence. Further follow up may be undertaken based on the responses to questionnaires, such as requesting further evidence on specific matters. For suppliers that are considered to be of particularly high inherent risk (for example, suppliers of clothing manufactured overseas), we make reference to third party audits of the suppliers and countries involved.

The Group's independent internal auditors periodically review the Group's anti-corruption framework and report their findings to the Group's Audit Committee. A list of "Relevant Employees" is maintained, which comprises employees in those groups of staff that are considered to be most likely to have the opportunity to participate in or have knowledge of material corruption. Specific anti-bribery and anti-corruption training is provided to these Relevant Employees, including case studies. These employees are required to certify annually their continuing compliance with the Group's Code of Conduct that contains the Group's anti-corruption policy.

1.8.11 Non-financial key performance indicators

Section 1.4.6 describes key performance indicators relevant to the Group's business, including non-financial key performance indicators.

Section 1.8.7.6 describes key metrics and targets that we use to assess and manage relevant climate-related risks and opportunities.

1. Strategic report (continued)

1.9 Section 172 statement

The Directors believe that in the decisions taken during the year ended 1 May 2021, they have acted, both individually and together, in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing so, the Directors have had regard to, amongst other things, the matters set out in section 172(1)(a–f) of the Companies Act 2006.

This Board's general approach to decision making and stakeholder engagement is set out below.

Our approach to decision making

Strategy

- The Group's strategy is set out in section 1.4.2.
- The Board's decision making is undertaken in the context of that strategy.

Culture and values

- We have a business culture reflecting a commitment to conduct business in a socially responsible way – this is described further in section 1.4.1.
- Our culture is supported by our corporate values – more information is provided in section 1.8.2.
- Our culture and values are supported by our Code of Conduct and whistleblowing arrangements – see section 1.8.2.
- The Board's decision making reflects our culture and values.
- The Board monitors the Group's culture through the results of staff surveys, reports from the Risk Assurance function, reports from the whistleblowing process and activity outside of "the Boardroom" such as meetings with various staff from across the Group and visits to operational locations.

Delegated authorities

- Clear delegated authorities are in place to provide clarity as to where in the Group decision making responsibility lies.
- The Group Authorisation Policy, which sets out delegated authorities, includes a reminder of directors' duties, including under section 172. That serves as a reminder not only to directors of the Company but to directors of all of the Company's direct and indirect subsidiaries, and to other decision makers.
- As explained in section 4.6, certain matters are reserved for decision making by the Board. This was reviewed and updated during the year ended 1 May 2021. A copy of the latest matters reserved for the Board is available on our website at https://www.stagecoachgroup.com/about/managing-the-business/governance/matters-reserved.aspx
- Each committee of the Board has clear, written terms of reference and those are available on our website as indicated in the report from each Committee in this Annual Report.

1. Strategic report (continued)

Recognising the Directors' duty to have regard to stakeholders, the Board engages with, and receives updates from various stakeholders as explained elsewhere in this annual report, including:

Stakeholder Engagement

Stakeholder Group	Example sources of information and engagement	Section(s) in this Annual Report
Employees	• Staff survey • Whistleblowing process • Stagecoach Colleague forums • Other meetings and events outside "the Boardroom" with staff from across the Group	1.4.4, 1.8.4, 1.8.5
Suppliers	• Reports from management on its engagement with suppliers • Reserved responsibility on major expenditure such as vehicle purchases • Board attendance at events where suppliers are represented	1.4.4
Customers	• Customer satisfaction surveys • Other bespoke customer surveys • Regular summaries of media reports	1.4.4
Government and regulatory bodies	• Reports from management on its engagement with various governmental and regulatory bodies • Regular summaries of media reports • A survey of government stakeholders by an independent party to determine a net promoter score ("NPS"), which in 2020 estimated an NPS of +23, ahead of five other major UK bus operators	1.4.4
The financial community (including shareholders, analysts, lenders and credit rating agencies)	• Annual presentation from broker • Reports from brokers on investor feedback • Reports from financial PR advisors on analyst feedback • Reports from management on lender and rating agency feedback • Regular summaries of media reports • Copies of analyst reports and feedback from management on meetings with analysts	1.4.4, 4.11
Pension scheme members	• Presentation to Board from Pensions Director • Presentation to Board from independent actuaries	4.16
The community	• Regular summaries of media reports	1.8.8

1. Strategic report (continued)

The Board considers the impact of the Group's operation on the environment through reports from its Health, Safety and Environmental Committee. Section 1.8.7 of this Annual Report provides more detail on environmental matters and climate change.

Section 4.6 of this Annual Report includes a list of notable matters that the Board considered during the year ended 1 May 2021. In the 2020 Annual Report, we set out the Group's response to the COVID-19 pandemic as an example of how the Directors discharge their duties under section 172. As that remained a dominant theme throughout the year ended 1 May 2021, we update on that example below:

- As the extent of the effect of the COVID-19 pandemic emerged, it became clear that the decisions the Board made would have consequences for the long-term. The Board determined that the long-term success of the Company would be dependent on taking action to reduce the adverse effect of the pandemic on the Group's liquidity and financial position.
- The COVID-19 situation has had a severe, negative effect on the Group's commercial passenger revenue. To promote the long-term success of the Company, the Board determined it necessary to take action to reduce costs to partly offset the reduction in revenue. Over half of the Group's operating costs are staff costs. To meaningfully reduce costs required a reduction in staff costs. The Board was mindful of the interests of the Group's employees in its decision making. It therefore decided to take advantage of the Government's Coronavirus Job Retention Scheme ("CJRS") to furlough staff and avoid making significant redundancies in the short-term. After reflecting on the interests of the Group's employees, the Group decided to pay 80% of all furloughed employees' normal pay even where that resulted in a cost in excess of that covered by the CJRS. The Board also sought to balance the interests of employees with the long-term success of the Group in balancing protecting jobs with decisions on pay awards, temporary pay reductions for senior managers and decisions on bonuses. As demand for our services partially recovered and government authorities supported us increasing our service levels, the proportion of employees on furlough reduced significantly. While we have regrettably made some redundancies, the actions we have taken have enabled us to protect the vast majority of the jobs across the Group.
- The COVID-19 situation has had a severe, negative impact on many of the Group's suppliers. In the short-term, the Group's financial position might have been best served by taking a robust position with suppliers. Mindful of the need to continue to foster supplier relationships for the longer term, the Group sought to take a balanced position with suppliers, seeking to reduce the Group's capital and operating expenditure while trying to accommodate suppliers' perspectives to some extent. While we saw some pressure on our supply chain during the year ended 1 May 2021, this has not caused any material disruption to our services and/or any material, adverse financial effect on the Group.
- The Board was mindful of the importance of the value of effective public transport to a range of stakeholders during the COVID-19 situation, including to facilitate travel by key workers and to access essential supplies. The Board sought to balance maintaining some services with the need to reduce costs to protect the long-term health of the Group. As we look forward, we continue to aim to protect as much of services as we can, working constructively with government.
- The Group's customer relationships have remained in focus during the COVID-19 situation. Reflecting the need to foster those relationships, the Group has paid cash refunds on the unused portion of season tickets where requested while taking steps to protect the health and wellbeing of passengers still using our services. Our policy on refunds balanced the success of the Group, the interest of customers and the desirability of the Group maintaining a reputation for high standards of business conduct. In places where agreed with the relevant authorities, we have provided free travel for NHS workers.
- We have engaged with various parts of government during the COVID-19 situation to ensure our services operated safely, best served local needs and were appropriately funded.
- Management has been in discussions with investors, analysts, banks and credit rating agencies to maintain relationships with the financial community while seeking to maintain strong liquidity. Some of the decisions we made may not have been popular with all investors, such as suspending dividend payments, but we felt were necessary taking account of the consequences of our decisions on the long-term. In taking such decisions, we sought to act fairly between all members of the Company.
- In reducing service levels at the UK peak of the COVID-19 pandemic, the Group was mindful of the impact of its operations on the environment. So, for example, while we were operating fewer vehicles than usual, we deployed those vehicles that were least polluting. Building on that, we see a strong opportunity for bus to play a part in a "green" recovery from COVID-19. We are working constructively with government on that and have finalised a new sustainability strategy. Some of the climate-related risks and opportunities we face are long-term in nature and in developing the new sustainability strategy, the Board has considered the consequences of its decisions on the long-term.
- We also remained mindful of our impact on the community, helping with the national effort to deal with the COVID-19 crisis where we could, in addition to following government and public health advice across our operations. Examples include providing an evening demand responsive transport service for NHS staff in Inverness; providing depot space to the London Ambulance service for commissioning new and recommissioning restored ambulances; operating NHS shuttle services in Mansfield, Hull and Grimsby; providing additional bus services to key distribution and food manufacturing sites.

The Group also has a number of other internal controls in place designed to minimise the risk of anti-bribery and anti-corruption.

This Strategic report was approved by the Board of Directors and signed on its behalf by:

Mike Vaux

Mike Vaux
Company Secretary
30 June 2021

2. Board of Directors

Executive Directors

Martin Griffiths
Chief Executive

Appointment to the Board: 2000

Age: 55

Committee membership: Health, Safety and Environmental.

Executive responsibilities: Martin Griffiths was appointed Chief Executive from 1 May 2013. Martin Griffiths is responsible for Group health, safety and environmental matters, overall strategy and management of all of the Group's operations.

Skills, previous experience and contribution to Group's long-term success: A Chartered Accountant, Martin Griffiths joined Stagecoach in 1997 as Group Business Development Manager, before being appointed to the Board as Finance Director in April 2000. He has also served as the Senior Independent Non-Executive Director and Chair of the Audit Committee at each of A.G. Barr plc and Robert Walters plc, and as a non-executive director of Troy Income & Growth Trust plc. He was young Scottish Finance Director of the year in 2004. His significant experience and expertise of business, public transport, public companies and finance position him well to lead the executive team and to contribute to the Group's long-term success.

External appointments: WCT Group Holdings Limited, formerly Virgin Rail Group Holdings Limited (Co-Chairman).

Ross Paterson
Finance Director

Appointment to the Board: 2013

Age: 49

Committee membership: None.

Executive responsibilities: Ross Paterson is responsible for the Group's overall financial policy, taxation, treasury, corporate finance, City relations, financial reporting, business development and employee benefits. He supports the Chief Executive in the management of the Group's operations.

Skills, previous experience and contribution to Group's long-term success: A Chartered Accountant, Ross Paterson joined Stagecoach in 1999. He became Director of Finance & Company Secretary in 2007, with responsibility for treasury, corporate finance, City relations, financial reporting, internal audit and the company secretariat. He succeeded Martin Griffiths as Finance Director in 2013. He is former Deputy Convenor of the Audit and Assurance Panel of the Institute of Chartered Accountants of Scotland.

Ross Paterson's breadth and depth of finance experience is a key strength and enables the Board to understand well the overall financial position of the Group's businesses and to evaluate and challenge prospective business developments. Ross' broader business experience helps the Board to communicate its strategic vision to the investment community and other stakeholders.

External appointments: WCT Group Holdings Limited, formerly Virgin Rail Group Holdings Limited (Director and Audit Committee Chair), The Unite Group plc (Non-Executive Director and Audit Committee Chair). Member of the Business Policy Panel of the Institute of Chartered Accountants of Scotland.

Non-Executive Directors

Ray O'Toole
Chairman

Appointment to the Board: 2016

Age: 65

Committee membership: Health Safety and Environmental (Chair).

Skills, previous experience and contribution to Group's long-term success: Ray O'Toole served as the Chief Operating Officer of National Express Group until May 2010. In November 2013, Ray joined Kier Group, Fleet and Passenger Services as Managing Director. In July 2015, he led a management buy-out team with private equity investor, Endless LLP, to create Essential Fleet Services Limited, a company which provides 3,500 vehicles with contract hire and leasing to the local authority and corporate markets nationally. Ray continued to serve as Chief Executive of Essential Fleet Services Limited until February 2017.

Ray O'Toole's considerable commercial experience in the transport sector and particularly in both rail and bus passenger services provides him with an ideal background to chair the Board. In this role, he ensures that the agenda for Board meetings is appropriate, that all Board members are properly briefed and are able to fully contribute to the governance of the Group, making the most of the skills and experience available to the Board.

External appointments: Yorkshire Water Services Limited (Non-Executive Director, Senior Independent Director and Chair of Remuneration Committee).

2. Board of Directors (continued)

Gregor Alexander
Non-Executive Director and Senior Independent Director

Appointment to the Board: 2013

Age: 58

Committee membership: Audit (Chair), Nomination (Chair) and Remuneration.

Skills, previous experience and contribution to Group's long-term success: A Chartered Accountant, Gregor Alexander has significant recent and relevant financial experience. He is the Finance Director of SSE plc, a FTSE 100 company. He has worked in the energy industry since 1990, when he joined Scottish Hydro Electric. He was appointed Finance Director and joined the Board of SSE in 2002, having previously been its Group Treasurer and Tax Manager.

Gregor Alexander's current role as Finance Director of a FTSE 100 company gives an ideal skillset to ensure the Audit Committee properly challenges the finance team and the Group's auditors to ensure that matters of judgement are rigorously reviewed and to produce financial reports that appropriately reflect the Group's position.

External appointments: Finance Director of SSE plc. Chairman of Scotia Gas Networks, a company 33.3% owned by SSE plc.

James Bilefield
Non-Executive Director

Appointment to the Board: 2016

Age: 52

Committee membership: Audit and Remuneration.

Skills, previous experience and contribution to Group's long-term success: James Bilefield has an international track record of successfully leading growing digital businesses. He managed the digital transformation of media group, Condé Nast, across 27 countries, scaled Skype's global operations as part of its founding management team and held senior commercial and management roles at Yahoo!. Formerly CEO of global advertising technology company, OpenX, he also co-founded the local information business, UpMyStreet, following an investment banking career at JP Morgan Chase. James Bilefield's experience in the digital sector helps the Executive Directors to ensure that the Group's investment in digital and technology projects is appropriate and that the management team are challenged to ensure a strong return on that investment.

External appointments: McKinsey & Company (Senior Advisor), Advent International (Industry Advisor), Teach First (Trustee), SThree plc (Chairman), Moneysupermarket.com Group plc (Non-Executive Director).

2. Board of Directors (continued)

Sir Brian Souter
Non-Executive Director

Appointment to the Board: n/a (co-founder)

Age: 67

Committee membership: Nomination

Skills, previous experience and contribution to Group's long-term success: A Chartered Accountant, Sir Brian Souter co-founded Stagecoach. Sir Brian was named UK Master Entrepreneur of the Year at the 2010 Ernst & Young Entrepreneur of the Year Awards and, in 2012, became the first public transport entrepreneur to be inducted into the British Travel and Hospitality Industry Hall of Fame. Sir Brian is the architect of the Group's strategy and philosophy and was the Group's Chief Executive until 1 May 2013 and Chairman until 31 December 2019. He was President of the Institute of Chartered Accountants of Scotland in 2017. He has extensive knowledge of the ground transportation industry around the world.

External appointments: Chairman, Souter Investments.

Karen Thomson
Non-Executive Director

Appointment to the Board: 2016

Age: 59

Committee membership: Health, Safety and Environmental, Audit, Remuneration and Nomination.

Skills, previous experience and contribution to Group's long-term success: Karen Thomson served as Chief Executive of AOL UK and President of AOL Europe, developing both the telecoms and advertising lines of the business. As a member of the Vodafone UK Board, Karen had responsibility for developing online strategy, customer experience and online sales performance. Karen was a non-executive director of UBM plc from 2006 to 2014 and served on its Audit, Nomination and Remuneration committees.

Karen Thomson particularly draws on her experience of digital and consumer brands to help the Group to develop its digital and technology strategy and challenges management in the areas of health, safety and environment, executive remuneration and Board composition and succession planning through her Board committee memberships.

External appointments: Outplay Entertainment Limited (Chairman).

Lynne Weedall
Non-Executive Director

Appointment to the Board: 1 August 2020

Age: 54

Committee membership: Remuneration (Chair), Health, Safety and Environmental, Nomination.

Skills, previous experience and contribution to Group's long-term success: Lynne Weedall is an experienced director who has worked in a number of major organisations in the retail sector and elsewhere, bringing key expertise in business strategy, organisation design, strategic change management and employee engagement. Up until October 2019, Lynne was a Non-Executive Director and Remuneration Committee Chair of Greene King plc. She is the former HR Director of Selfridges Group, and prior to that Dixons Carphone, where she led a major merger integration.

External appointments: Treatt plc (Non-Executive Director), Truepoint (Director), Dr. Martens plc (Senior Independent Non-Executive Director).

3. Directors' report

3.1 Group results and dividends

The results for the year are set out in the consolidated income statement on page 100.

For the reasons explained in section 1.3 of this Annual Report, the Directors do not recommend any dividends in respect of the year ended 1 May 2021.

3.2 Directors and their interests

The names, responsibilities and biographical details of the current members of the Board of Directors appear in section 2 of this Annual Report.

Table A shows the Directors' interests in the Company's shares. The interests of each director shown include those of their "connected persons".

TABLE A	Number of ordinary shares (including those held under BAYE scheme)			
DIRECTORS' INTERESTS IN THE COMPANY'S SHARES	**29 June 2021**	**1 May 2021**	21 July 2020	2 May 2020
Ray O'Toole	**18,000**	**18,000**	–	–
Martin Griffiths	**693,429**	**693,429**	644,206	644,206
Ross Paterson	**396,426**	**396,426**	364,647	364,647
Gregor Alexander	**10,406**	**10,406**	10,406	10,406
James Bilefield	**–**	**–**	–	–
Sir Brian Souter	**80,167,713**	**80,167,713**	86,900,445	86,900,445
Karen Thomson	**11,071**	**11,071**	11,071	11,071
Lynne Weedall (appointed 1 August 2020)	**12,000**	**12,000**	n/a	n/a
Will Whitehorn (resigned 30 June 2020)	**n/a**	**n/a**	n/a	72,288

The Listing Rules of the Financial Conduct Authority (LR 9.8.6 R(1)) require listed companies to disclose in their annual reports the interests of each director. The Directors' interests set out in Table A have been determined on the same basis as in previous years and are intended to comply with the requirements of LR 9.8.6 R(1), which is not the basis used to determine voting rights for the purposes of notifying major interests in shares in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority. The voting rights of Sir Brian Souter determined in accordance with the Disclosure Guidance and Transparency Rules as at 1 May 2021 were 80,167,713 ordinary shares (2020: 86,896,413) of which 80,167,713 (2020: 86,896,009) are held via HGT Finance B Limited.

Details of share based awards held by the Directors are contained in the Directors' remuneration report in section 8 of this Annual Report. No non-executive director had an interest in share based awards at 2 May 2020, 21 July 2020, 1 May 2021 or 29 June 2021.

No director had a material interest in the loan stock or share capital of any subsidiary company.

3.3 Indemnification of directors and officers

The Company maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against its directors and officers. In accordance with the Company's Articles of Association, and to the fullest extent permitted by law, the Company has indemnified each of its directors and other officers of the Group against certain liabilities that may be incurred as a result of their positions with the Group.

3.4 Substantial shareholdings

As at 1 May 2021 and 29 June 2021 (being the latest practical date prior to the date of this report), the Company had been notified of the following major interests in voting rights in the Company (other than certain Directors' shareholdings, details of which are set out in section 3.2 of this report):

	29 June 2021	**1 May 2021**
Ameriprise Financial, Inc. and its Group	**18.0%**	**18.0%**
Dame Ann Gloag and HGT Finance A Limited	**10.5%**	**10.5%**

3.5 Statement of Directors' responsibilities in respect of the Annual Report, the Directors' remuneration report and the financial statements

The Directors are responsible for preparing the Annual Report, including the Strategic report, the Directors' report, the Directors' remuneration report and the consolidated and parent company financial statements, in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") in conformity with the Companies Act 2006 and in accordance with IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, and elected to prepare the parent company 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 the Group and of the profit or loss of the Group for the relevant period.

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

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs (or in respect of the parent company financial statements, FRS 101) is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- in respect of the consolidated financial statements, state whether IFRS in conformity with the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European have been followed, subject to any material departures disclosed and explained in the consolidated and parent company financial statements respectively;

- in respect of the parent company financial statements, state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the consolidated and parent company financial statements on the going concern basis unless it is inappropriate to presume that the Group or as the case may be, the Company, will continue in business.

The Directors also confirm that they consider the Annual Report and consolidated financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position, performance, business model and strategy. The approach taken in reaching this conclusion is explained in the Audit Committee report in section 5.4.8 of this Annual Report.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of financial information on the Company's corporate website, www.stagecoachgroup.com. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

3.6 Conflicts of interest

Under the Companies Act 2006, a director has a statutory duty to avoid a situation where he or she has, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the relevant company's interests. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts where appropriate, if the relevant company's articles of association contain a provision to this effect. The Company's Articles of Association give the Directors authority to approve conflict situations including other directorships held by a director of the Company.

There are safeguards in place that apply when the Directors decide whether to authorise a conflict or potential conflict. Firstly, only the Directors who have no interest in the matter being considered are able to take the relevant decision and secondly, in taking any decision, the Directors must act in a way that they consider, in good faith, will be most likely to promote the Company's success. The Directors are able to impose limits or conditions when giving authorisation if they think that is appropriate.

For the period from 3 May 2020 until the date of this report, the Board considers that the Directors' powers of authorisation of conflicts have operated effectively and those procedures set out above have been properly followed.

3.7 Financial risk management

Information regarding the Group's use of financial instruments, its financial risk management objectives and policies, and its exposure to price, credit, liquidity and cash flow risks can be found in note 25 to the consolidated financial statements.

3.8 Political donations

It is the Group's policy not to make political contributions and accordingly there were no material contributions for political purposes during the year or in the prior year.

3.9 Shareholder and control structure

As at 1 May 2021, there were 576,099,960 ordinary shares (2020: 576,099,960) in issue with a nominal value of 125/228th pence each. The ordinary shares are admitted to trading on the London Stock Exchange.

On a show of hands at a general meeting of the Company, every holder (and proxy) of ordinary shares present in person and entitled to vote shall have one vote (except that in certain circumstances a proxy may have one vote "for" and one vote "against"), On a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. It is the Group's current policy to hold a poll on each resolution proposed at an annual general meeting. The notice of a general meeting will specify any deadlines for exercising voting rights in respect of the meeting concerned. As at 1 May 2021, 25,221,213 (2020: 25,912,949) ordinary shares representing 4.6% (2020: 4.7%) of the Company's called-up share capital (excluding treasury shares) were held in treasury and carried no voting rights.

The holders of ordinary shares are entitled to be paid the profits of the Company available for distribution and determined to be distributed pro rata to the number of ordinary shares held.

There are no restrictions on the transfer of ordinary shares other than:
- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- in accordance with the Group's policy and applicable regulations, certain employees of the Group require the approval of the Company to deal in the Company's securities.

Section 3.4 of this Directors' report gives details of any shareholders (other than the Directors and their connected persons) that hold major interests in the voting rights in the Company.

Details of each director's interests in the share capital of the Company are given in section 3.2 of this Directors' report. Sir Brian Souter was interested in 14.6% of the ordinary shares in issue as at 1 May 2021, excluding shares held by the Company in treasury (2020: 15.8%). The other directors of the Company held 0.2% of the ordinary shares in issue as at 1 May 2021 (2020: 0.2%). Sir Brian Souter's sister, Dame Ann Gloag, was interested in 10.5% of the ordinary shares in issue as at 1 May 2021, excluding shares held by the Company in treasury (2020: 11.4%).

The Group operates a Buy as You Earn scheme. Purchases under the scheme are currently suspended. Shares purchased through the scheme are held in trust. The Trustees vote only where directed to do so by participants in the scheme.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

Directors are elected by ordinary resolution at a general meeting of holders of ordinary shares. The Directors have the power to appoint a director but any person so appointed by the Directors shall hold office only until the next annual general meeting and shall then be eligible for election by ordinary resolution at that meeting.

3. Directors' report (continued)

The Company's Articles of Association may only be amended by special resolution at a general meeting of holders of ordinary shares.

The powers of the Directors to issue or repurchase ordinary shares are set by a resolution at a general meeting of holders of ordinary shares. The current authority for the Company to purchase its own shares is explained in section 3.10 of this Annual Report.

There are a number of agreements that take effect, alter or terminate on a change of control of the Company such as commercial contracts, bank loan agreements and employee share schemes. The most significant of these are:

- Certain of the Group's bank facilities (including asset finance) contain provisions that would require repayment of outstanding borrowings and other drawings under the facilities following a change of control of the Group.
- The Company's £400m 4.00% Bonds due 2025 contain provisions that would require repayment of the outstanding bonds following a change of control of the Group that was accompanied by a specified downgrade of certain of the Company's credit ratings.
- Contracts under which Group companies operate bus services on behalf of Transport for London contain provisions that might allow Transport for London to terminate those contracts on a change of control of the Company.

The impact of a change of control of the Group on remuneration arrangements is determined by the Directors' remuneration policy.

3.10 Authority for Company to purchase its own shares

The movements in the Company's issued share capital, shares held in treasury and authorities to purchase its own shares can be summarised as follows:

	Issued share capital	Shares held in treasury	Issued share capital, excluding treasury shares	Authorised for Company to purchase its own shares
As at 27 April 2019	576,099,960	3,458,907	572,641,053	49,139,060
Shares purchased into treasury	–	17,840,903	(17,840,903)	(17,840,903)
Transfer of treasury shares	–	(466,214)	466,214	–
Prior to 2019 Annual General Meeting	576,099,960	20,833,596	555,266,364	31,298,157
Renewal of buy-back authority	–	–	–	13,701,843
Transfer of treasury shares	–	5,079,353	(5,079,353)	(5,079,353)
As at 2 May 2020	576,099,960	25,912,949	550,187,011	39,920,647
Transfer of treasury shares	–	(591,540)	591,540	–
Prior to 2020 Annual General Meeting	576,099,960	25,321,409	550,778,551	39,920,647
Renewal of buy-back authority	–	–	–	79,353
Shares purchased into treasury	–	(100,196)	100,196	–
As at 1 May 2021	**576,099,960**	**25,221,213**	**550,878,747**	**40,000,000**

In April 2019, the Company announced a share buyback programme to buy back shares with an aggregate market value of up to £60m. From the commencement of the programme on 25 April 2019, the Company purchased 165,779 shares at a cost of £0.2m in the year ended 27 April 2019. This represented less than 0.1% of the Company's called up capital (excluding treasury shares) on 27 April 2019. The Company continued its buyback programme and purchased a further 17,840,903 shares at a cost of £23.4m (inclusive of commission and stamp duty) prior to the 2019 Annual General Meeting. This represented a further 3.2% of the Company's called up capital (excluding treasury shares) on 30 August 2019.

At the 2019 Annual General Meeting, the Company was granted authority by its shareholders to repurchase up to 45,000,000 of its ordinary shares. The Company continued its buyback programme until 9 October 2019 and purchased a further 5,079,353 shares at a cost of £6.8m (inclusive of commission and stamp duty) representing 0.9% of the Company's called up capital (excluding treasury shares) on 9 October 2019.

At the 2020 Annual General Meeting, the Company was granted authority by its shareholders to repurchase up to 40,000,000 of its ordinary shares. No shares have been acquired under this authority. Under the existing authority, the Company may therefore repurchase up to a further 40,000,000 ordinary shares. This authority will expire at the conclusion of the 2021 Annual General Meeting unless revoked, varied or renewed prior to this date.

A resolution will be proposed at the 2021 Annual General Meeting that the Company be authorised to repurchase up to 50,000,000 of its ordinary shares at the Directors' discretion. If passed, the resolution will replace the authority granted at the 2020 Annual General Meeting and will lapse at the conclusion of the 2022 Annual General Meeting.

3.11 Going concern and longer term viability

The UK Corporate Governance Code requires the Board to state whether it considers it appropriate to adopt the going concern basis of accounting in preparing the financial statements, and to identify any material uncertainties to the Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements. The financial statements for the year ended 1 May 2021 were approved by the Board on 30 June 2021. Section 3.11.1 explains our assessment of going concern.

We also have responsibilities in relation to going concern under UK legislation, the Financial Conduct Authority's Listing Rules and International Accounting Standard 1, Presentation of Financial Statements.

The Code further suggests that the Board should state whether it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a longer period of assessment, drawing attention to any qualifications or assumptions as necessary. It suggests that taking account of the Company's current position and principal risks, the Board should explain how it has assessed the prospects of the Company, over what period it has done so and why it considers that period to be appropriate. Section 3.11.2 explains our assessment of longer term viability.

As the future performance of the Group as a whole will significantly influence the Company's ability to continue as a going concern and remain viable, we consider going concern and viability for the Group, including the Company.

3. Directors' report (continued)

3.11.1 Going concern

3.11.1.1 Going concern assessment

The COVID-19 pandemic has had a significant impact on the business of the Group. Nevertheless, a combination of our decisive management actions and supportive relationships with our government and local authority partners has contributed to positive consolidated pre-tax profit and a reduction in consolidated net debt for the year ended 1 May 2021. Details of the management actions we have taken to mitigate the financial impact of the COVID-19 pandemic on the Group are set out in the Overview in section 1.3 of this Annual Report.

The Board considered the liquidity position in the Group's financial forecasts, which cover the period to 29 October 2022 ("the going concern period"), recognising the challenges around reliably estimating and forecasting the effects of COVID-19 on our regional bus business. The key areas of forecasting uncertainty include:

- The extent and duration of COVID-19 restrictions in the UK;
- The duration and scale of government support measures to the bus sector, including the COVID-19 Bus Services Support Grant for eligible local bus services in England;
- The extent and timing of recovery in passenger demand for our services; and
- The size of our bus and tram network (mileage) to support that level of passenger demand.

As the "roadmaps" for the UK's emergence from the COVID-19 pandemic have become clearer, the level of certainty around the extent and duration of COVID-19 restrictions has increased. However, as some COVID-19 restrictions remain in place, there remains uncertainty around the duration and scale of government support measures to the bus sector, the extent and timing of recovery in passenger demand and the size of the network (mileage) to support that level of passenger demand.

References below to pre-COVID levels refer to the amounts for the 52 weeks ended 1 February 2020, representing the relevant periods just prior to the COVID-19 situation emerging in the UK in early 2020.

In reaching its conclusion on the going concern assessment, the Board also considered the findings of the work performed to support the statement on the longer term viability of the Company and the Group. As noted in section 3.11.2, this included assessing forecasts of severe but plausible downside scenarios related to our principal risks, notably the extent to which the recovery in passenger demand and levels of government support are less favourable than assumed in our base case forecast.

Our base case forecast assumes that regional bus vehicle mileage is 95% of pre-COVID levels throughout the going concern period. It also assumes that regional bus commercial revenue returns to 80% of pre-COVID levels for the year ending 30 April 2022, increasing to 93% of pre-COVID levels for the remainder of the going concern period, reflecting the assumed return in patronage as the country emerges from the pandemic. Concessionary revenue for the year ending 30 April 2022 is forecast at 90% of pre-COVID levels, increasing to 98% of pre-COVID levels for the remainder of the going concern period. During the pandemic, governments have confirmed additional COVID-related measures to support the continuity of regional bus services. Our base case forecasts assume that regional bus support measures are in place for the duration of the year ending 30 April 2022, but that any regional bus operating profit is modest.

Our severe and plausible downside scenarios contemplate lower regional bus commercial revenue and vehicle mileage over the forecast period, in addition to more cautious assumptions around levels of government support measures. The range of downside scenarios considered cover:

- passenger numbers at between 73% and 90% of pre-COVID levels in the year ending 30 April 2022 and for the remainder of the going concern period;
- commercial revenue at between 75% and 80% of pre-COVID levels in the year ending 30 April 2022;
- commercial revenue at between 88% and 93% of pre-COVID levels for the remainder of the going concern period;
- concessionary revenue at between 80% and 90% of pre-COVID levels in the year ending 30 April 2022;
- concessionary revenue at between 93% and 98% of pre-COVID levels for the remainder of the going concern period;
- vehicle mileage at between 94% and 95% of pre-COVID levels by 1 May 2021, in the year ending 30 April 2022 and for the remainder of the going concern period;
- additional COVID-related government measures ending by April 2022;
- certain contingent liabilities, including in respect of our former North America business, crystallising as actual liabilities.

3.11.1.2 Mitigating actions

As explained in section 1.6.10 of this Annual Report, we have secured waivers of the net debt to EBITDA and EBITDA to interest covenant tests in our £325m of committed bank facilities entered into in March 2020. The waivers cover the years ending 1 May 2021, 30 October 2021 and 30 April 2022. Notwithstanding the covenant waivers, we would nevertheless have complied with the covenants for the year ended 1 May 2021. As things stand, the next testing of those covenants will be in respect of the year ending 29 October 2022. In the meantime, the Group has agreed with the banks to maintain a minimum level of available liquidity. The minimum liquidity thresholds are £150m (plus the amount of any commercial paper outstanding under the Covid Corporate Financing Facility) as at 1 May 2021, 30 October 2021 and 30 April 2022. To the extent any severe downside scenarios materialised, we consider that the Group would have sufficient controllable, mitigating actions to avoid a breach of the liquidity thresholds.

The key mitigation available would be to further reduce the Group's cost base, in particular reducing vehicle mileage to better match customer demand, which would result in variable cost savings and the reduction of capital expenditure. These mitigations are within the Group's control and they do not have any associated penalties.

In addition, the following non-controllable mitigations could be available to the Group, the benefits of which have not been reflected in our going concern assessment: issuing new share capital for cash; asset sale and leasebacks; and obtaining further covenant waivers or amendments.

3.11.1.3 Liquidity headroom

Under all of the modelled scenarios, positive liquidity headroom exists throughout the going concern period and the Group remains in compliance with the minimum liquidity thresholds it has agreed with banks (see section 3.11.1.2). In the most severe of the downside scenarios modelled (the reverse stress test scenario), liquidity headroom exists and the minimum liquidity thresholds are achieved throughout the going concern period after taking account of controllable, mitigating actions.

The forecasts assume that the remaining loan notes, which represented borrowings of £17.4m as at 1 May 2021, are settled by the Company no later than October 2021, as required by the contractual terms of those notes. Liquidity headroom in the modelled scenarios excludes the £300m of commercial paper issued under the Bank of England's COVID-19 Corporate Financing Facility (as it is assumed this will be repaid in February and March 2022) and the £140m loan facility (expiring October 2021). The available liquidity comprises the Group's undrawn committed facilities having a maturity date of 2025, and cash and cash equivalent balances.

3. Directors' report (continued)

3.11.1.4 Public policy context

During the COVID-19 pandemic to date, the governments in England, Scotland and Wales have demonstrated a concern to ensure the continuity of bus services. Neither we nor the respective governments want to see cuts in bus services that hinder people connecting with work, shops, education, healthcare or leisure. As we emerge from the pandemic, the governments want to get bus usage back to what it was pre-pandemic and then increase patronage and grow buses' mode share. Public transport is key to various components of the current public policy agenda in the UK: post-COVID economic recovery, building back better, decarbonisation, levelling up. In light of all of that, we are confident that governments will continue to take action, including providing financial support, to avoid significant cuts in regional bus services. While that does not guarantee significant profits for regional bus operators, it means that significant losses appear unlikely over the next year. Against that context, if the regional bus business is assumed to operate at break-even operating profit, combined with continuing London bus profitability, bank covenant waivers already secured, and substantial available liquidity, we have confidence in the Group's ability to continue as a going concern for the duration of the going concern period.

3.11.1.5 Going concern conclusion

Accordingly, the Board concluded that it remained appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements, with no material uncertainties identified. In applying the going concern basis, the Board recognised that the uncertainty caused by the COVID-19 pandemic required a higher level of judgement in assessing whether the Group is a going concern. Taking account of the COVID-19 situation, and other relevant factors, the Board concluded that it remained appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements, with no material uncertainties identified. The Board has a reasonable expectation that the Company and the Group will each continue to operate as a going concern for the duration of the going concern period.

3.11.2 Longer term viability

3.11.2.1 Longer term outlook

As Britain's biggest bus and coach operator, we have clear opportunities to grow our business and contribute to thriving communities. We continue to believe that by working together, the private sector and our local authority partners can deliver the public transport services our customers want.

We expect a lasting effect of the COVID-19 pandemic on travel patterns with an acceleration in trends of increased working from home, shopping from home, telemedicine and home education. We anticipate that it will be some time before demand for our public transport services returns to pre-COVID levels and we are planning for a number of scenarios. However, we continue to see positive long-term prospects for public transport. There is a large market opportunity to lock in the reduced volume of car traffic and lower carbon emissions seen during the COVID-19 pandemic and secure long-term economic, social, health and environmental benefits for the country. The Government has set ambitious targets to achieve bus patronage in England well above the levels seen pre-COVID and we share the Government's ambition for growth in bus patronage. We foresee an opportunity for modal shift from private cars to active travel and more sustainable public transport, which in time can see pre-COVID levels of demand surpassed. Taking account of those factors, our base case forecast assumes that our regional bus commercial revenue recovers to 95% of pre-COVID levels in the year ending 27 April 2024.

We are continuing to review our cost base, to reduce overheads and plan for adjustments to direct and semi-direct costs across a range of scenarios. At the same time, we see positive drivers for our business. Public transport can play a major role in a cleaner, greener and more resilient economy and society, tackling climate change with strong government action to reduce car use.

3.11.2.2 Longer term viability assessment process

The Board has developed the Group's strategy to support the long-term success of the Group. We have a portfolio of good quality transport businesses that we see as having a successful, long-term future. We encourage sensible risk taking but we also seek to manage risks appropriately and respond to the risks that crystallise.

We updated our financial forecasts and capital expenditure plans to take account of any changes in risks, opportunities and market conditions. We have recently updated our financial forecasts for the three-year period to 27 April 2024. In considering the "viability statement" that the Board is expected to make under the UK Corporate Governance Code, the Board has formally considered the three-year period to 27 April 2024 but has also less formally considered risks that would threaten the Group's business model, future performance, solvency and/or liquidity beyond 27 April 2024. The first year of the financial forecasts represents the Group's budget for the year ending 30 April 2022, adjusted for any known, material changes since the budget was approved. These known, material changes are captured in the separate, dynamic financial forecasts we have maintained in response to the heightened uncertainty arising from the effects of the COVID-19 pandemic. The period to 27 April 2024 was chosen because the Board considers this to be a reasonable period over which to assess the financial position and performance of the Group, although it recognises the increased challenge in forecasting accuracy when developing financial forecasts while COVID-19 restrictions are continuing. Beyond three years, forecasts may be affected by factors such as changes in government transport policy and/or major contract wins and losses.

The key assumptions in the financial forecasts, reflecting our strategy, include the intention to remain focused on the public transport sector and goods and services related to that. The Group does not currently have plans to expand into businesses unrelated to public transport. The base financial forecasts assume we are a UK-focused operator of bus, coach and tram services. Although our forecasts assume ongoing costs of bidding for various overseas contract opportunities, no benefits are assumed of overseas contract wins. Our base case assumption is that regional bus commercial revenue does not return to pre-COVID levels during the three years ending 27 April 2024, taking account of the factors explained in section 3.11.2.1.

The Group faces a number of risks and those risks that the Board has currently assessed as being the principal risks are set out in section 1.4.5 of this Annual Report.

The Group currently has significant availability liquidity, as explained in section 1.6.10 of this Annual Report. The Group has committed bank facilities in place for the period to March 2025. As also explained in section 1.6.10, we have secured covenant waivers on those facilities. The waivers cover the years ending 1 May 2021, 30 October 2021 and 30 April 2022. As things stand, the next testing of those covenants will be in respect of the year ending 29 October 2022. To the extent that we require further covenant waivers or amendments in later periods, we would engage with our banks early to seek to negotiate those. The majority of our debt is represented by the £300m of commercial paper issued under the Covid Corporate Financing Facility and the £400m of bonds that are not due to mature until 2025. Furthermore, the Group has two investment grade credit ratings from independent credit rating agencies. We engaged with the credit rating agencies on the effect of the COVID-19 situation on our business. Moody's (Baa3) and S&P (BBB-) have since reaffirmed our investment grade credit ratings, whilst also revising the rating outlooks to negative from stable.

Stress testing of the financial forecasts has been undertaken with reference to a number of severe but plausible scenarios involving our principal risks, where we have adopted more cautious assumptions around the recovery in passenger demand and levels of government support. The scenario analysis undertaken included reverse stress testing that involved constructing scenarios that would threaten the Group’s viability, in the form of a breach of the covenant tests underpinning the Group’s banking facilities, then assessing the likelihood of those scenarios occurring. Having reviewed the reverse stress test, we have concluded that the set of assumptions required to cause a breach of covenants is unlikely to occur.

The stress testing also considered the availability and effectiveness of the mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. In assessing the likely effectiveness of such actions, the conclusions of the Board’s monitoring and review of risk management and internal control systems, as described in sections 4.12 and 4.13, were taken into account. The financial forecasts and the scenario analysis considered profitability, cash flows, financial covenant compliance, rating agency metrics, debt facility headroom, and other key financial ratios. The Group’s exposures to external factors such as changing travel patterns, levels of government support, GDP, population, climate change, fuel prices, inflation, consumer confidence, competition and terrorism risks were considered. While the Board concluded, based on its assessment of viability, that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due, the result of this stress testing illustrated that although the Group faces little short-term risk to its liquidity, it is conceivable that severe scenarios could result in breaches of bank covenants and threaten the viability of the Group over the three-year period, in the absence of mitigating actions to adjust our operating plans. Of course, in common with other businesses, it is not possible to guarantee the viability of the Group; any such assessment is subject to a degree of uncertainty that can be expected to increase the longer the time horizon. Indeed, the Financial Reporting Council has stressed that boards are required to have a “reasonable expectation” of a company’s viability over the period of assessment. The Financial Reporting Council recognises that during the COVID-19 emergency and the unprecedented pace of change, any reasonable level of expectation would naturally carry a much lower level of confidence.

3.11.2.3 Viability statement

Based on its assessment of the Group’s prospects and viability above, the Board confirms that it has a reasonable expectation that the Company and the Group will be able to continue in operation and meet their liabilities as they fall due over the period to 27 April 2024.

3.12 Auditors

In the case of each of the persons who were directors of the Company at the date when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information (as defined in section 418 of the Companies Act 2006) of which the Company’s auditors are unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company’s auditors are aware of that information.

A resolution to re-appoint Ernst & Young LLP as auditors of the Company will be proposed at the next Annual General Meeting. A resolution will also be proposed that the Audit Committee be authorised to fix the remuneration of the auditors.

3.13 Material included in the Strategic report

The Strategic report in section 1 includes information on the following matters that would otherwise be required to be presented in the Directors’ report:

- Employment policies – see section 1.8.4.2;
- Employee engagement – see section 1.8.4.5;
- Fostering relationships with suppliers, customers and others – see sections 1.4.4 and 1.9;
- Future developments in the business – see, amongst others, sections 1.3 and 1.7; and
- Greenhouse gas emissions – see section 1.8.7.6.1.

3. Directors' report (continued)

3.14 Table of cross references required for Listing Rule 9.8.4 of the UK Listing Rules

Listing Rule 9.8.4 of the Financial Conduct Authority's Listing Rules requires us to make certain disclosures. The table below summarises where each of the disclosures can be found in this Annual Report.

Listing Rule 9.8.4	Required disclosure	Location in Annual Report
(1)	A statement of the amount of interest capitalised by the Group during the period under review with an indication of the amount and treatment of any tax relief.	Not applicable
(2)	Any information required by Listing Rule 9.2.18R relating to any unaudited financial information in a class 1 circular or a prospectus; or any profit forecast or profit estimate.	Not applicable
(3)	Listing Rule deleted.	Not applicable
(4)	Details of long-term incentive schemes as required by Listing Rule 9.4.3R, being any arrangement where the only participant is a director of the Company (or an individual whose appointment as a director of the Company is being contemplated) and the arrangement is established specifically to facilitate, in unusual circumstances, the recruitment or retention of the relevant individual.	Not applicable
(5)	Details of any arrangements under which a director of the Company has waived or agreed to waive any emoluments from the Company or any subsidiary undertaking.	Section 8.5.3 of this Annual Report explains arrangements under which all of the Directors waived certain emoluments in each of the years ended 2 May 2020 and 1 May 2021. Section 8.5.9 of this Annual Report explains arrangements under which Sir Brian Souter waived emoluments in prior financial years, when he was Chief Executive.
(6)	Details of any agreements by a director to waive future emoluments.	Not applicable
(7)	Details of any allotment for cash of equity securities made during the period under review otherwise than to the holders of the Company's equity shares in proportion to their holdings of such equity shares and which has not been specifically authorised by the Company's shareholders.	Not applicable
(8)	The information required in item (7) above for any unlisted major subsidiary undertaking of the Company.	Not applicable
(9)	Details of any share placing where the Company is a subsidiary undertaking of another Company.	Not applicable
(10)	Details of any contract of significance subsisting during the period under review: a) to which the Company, or one of its subsidiary undertakings, is a party and in which a director of the Company is or was materially interested; and b) between the Company or one of its subsidiary undertakings, and a controlling shareholder;	Details of related party transactions, including those where a director is materially interested, are provided in note 32 to the consolidated financial statements. The Company has no controlling shareholders.
(11)	Details of any contract for the provision of services to the Company or any of its subsidiary undertakings by a controlling shareholder.	Not applicable
(12)	Details of any arrangement under which a shareholder has waived or agreed to waive any dividends.	Shares held in treasury do not qualify for dividends.
(13)	Details of agreements by shareholders to waive future dividends.	Not applicable
(14)	A statement made by the Board in respect of matters relating to a controlling shareholder.	Not applicable

By order of the Board

Mike Vaux
Company Secretary
30 June 2021

4. Corporate governance report

4.1 Introduction from Ray O'Toole, Chairman

The Stagecoach Group is committed to operating with the high standards of corporate governance expected of a group with shares traded on the London Stock Exchange.

As the Chairman, it is my responsibility to promote the highest standards of corporate governance throughout the Group and particularly at Board level. In doing so, I look to promote a culture of openness and debate. This report sets out the governance structure in place for the Group, which I believe is both robust and appropriate for the Group's operations.

I believe that our current Board is well equipped to promote the success of the Company. On 1 August 2020, Lynne Weedall joined the Board, bringing with her a wealth of new experience. It remains our aspiration to have at least 25% female representation on the Board and with Lynne's appointment, we have returned to that level. We will continue to embrace diversity and reflect that in our future appointments to the Board and the management team.

In 2022, Gregor Alexander, our Senior Independent Director and Audit Committee Chairman, will reach nine years' service on the Board. We have commenced a process to appoint a new non-executive director to succeed Gregor as Chairman of the Audit Committee. We anticipate Gregor leaving the Board following an appropriate handover period.

Our Board structure comprises experienced executive directors managing the business, with non-executive directors with the skills and experience both to bring new ideas to the Board and to challenge the Executive Directors. Martin Griffiths and Ross Paterson continue in their roles as Chief Executive and Finance Director respectively. As Chairman, I am responsible for the conduct of the Board as a whole. This structure allows the Board to develop the strategic direction of the Group to meet future challenges while ensuring the sound management of the Group's current business. I am satisfied that our current governance structure and our corporate governance procedures are appropriate for the Group.

The Board focuses on the Group's strategy and seeks to understand the risks to the Group and the markets that it operates in. We aim to achieve appropriate returns for our shareholders, balanced against an appropriate level of risk. We look ahead to where we believe opportunities are going to arise and to anticipate and address the challenges that the business faces. I believe that good governance is central to achieving these aims for the business as a whole and to ensure that our management team is properly challenged to meet the Group's objectives.

The past year has been dominated by the actions necessary to deal with the effects of the COVID-19 outbreak, to safeguard our people and to manage the financial consequences for the Group. The Board has worked well together in responding to the challenges during the year and adapted quickly to meetings held by video conferencing. It was disappointing that we were unable to hold my first Annual General Meeting as Chairman in person due to COVID-19 regulations. We were able to respond to shareholder questions online and take all shareholder votes by proxy but the meeting was held behind closed doors with only two of my Board colleagues and a quorum of shareholders present. For the 2021 Annual General Meeting, we are monitoring developments with the COVID-19 outbreak. We are again making arrangements to take questions in advance by e-mail and proxy votes may be submitted in advance in the usual way. Shareholders would not currently be permitted to attend the meeting but we will adjust arrangements as appropriate as we approach the meeting date.

I am confident that the corporate governance structure of the Board provides an appropriate forum to develop and adapt the Group's strategy to address the challenges and opportunities as the country begins to recover from the effects of the COVID-19 pandemic.

Ray O'Toole
Chairman
30 June 2021

4.2 Corporate governance and compliance with the Code

The Stagecoach Board is accountable to shareholders for the Group's activities and is responsible for the effectiveness of corporate governance practices within the Group. This section 4 of the Annual Report sets out Stagecoach Group's corporate governance arrangements. Taken together with the Directors' report, it includes the disclosures recommended by the Financial Reporting Council ("FRC") UK Corporate Governance Code (the "Code") to which the Group is subject. This section 4 also describes how the principles of good corporate governance that are set out in the Code have been applied. In line with the recommendations of the Code and best practice, separate reports are provided from each of the Audit, Nomination, Health, Safety and Environmental and Remuneration Committees. The Code issued in July 2018 applied to the Company's financial year from 3 May 2020 to 1 May 2021. The Directors believe that throughout the year ended 1 May 2021, the Group complied with all of the provisions of the Code other than in the following respects:

- Provision 21 of the Code states that FTSE350 companies should have an externally facilitated board evaluation at least every three years. The Company's previous such externally facilitated evaluation was performed in the year ended 29 April 2017. An externally facilitated review was in progress during the year ended 2 May 2020 when the COVID-19 outbreak occurred and was paused as a result of that outbreak. The Board completed the process in the year ended 1 May 2021 – more than three years after its previous externally facilitated review.
- Ray O'Toole was appointed as Chairman of our Board from 1 January 2020. Prior to being appointed Chairman, Ray chaired the Remuneration Committee. To complete the review of the remuneration policy and ensure an orderly handover of responsibilities, Ray continued to chair the Remuneration Committee until handing over to Lynne Weedall on 18 November 2020. In accordance with Provision 32 of the Code, the Chair of the Board should not chair the Remuneration Committee. The Board considered it appropriate for Ray O'Toole to continue to chair the Remuneration Committee on an interim basis as the Committee finalised its new Remuneration Policy. The new policy was approved at the Annual General Meeting in September 2020 and Lynne Weedall became Chair of the Remuneration Committee from 18 November 2020. Ray O'Toole continued as a member of the Remuneration Committee until 31 December 2020.

4. Corporate governance report (continued)

The Code consists of principles and provisions. Further information on how we have applied the principles of the Code is provided in this Annual Report as follows:

The Principles of the Code	
Principle	How we apply the principle
Board leadership and Company purpose	The Company is headed by a Board, whose role is to promote the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society. The Board has established the Group's purpose (see section 1.4.1), values (see section 1.8.2.1) and strategy (see section 1.4.2). The Board looks to ensure those are aligned with the Group's culture (see section 1.4.1). The Chairman explains in section 4.1 how our non-executive directors constructively challenge and help develop proposals on strategy. In order to ensure we meet our responsibilities to shareholders and other stakeholders, we engage with, and encourage participation from, stakeholders. Section 4.11 discusses our engagement with shareholders and other stakeholders, including the use of general meetings to communicate with investors and encourage their participation. The section 172 statement in section 1.9 provides further information on how the Board engages with, and receives updates from shareholders and other stakeholders. The Board seeks to ensure that workforce policies and practices are consistent with the Company values and support its long-term sustainable success. Section 1.8.4 provides information on our workforce policies and practices. The workforce is able to raise any matters of concern, including using the whistleblowing process explained in section 1.8.2.2.
Division of responsibilities	Section 4.4 explains the division of responsibilities between the leadership of the Board and the executive leadership of the Company's business. Section 4.5 explains how we maintain Board independence and balance, ensuring that no one individual or group of individuals dominates the Board's decision making. Section 6.6 explains the appropriate balance of skills and experience that the Board and its Committees have to enable them to discharge their respective duties and responsibilities effectively. The Nomination Committee report in section 6 explains our procedure for the appointment of new directors to the Board, which includes considering whether candidates will allocate sufficient time to the Company to effectively discharge their responsibilities as a director. The Board appoints the Company Secretary, who helps the Board ensure it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently. Section 4.6 notes that each director receives induction training on appointment and subsequently such training, briefings and site visits as are considered necessary to keep abreast of matters affecting their roles as directors. Section 4.6 also explains that the Directors have full and timely access to information with Board papers distributed in advance of meetings. Section 4.8 provides information on how we assess the Board's performance as part of ensuring we have an effective Board.
Composition, succession and evaluation	The Nomination Committee report in section 6 explains our formal, rigorous and transparent procedure for the appointment of new directors to the Board. Section 6.6 explains the succession planning arrangements for the Board and senior management. Section 4.8 provides information on how we assess the Board's performance annually, as well as that of its Committees and individual directors. As explained in section 4.5, all of the Directors who intend to continue on the Board stand for election or re-election at each annual general meeting of the Company. Section 6.5 considers the Board diversity policy and section 1.8.5 considers diversity at all levels of the organisation.
Audit, risk and internal control	The Audit Committee report in section 5 explains how that Committee ensures the independence and effectiveness of internal and external audit functions, and satisfies itself on the integrity of financial and narrative statements. The Board presents a fair, balanced and understandable assessment of the Company's position and prospects in each Annual Report. Further information on that is provided in sections 4.11 and 5.4.8. Sections 4.12 and 4.13 explain how the Board determines the nature and extent of the principal risks it is willing to take in achieving its strategic objectives, and how it maintains sound risk management and internal control systems. The Board's assessment of the Group's ability to continue as a going concern and its longer term viability is discussed in section 3.11.
Remuneration	The Board has established a Remuneration Committee, whose report is included in section 8 and explains how remuneration policies and practices are designed and applied. Performance-related elements of remuneration are designed to be transparent, stretching and rigorously applied. There is a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director is involved in deciding his or her own remuneration, with the Remuneration Committee determining the remuneration of the Chairman and the Executive Directors, and the Board determining the remuneration of other directors.

A copy of the Code is available at:
https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf

4. Corporate governance report (continued)

The 2018 Code places a greater emphasis on employee engagement than prior editions of the Code did. As part of its focus on the relationships between companies, shareholders and stakeholders, the Code has placed a stronger emphasis on engagement, culture, diversity and inclusion. Details of our engagement with employees, including the "Stagecoach Colleague Forums" that act as a workforce advisory panel, are provided in section 1.8.4.5 of this Annual Report.

The Group also complies with the corporate governance requirements of the Financial Conduct Authority's Listing Rules, and Disclosure Guidance and Transparency Rules ("DTRs").

DTR 7.2.6 requires the corporate governance statement to contain certain information required by Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410). This information relates to significant interests in the securities of the Company, securities carrying special rights with regard to the control of the Company, restrictions on voting rights, rules regarding the appointment and replacement of directors, rules regarding changes to the Company's Articles of Association and the Directors' powers in relation to the issuing or buying back by the Company of its shares. The relevant information can be found in sections 3.4, 3.9 and 3.10 of this Annual Report.

4.3 Composition of the Board

The composition of the Board is as follows:

	Chairman	Independent Non-Executive Director*	Other Director
Ray O'Toole Chairman	✓		
Gregor Alexander Non-Executive Director and Senior Independent Director		✓	
James Bilefield Non-Executive Director		✓	
Karen Thomson Non-Executive Director		✓	
Lynne Weedall Non-Executive Director		✓	
Sir Brian Souter Non-Executive Director			✓
Martin Griffiths Chief Executive			✓
Ross Paterson Finance Director			✓

* Independence shown based on the guidelines suggested by the Code.

The Board comprises the Chairman and seven other directors. Four of the seven other directors meet the criteria suggested by the Code for determining director independence.

4.4 Division of responsibilities

Ray O'Toole was independent on his appointment to the Board and on his appointment as Chairman.

The Chairman is responsible for the running of the Board and for ensuring that the Board as a whole plays a full and constructive part in the development and determination of the Group's strategy and overall commercial objectives. The Chief Executive is responsible for proposing and developing that strategy with support and guidance from the Chairman. The Chief Executive is responsible for the running of the Group's business and reports to the Chairman and to the Board directly. All other members of the executive management team report either directly or indirectly to the Chief Executive.

From 1 July 2020, Gregor Alexander became the Group's Senior Independent Director and is available to shareholders if they have concerns which contact through the Chairman, Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate.

The responsibilities of the Chairman, the Chief Executive, the Senior Independent Director and the Board are set out in writing, agreed by the Board and publicly available at https://www.stagecoachgroup.com/about/managing-the-business/governance/division-of-responsibilities.aspx and https://www.stagecoachgroup.com/about/managing-the-business/governance/senior-independent-director.aspx. The terms of reference of each Committee are also set out in writing and agreed by the Board – they are publicly available as set out in the report from each Committee in this Annual Report.

4.5 Board independence and balance

The Directors' biographies appear in section 2 of this Annual Report and illustrate the Directors' range of experience, which ensures an effective Board to lead and control the Group. The Board delegates the operational management of the Group to the Chief Executive and Finance Director ("Executive Directors"). The Non-Executive Directors bring an independent viewpoint and create an overall balance. The Directors have a complementary range of experience that ensures no one director or viewpoint is dominant in the decision making process.

The Code recommends that independent non-executive directors should make up at least half of the Board (excluding the Chairman). Throughout the year from 3 May 2020 to 1 May 2021, the Board considers that it complied with this Code requirement.

All of the Directors who intend to continue on the Board stand for election or re-election at each annual general meeting of the Company.

A director may only take on additional external appointments with the prior approval of the Board. Where the Board permits a significant new appointment, the reasons for permitting significant appointments are explained in the annual report. An executive director is not permitted to take on more than one non-executive directorship in a FTSE 100 company or other significant appointment.

During the year ended 1 May 2021, the Board permitted Lynne Weedall's appointment on 11 January 2021 to the Board of Dr. Martens plc, a company listed on the main market of the London Stock Exchange. It was considered that in combination with Lynne ceasing to be a director of William Hill plc in April 2021, this did not have a significant effect on the time that Lynne had available for the Company's business and would not give rise to a conflict of interest.

4. Corporate governance report (continued)

4.6 Operation of the Board

The Board generally meets at least six times each year. In light of the COVID-19 situation, video meetings have been used for meetings of the Board and its Committees during the past year. Additional meetings of the Board are held, or resolutions are circulated in writing, as appropriate, to consider matters where a decision of the Board is required prior to the next scheduled meeting. In addition to the formal meetings of the Board and its Committees, the Directors are in more frequent but less formal contact with each other and with the Group's management on a range of matters.

The Chairman and the Non-Executive Directors periodically meet without the Executive Directors being present. In addition, the Non-Executive Directors meet without the Chairman at least annually. All the Directors meet regularly with other senior management and staff of the Group, have access to confidential advice from the Company Secretary and may take independent legal or other professional advice at the Group's expense where it is considered necessary for the proper discharge of their duties as directors. The Company Secretary, whose appointment and removal is a matter for the Board as a whole, is responsible to the Board for ensuring the Board procedures are complied with.

Each director receives induction training on appointment and subsequently such training, briefings and site visits as are considered necessary to keep abreast of matters affecting their roles as directors. The Chairman reviews the Directors' training and development needs in conjunction with the Company Secretary. Training can encompass health, safety, environmental, social and governance matters.

The number of full Board meetings during the year was seven, all of which were held digitally in light of COVID-19 related restrictions. Regular communication is maintained by the Chairman with other directors between meetings to ensure all directors are well informed on strategic and operational issues. During the year, even more regular contact was maintained to ensure we could respond quickly to developments in the COVID-19 situation.

The Board has a number of matters reserved for its consideration, with principal responsibilities being to agree the overall strategy and investment policy, to approve major capital expenditure, to monitor performance and risk management procedures of senior management, to ensure that there are proper internal controls in place and to consider major acquisitions or disposals. The Directors have full and timely access to information with Board papers distributed in advance of meetings. Notable matters that the Board considered during the year ended 1 May 2021 included:

- The appointment of Lynne Weedall as a Non-Executive Director and adjustment to Committee memberships
- Adjustments to service frequencies due to COVID-19 and consideration of available government support for different sectors and in different regions of the UK
- Board and senior management salary and fee reductions in response to COVID-19
- Cost reduction strategies and consideration of alternative revenue streams
- Capital expenditure, liquidity and funding strategy through COVID-19 pandemic
- Establishment of, and feedback from, Stagecoach Colleague Forum (see section 1.8.4.5)
- Bus franchise tenders in Sweden
- Funding of the Stagecoach Group Pension Scheme
- Political developments, including bus franchising in Greater Manchester
- Development of new Remuneration Policy and proposal to shareholders
- Approval of the rules of the Restricted Share Plan for proposal to shareholders
- Development of proposals for a new Sustainability Strategy
- Investigation into collision of bus operating a school service in Winchester with low bridge and development of new low bridge warning system
- Long-term vehicle procurement strategy and aspiration to achieve a zero emission bus fleet in the UK by 2035
- Decision not to instruct the Group's auditors to perform a review of the Group's interim results
- Non-Executive Director succession planning, Board diversity and appointment of additional Board member
- Decision not to propose dividends for the year 2020/21

The Board keeps the roles and contribution made by each director under review and changes in responsibilities are made where necessary to improve the Board's effectiveness. To provide a more manageable process and better control, certain of the Board's powers have been delegated to committees.

Minutes are taken of each meeting of the Board and its Committees. Where any director has significant concerns that cannot be resolved about the running of the Group or a proposed action, these concerns are recorded in the minutes. It is also the Group's policy that if a director had any concerns that led to his or her resignation, the director should provide a written statement to the Chairman of those concerns for circulation to the Board.

4.7 Operational management of the Group

The Executive Directors maintain day-to-day contact and meet regularly face-to-face or in video conferences with non-Board senior management. Each operating company managing director reports to one of four regional directors and is supported by his or her own management teams. The regional directors report to the UK Managing Director, who in turn reports to the Chief Executive.

Scottish Citylink Coaches Limited, a trading joint venture in which the Group has an interest, has a joint board. The Group is responsible for the day-to-day management of that business.

4.8 Performance evaluation

The Board assesses its own performance and the performance of each individual Board member; this assessment is co-ordinated and directed by the Chairman with the support of the Company Secretary. The Board's assessment of the performance of the Chairman is co-ordinated by the Senior Independent Director. As part of the assessment process, the Non-Executive Directors meet without the Executive Directors being present. The Non-Executive Directors also meet without the Chairman being present. The Chairman obtains feedback from each individual director on the performance of the Board and other Board members. The Senior Independent Director obtains feedback from each individual director on the performance of the Chairman. A questionnaire-based process is undertaken to assess the performance of each of the Board's committees.

4. Corporate governance report (continued)

The Code recommends that the board performance evaluation should be externally facilitated at least every three years. The Board appointed Independent Audit Limited to facilitate its evaluation in the year ended 2 May 2020. This was the first time that Independent Audit Limited had been chosen to facilitate the Board's evaluation. Independent Audit Limited does not have any other connection to the Group or its directors other than through facilitation of reviews for other boards of which directors have been members. The information on the review process provided in this section has been reviewed by Independent Audit Limited.

The evaluation process had commenced when the COVID-19 outbreak occurred and was paused until late in 2020, leaving a longer gap between externally facilitated reviews than the three years recommended by the Code. The Board completed the evaluation in the year ended 1 May 2021 and intends that it will resume externally facilitated reviews no less frequently than every third year hereafter.

The evaluation was carried out using online questionnaires completed by Board members, the Company Secretary and executive team members who regularly attend Board and Committee meetings. The process covered the Board and its main committees. Consultants from Independent Audit Limited reviewed Board materials and observed the December 2020 Board meeting held by video conference. They presented their findings to the February 2021 Board meeting.

The review included the remit and functioning of the Board, and each of its four committees, and covered four broad areas:
1. Board composition, influence, leadership, duties and culture;
2. Development of strategy;
3. Oversight of risk and mitigation;
4. Board dynamics and information.

The review identified a range of strengths of the Board including constructive and collegiate meeting dynamics, robust challenge, focused discussions, effective chairing of the Board and its committees, and high-quality board support and information. The review found that the Board worked well during the pandemic with a sustained focus on safety, the wellbeing of employees and the financial health of the Group. The review commended the access the Board has to a wide range of senior managers who present at meetings, as well as the engagement of Non-Executive Directors with the workforce.

The Board discussed the review findings and agreed a number of actions which will be taken forward under the Chairman's supervision over the coming year. In addition to minor changes to Board papers and the scheduling of meetings, key areas of continued focus will be:
- Improved Board insight into executive succession planning and planning for Non-Executive Director succession;
- Building on the Board's understanding of Group culture by ensuring that the Non-Executive Directors continue to develop their employee engagement activities, particularly when the easing of COVID-19 restrictions makes this more possible;
- Updating the strategy, taking into account: major sectoral trends, the impact of new technology, the period of transition from short-term COVID-19 payments from Government to more normal commercial operations and, the Group's longer term business development goals;
- Deepening the Board's understanding of environmental risks and opportunities, as well as broader environmental, social and governance matters, ensuring that these are fully integrated with the Group's strategy and well communicated.

The Board has considered the results of these assessments and has concluded that, overall, the Board and its committees continue to operate in an effective and constructive manner.

4.9 Composition of Committees

The current composition of the various Board Committees is summarised below.

Audit Committee		Remuneration Committee	
Number of members of Committee:	3	Number of members of Committee:	4
All members are independent non-executive directors.		All members are independent non-executive directors.	
Chairman and designated member with recent and relevant financial experience Gregor Alexander		**Chair** Lynne Weedall	
Other members James Bilefield Karen Thomson		**Other members** Gregor Alexander James Bilefield Karen Thomson	

Nomination Committee		Health, Safety and Environmental Committee	
Number of members of Committee:	4	Number of members of Committee:	4
Chairman Gregor Alexander		**Chairman** Ray O'Toole	
Other members Sir Brian Souter Karen Thomson Lynne Weedall		**Other members** Martin Griffiths Karen Thomson Lynne Weedall	

4. Corporate governance report (continued)

4.10 Individual director participation at meetings

The following is a table of participation in full Board meetings, meetings of committees and the Annual General Meeting by directors during the year ended 1 May 2021 compared with the total number of meetings that each director was eligible to attend during the year:

	Full Board meetings		Audit Committee		Remuneration Committee	
PARTICIPATION IN MEETINGS	Actual	Possible	Actual	Possible	Actual	Possible
Ray O'Toole	7	7	n/a	n/a	5	5
Martin Griffiths	7	7	n/a	n/a	n/a	n/a
Ross Paterson	7	7	n/a	n/a	n/a	n/a
Gregor Alexander	7	7	4	4	6	6
James Bilefield	7	7	4	4	6	6
Sir Brian Souter	7	7	n/a	n/a	n/a	n/a
Karen Thomson	7	7	4	4	6	6
Lynne Weedall (appointed 1 August 2020)	5	5	n/a	n/a	5	5
Will Whitehorn (resigned 30 June 2020)	1	1	n/a	n/a	n/a	n/a

	Health, Safety and Environmental Committee		Nomination Committee		Annual General Meeting	
PARTICIPATION IN MEETINGS	Actual	Possible	Actual	Possible	Actual	Possible
Ray O'Toole	4	4	n/a	n/a	n/a	n/a
Martin Griffiths	4	4	n/a	n/a	1	1
Ross Paterson	n/a	n/a	n/a	n/a	1	1
Gregor Alexander	n/a	n/a	3	3	n/a	n/a
James Bilefield	n/a	n/a	n/a	n/a	n/a	n/a
Sir Brian Souter	n/a	n/a	3	3	n/a	n/a
Karen Thomson	4	4	3	3	n/a	n/a
Lynne Weedall (appointed 1 August 2020)	4	4	1	1	n/a	n/a
Will Whitehorn (resigned 30 June 2020)	n/a	n/a	2	2	n/a	n/a

Note that the 2020 Annual General Meeting was held behind closed doors with only a quorum present due to COVID-19 restrictions.

4.11 Engagement with stakeholders

Section 1.9 of this Annual Report includes information on how the Board has engaged with the Group's stakeholders, with cross-references to detail elsewhere in this Annual Report. Information on our engagement with shareholders is provided below.

The Board endeavours to present a fair, balanced and understandable assessment of the Group's position and prospects in communications with shareholders. The Group has periodic meetings and/or telephone calls with representatives of major institutional shareholders, other fund managers and representatives of the financial media.

The programme of investor relations includes presentations of the full year and interim results and meetings/calls with institutional investors. Investor and analyst feedback is sought after presentations to ensure key strategies, market trends and actions being taken are effectively communicated and shareholder objectives are known. Written responses are given to letters or e-mails received from shareholders. The Annual Report is published in hard copy and on the Group's website.

The Board receives regular updates on the views of shareholders through briefings from the Chairman and the Executive Directors, reports from the Company's brokers and reports from the Company's Financial PR consultants.

All shareholders are generally welcome to attend and participate at the Annual General Meeting and any other general meetings. Due to the COVID-19 restrictions, it was necessary to hold the 2020 Annual General Meeting as a closed meeting with only two directors in attendance. Shareholders were encouraged to submit questions online and these were answered on the Group's website. The Group will continue to monitor the COVID-19 situation and engage as fully with shareholders as it is able in the circumstances at the 2021 Annual General Meeting. The Group generally aims to ensure that all the Directors are available at the Annual General Meeting to answer questions. The Annual General Meeting usually provides an opportunity for shareholders to question the Chairman and other directors on a variety of topics and further information is provided at the Annual General Meeting on the Group's principal business activities. It is the Company's policy to propose a separate resolution at the Annual General Meeting for each substantially separate issue. All resolutions proposed to the 2020 Annual General Meeting were decided by a poll (as opposed to a show of hands) and details of all votes lodged for and against, or withheld, in respect of each resolution of the 2020 Annual General Meeting were published on the Group's website at https://www.stagecoachgroup.com/investors/shareholder-services/agm.aspx

The Group intends to undertake a poll on each resolution put to the 2021 Annual General Meeting. All votes cast for or against each resolution, will be aggregated and the results will be reported on the Group's website.

The Company and its registrars have established procedures to ensure that votes cast are properly received and recorded.

4.12 Risk management

The Board recognises the importance of maintaining a sound risk culture throughout the Group such that risks are identified, evaluated and managed appropriately. Further details are provided in the sections that follow about the Board's appetite for risk and the Group's risk management process.

4.12.1 Risk appetite

The Board considers that it is in the interests of the Group's stakeholders for the Group to evaluate and accept risk. Delivering the Group's strategy and objectives necessitates some risk taking.

It is the Group's objective that the risk of it not remaining viable for the foreseeable future should be low. Its appetite for risk reflects that overall objective, although as explained in section 3.11.2 of this Annual Report, the COVID-19 pandemic has increased the level of uncertainty facing the Group. Consistent with that risk appetite:

- Safety is at the heart of the Group's business as explained in section 1.8.3 of this Annual Report. Health and safety risks are carefully assessed and the Group avoids activities where health and safety risks cannot be managed to an acceptable level.
- It is the Group's intention to remain focused on the public transport sector and goods and services related to that. The Group does not currently have plans to expand into businesses unrelated to public transport. Before entering a new country, the Group carefully evaluates the risks of doing so.
- The Group seeks to minimise as far as practical the risk of breaches of laws and regulations and applies a zero tolerance approach to employee breaches of legal and regulatory requirements, its own Code of Conduct (see section 1.8.2 of this Annual Report), its delegated authority levels and its other internal policies including in respect of health and safety, anti-corruption and share dealing.
- It is the Group's objective to maintain an investment grade credit rating as explained in section 1.6.11.3 of this Annual Report.
- The Board has set a minimum level of undrawn, committed credit lines that the Group should aim to maintain at all times and which should be available for borrowings.
- Stress testing and reverse stress testing are undertaken in respect of major investment proposals, major contract bids and generally as part of the Board's assessment of the Group's viability.

The Group's risk appetite and related objectives are reflected in the objectives that the Remuneration Committee sets for the Executive Directors.

4.12.2 Risk management process

The Group has an ongoing process for identifying, evaluating and managing the principal risks that it faces, including any environmental, social and governance risks.

The Board considers acceptance of appropriate risks to be an integral part of business and unacceptable levels of risk are avoided or reduced and, in some cases, transferred to third parties. Internal controls are used to identify and manage risk. The Directors acknowledge their responsibility for establishing and maintaining the Group's system of internal control, and for reviewing its effectiveness. The Group's system cannot provide absolute assurance but is designed to provide the Directors with reasonable assurance that any significant risks or problems are identified on a timely basis and dealt with appropriately. The Group has established an ongoing process of risk review and certification by the business heads of each operating unit.

Each identified business risk is assessed for its probability of occurrence and its potential severity of occurrence. Where necessary, the Board considers whether it is appropriate to accept certain risks that cannot be fully controlled or mitigated by the Group.

For those businesses that have been part of the Group for the whole of the financial year ended 1 May 2021, the Group's risk management process was embedded throughout the businesses for that year and up to the date of the approval of this report.

The Board has carried out a review of the effectiveness of the Group's risk management and internal control environment and such reviews are supported on an ongoing basis by the work of the Audit Committee. The Board is satisfied that processes are in place to ensure that risks are appropriately managed.

The Board has designated specific individuals to oversee the internal control and risk management processes, while recognising that it retains ultimate responsibility for these. The Board believes that it is important that these processes remain rooted throughout the business and the managing director of each operating unit is responsible for the internal control framework within that unit.

The Group Risk Assurance (or internal audit) function, which is outsourced to and managed by PricewaterhouseCoopers, reports to the Audit Committee and is utilised in monitoring risk management processes to determine whether internal controls are effectively designed and properly implemented.

A risk-based approach is applied to the implementation and monitoring of controls. The monitoring process also forms the basis for maintaining the integrity and improving, where possible, the Group's risk management process in the context of the Group's overall goals.

The Audit Committee reviews Group Risk Assurance plans, as well as external audit plans and any business improvement opportunities that are recommended by the external auditors.

The Group's risk management process does not specifically cover joint ventures, but the Group maintains an overview of joint ventures' business risk management processes through representation on the boards and in the case of WCT Group (formerly, Virgin Rail Group), its audit committee.

4.12.3 Principal risks and uncertainties

The Board has undertaken a robust assessment of the Group's emerging and principal risks, including those risks that would threaten the Group's business model, future performance, solvency and liquidity. In making that assessment, the Board considered the likelihood of each risk materialising in the short-term and the longer term. In assessing the longer term viability of the Group (see sections 3.11.2 and 5.5 of this Annual Report for further information on the Group's viability), the Board has considered the principal risks.

The Group's principal risks and uncertainties, including emerging risks, are summarised in section 1.4.5 of this Annual Report and that section includes an explanation of how we aim to appropriately manage and mitigate those risks.

4. Corporate governance report (continued)

4.13 Internal control

The wider process described above and the key procedures noted below, enable the Directors to confirm that they have reviewed the effectiveness of the system of risk management and internal control of the Group during the year. The key procedures, which the Directors have established, are as follows:

- an annual budgeting process with periodic re-forecasting of out-turn, identifying key risks and opportunities.
- reporting of financial information to the Board. Group management monitors the results throughout each financial year.
- a Risk Assurance function which reviews key business processes and business controls, reporting directly to the Audit Committee.
- third party reviews commissioned periodically by the Group of areas where significant inherent risks have been identified, such as health and safety, treasury management, claims provisioning, pensions strategy and competition policy.
- a decentralised organisational structure with clearly defined limits of responsibility and authority to promote effective and efficient operations.
- joint control over the activities of joint ventures through Stagecoach representation on the boards of the entities together with regular contact between Stagecoach management and the management of the relevant entities.
- a performance management appraisal system, which covers the Group's senior management based on agreed financial and other performance objectives, many of which incorporate managing risk.
- significant emphasis on cash flow management. Bank balances and available liquidity are reviewed on a daily basis and cash flows are compared to forecast.
- reporting to the Board and/or its Committees on specific matters including updated key risks, taxation, pensions, insurance, treasury management, interest and commodity exposures. The Board regulates treasury management policies and procedures.
- defined capital expenditure and other investment approval procedures, including due diligence requirements where material businesses are being acquired or divested.
- each operating unit maintains internal controls and procedures appropriate to the business. A written certificate is provided at least annually by the management of each business confirming that they have reviewed the effectiveness of the system of internal control during the year.
- a competition compliance programme, which the Board has approved and which is subject to regular monitoring.
- an anti-bribery and anti-corruption policy with training and compliance monitoring.

Any control weaknesses that these procedures identify are monitored and addressed in the normal course of business. No control failings or weaknesses that are significant to the Group as a whole have been identified in the year to 1 May 2021.

4.14 Process for preparing consolidated financial statements

The Group has established internal control and risk management systems in relation to the process for preparing consolidated financial statements. The key features of these internal control and risk management systems are:

- The Risk Assurance function and management conduct various checks on internal financial controls periodically.
- Management regularly monitors and considers developments in accounting regulations and best practice in financial reporting, and where appropriate, reflects developments in the consolidated financial statements. Appropriate briefings and/or training are provided to key finance personnel on relevant developments in accounting and financial reporting. The Audit Committee is also kept appraised of such developments.
- Any recommendations from the auditors, the Financial Reporting Council and others in respect of financial reporting are assessed with a view to continuous improvement in the quality of the Group's financial statements.
- A written certificate is provided annually by the management of each business unit confirming that the internal financial controls have been reviewed and highlighting any departures from the controls system that the Group has determined to be appropriate practice.
- The financial statements of each business unit are subject to review by a local finance manager prior to being submitted to the Group Finance function.
- The financial statements of each business unit are subject to review by the Group Finance function for unusual items, unexplained trends and completeness. Any unexplained items are referred back to local management to explain.
- The Group Finance function compares the financial statements of each business unit to the management accounts received during the year and obtains explanations for any material differences.
- The Group's consolidation, which consolidates the results of each business unit and makes appropriate adjustments, is subject to various levels of review by the Group Finance function.
- The draft consolidated financial statements are reviewed by an individual independent from those individuals who were responsible for preparing the financial statements. The review includes checking internal consistency, consistency with other statements and arithmetical accuracy.
- The Audit Committee and the Board review the draft consolidated financial statements. The Audit Committee receives reports from management and the external auditors on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated financial statements.
- The financial statements of all material business units are subject to external audit.
- The Group uses the same firm of auditors to audit all Group companies.
- The Group auditors review the audit work papers for material joint ventures that are audited by a different firm of auditors.

4.15 Diversity policies

Information on the diversity policy applied to the Group's Board of Directors is provided in section 6.5 of this Annual Report, while information on the workforce diversity policy is provided in section 1.8.5.1.

4.16 Pension schemes

The assets of the pension schemes in which the Group participates are generally held under trust, separate from the assets of the Group and are invested with a number of independent fund managers. The Board periodically considers matters affecting the Group's pension schemes from the perspective of the Group's shareholders and other stakeholders. The Board and/or its Committees reviews pension scheme funding, investment strategy, risk management and internal controls surrounding pension matters.

By order of the Board

Mike Vaux
Company Secretary
30 June 2021

5. Audit Committee report

5.1 Introduction from Gregor Alexander, Chairman of the Audit Committee

As Chairman of the Audit Committee, I am pleased to present our Audit Committee report for the financial year ended 1 May 2021 in accordance with the UK Corporate Governance Code. The report describes how we have discharged our responsibilities under the Code and monitored the effectiveness of the Group's financial reporting, internal control systems and risk management.

I continue to be hugely appreciative of the dedication and professionalism of the Committee, our finance team and our auditors in responding to the matters arising from the ongoing effects of COVID-19. Amongst the matters set out in this Audit Committee report are the significant issues and judgements considered by the Committee, and we have included COVID-19 related items as appropriate.

There were no changes to the membership of the Committee during the year and the experience and skills of the members allow the Committee to continue to perform effectively.

Gregor Alexander
Chairman of the Audit Committee
30 June 2021

5.2 Composition of the Audit Committee

The membership of the Audit Committee is summarised in section 4.9 of this Annual Report and this section 5.2 explains how we have addressed the audit committee composition requirements of the UK Corporate Governance Code. Gregor Alexander is the current Chair of the Audit Committee and is a Chartered Accountant. Gregor is the Finance Director of SSE plc, a FTSE 100 company, and is the designated Committee member with recent and relevant financial experience.

The Committee as a whole has an appropriate and experienced blend of audit, financial and commercial expertise.

5.3 Operation of the Audit Committee

The Audit Committee met four times during the year. The Committee retains discretion as to who from outside the Committee should attend its meetings but generally invites the following to attend:

- The Group Finance Director;
- The Group Financial Controller;
- The Company Secretary, who is Secretary to the Committee;
- Representatives from the external auditors;
- Representatives from the Risk Assurance (internal audit) Function.

The Chairman of the Company and the Chief Executive each attend meetings of the Committee from time to time.

In addition, the Group Tax Director and a representative of the Group Treasury team are expected to present to the Committee at least annually. The Committee may also invite other directors of the Company to attend meetings of the Committee and does so from time to time.

5.4 Activities of the Audit Committee

The Committee receives reports from major business functions including the outsourced Risk Assurance Function (internal audit). It also receives reports from the external auditors. It considers the scope and results of the audit, the half-year and annual financial statements and the accounting and internal control systems in place throughout the Group.

The Audit Committee reviews the cost effectiveness, independence and objectivity of the internal and external auditors.

The terms of reference of the Audit Committee are available on the Group's website at:
https://www.stagecoachgroup.com/terms-of-reference-audit-committee.pdf

The sections that follow set out the areas that the Committee focused on during, and in respect of, the year ended 1 May 2021.

5.4.1 Financial Reporting

The Group's interim and preliminary financial results, as well as its Annual Report, were reviewed and revised by the Audit Committee before recommending their publication to the Board. At each meeting, the Committee discussed with management how they had applied critical accounting policies and judgements to these documents, having considered reports from both the Group's management and the external auditors. The external auditors attended all meetings of the Committee and presented audit plans and findings, amongst other matters.

The Committee considered a number of issues and accounting judgements in respect of the financial statements for the year ended 1 May 2021, of which it considered the most significant to be those set out in the table on the following pages.

In addition to the significant issues and judgements set out in the table that follows, the Committee also considered other accounting and reporting matters in respect of the year ended 1 May 2021, including the following: whether a contract for the provision of batteries to the Group for electric buses contained a lease.

The Audit Committee also reviewed the evidence that supported the conclusion that the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 27 April 2024, noting it was consistent with the disclosure given in section 3.11 of this Annual Report. The Committee reviewed and challenged management on its financial modelling and scenario analysis, reflecting the disruption to the Group's operation caused by the COVID-19 pandemic.

5. Audit Committee report (continued)

Significant issues or judgements considered by Audit Committee	Work and conclusion of Audit Committee	Quantification	Relevant notes to the consolidated financial statements
CURRENT YEAR ISSUES			
Going concern			
The continued uncertainty caused by the COVID-19 pandemic required a higher level of judgement in assessing whether the Group is a going concern.	The Committee considered the work performed by management in assessing the Group's ability to continue as a going concern. In particular, the Committee reviewed the impact of COVID-19 on the Group and the steps taken to manage liquidity risks. The Committee considered financial forecasts for a range of scenarios, including severe but plausible downside scenarios. The Committee also considered the adequacy and accuracy of the disclosures in the Annual Report in respect of the Group's ability to continue as a going concern. The Committee concluded that it remained appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements, and that the disclosure in the Annual Report was appropriate.	Not applicable.	1
COVID-19 related grant income			
The COVID-19 pandemic has had a significant impact on the operations and financial performance of the Group. Passenger revenue decreased significantly from March 2020 as the public followed UK Government advice to avoid all but essential travel. Throughout the pandemic, the Group has had access to various forms of government support for organisations affected by COVID-19, some specific to the sectors in which the Group operates and some available more broadly. In particular, the Group has claimed COVID-19 Bus Services Support Grant ("CBSSG"), which is available to certain operators of local bus services in England. The Group has claimed similar forms of government support for its Sheffield Supertram business, and its bus businesses in each of Scotland and Wales. The Group has also claimed grant income under the Coronavirus Job Retention Scheme ("CJRS") whereby the UK Government provides support for the cost of furloughed workers. Determining the amount of grant income that the Group is entitled to involves some judgement. The grants are generally subject to conditions, and the extent to which the Group has complied with those conditions requires judgement. The calculation of the amounts due involve interpreting the guidance provided by government and making some assumptions. The Department for Transport reserves the right to change the CBSSG calculation methodology at any time during the scheme period. CBSSG receivable, and similar sector-specific COVID-19 related scheme receivables, is a key source of estimation uncertainty described in note 1 to the consolidated financial statements.	The Committee considered and challenged the judgements made by management in determining the amount of grant income recognised for the year ended 1 May 2021. The Committee challenged management's assessment of the likelihood of grant claims being successful. The Committee agreed that the amount of grant income recognised by the Group was reasonable. The Committee considered the adequacy and accuracy of the disclosures in the financial statements in respect of grant income.	In the year ended 1 May 2021, grant income of £255.2m (2020: £38.3m) was recognised in respect of CJRS and sector-specific COVID-19 schemes. As at 1 May 2021, receivables of £25.6m (2020: £27.8) and deferred income of £12.0m (2020: £1.5m) were included in the consolidated balance sheet in respect of CJRS and sector-specific COVID-19 schemes.	1, 3

5. Audit Committee report (continued)

Significant issues or judgements considered by Audit Committee	Work and conclusion of Audit Committee	Quantification	Relevant notes to the consolidated financial statements
CURRENT YEAR ISSUES (continued)			
Onerous contract review			
In assessing its assets for impairment and considering the appropriateness of onerous contract provisions, the Group took account of the effects of the COVID-19 situation. Reflecting the continued uncertainty, that assessment involved an increased level of judgement in forecasting the future profitability of the relevant businesses. Onerous contract provisions are a key source of estimation uncertainty described in note 1 to the consolidated financial statements.	The Committee considered and challenged the judgements made in assessing onerous contract provisions. In particular, the Committee considered the estimation of the COVID-related financial payments that Sheffield Supertram will ultimately receive and retain. The Committee challenged and concurred with the decision to present the current year credit in respect of the reassessment of the onerous contract provision for Sheffield Supertram as a separately disclosed item, mirroring the treatment in the prior year with the previously recorded expense. The Committee concluded that the onerous contract provisions had been appropriately determined. It was satisfied with the presentation and disclosure of such items in the consolidated financial statements.	A credit of £2.5m (2020: expense of £16.5m) was separately disclosed for the year ended 1 May 2021 in respect of the Sheffield Supertram concession, including in relation to changes in the onerous contract provision. As at 1 May 2021, the Group's consolidated onerous contract provisions were £13.6m (2020: £15.8m), of which £13.3m (2020: £14.1m) related to the Sheffield Supertram concession.	1, 4, 23
Fuel derivatives			
The Group is exposed to fuel price risk. It manages the volatility in its fuel costs by maintaining an ongoing fuel hedging programme whereby financial derivatives are used to fix the variable unit cost of a percentage of anticipated fuel consumption. The Group significantly reduced its vehicle mileage in light of reduced customer demand from March 2020 as the public followed UK Government advice to avoid all but essential travel. As a result, the Group significantly reduced its forecast of the level of future fuel consumption that it considered to be highly probable and hedge accounting was discontinued in mid-March 2020 for certain of the fuel hedges covering the period from mid-March 2020 to April 2021. Amounts previously recognised in the statement of comprehensive income in respect of those now discontinued hedges were transferred to the income statement with effect from March 2020 to the extent that the forecast fuel consumption was no longer expected to occur. The income statement expense for that, and for subsequent movements in the fair value of fuel derivatives that are no longer accounted for as hedges, has been presented as a separately disclosed item. Forecasting both the level of highly probable fuel consumption and the level of expected fuel consumption involves judgement.	The Committee considered management's assessment of the fuel hedge relationships. In particular, the Committee challenged management's forecasts of highly probable future fuel consumption and expected fuel consumption, agreeing that the forecasts were reasonable. The Committee challenged and concurred with the decision to present the credit in respect of discontinued fuel hedges, and any related grant income subsequently recognised in respect of such hedges, as separately disclosed items.	In the year ended 1 May 2021, the Group recognised a credit of £4.0m (2020: expense of £12.9m) in respect of discontinued fuel hedges. The Group has also recognised grant income of £6.9m (2020: £Nil) related to these discontinued fuel hedges as a separately disclosed item. The Group considers that all of the financial derivatives it holds as at 1 May 2021 in respect of anticipated fuel consumption are effective hedges and that the anticipated fuel consumption covered by those derivatives is highly probable.	4, 25(g)
Separately disclosed items			
The Group has presented a number of separately disclosed items in the consolidated financial statements, some in relation to the COVID-19 pandemic. Separately disclosed items have been highlighted by the Financial Reporting Council as an area for challenge and the Group's auditors have also explained that they will scrutinise any items presented as such to ensure their agreement with the presentation.	The Committee reviewed the accounting treatment of each of the individual separately disclosed items and also considered the treatment of the pre-separately disclosed items to assess whether any further items should be disclosed separately, including items affected by COVID-19. The Committee confirmed their agreement with the treatment of the separately disclosed items as set out in the consolidated financial statements.	A pre-tax profit of £7.7m (2020: loss of £51.6m), has been presented for separately disclosed items.	1, 4

5. Audit Committee report (continued)

Significant issues or judgements considered by Audit Committee	Work and conclusion of Audit Committee	Quantification	Relevant notes to the consolidated financial statements
RECURRING AGENDA ISSUES			
Valuation of Deferred Payment Instrument			
The Group holds a Deferred Payment Instrument as the outstanding consideration for the sale of its North American business in the year ended 27 April 2019. The Instrument is accounted for as fair value through profit or loss ("FVTPL"). Determining its fair value at any given time involves significant judgement. The COVID-19 situation presents particular challenges to estimating the Instrument's fair value.	The Committee reviewed and challenged management's fair value estimate of the Deferred Payment Instrument. The Committee considered the work undertaken by management in assessing the carrying value of the Deferred Payment Instrument, including the assumptions made by management and the range of possible values. The Committee reviewed the auditor's assessment of the valuation and agreed with the auditor's conclusion that the instrument had been recorded at an appropriate value. The Committee challenged and concurred with the presentation of the movement in the fair value of the Deferred Payment Instrument as a separately disclosed item. The Committee also considered the appropriateness of the accounting and disclosures of other credit risks that the Group has in respect of its former North American business. The Committee concluded that the accounting and disclosure of such items was appropriate.	As at 1 May 2021, the Deferred Payment Instrument has been recorded with a carrying value of £1.9m (2020: £4.5m). The movement of £2.6m (2020: £17.8m) recognised as an expense in the year to 1 May 2021 has been presented as a separately disclosed item.	4, 25(b)
Pensions assumptions			
The determination of the Group's pension benefit obligation and expense for defined benefit pension schemes is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. Those assumptions include the discount rate, annual rate of increase in future salary levels and life expectancies. Pensions assumptions are a key source of estimation uncertainty described in note 1 to the consolidated financial statements.	The Committee considered the appropriateness of pension assumptions by receiving reports from management outlining the basis of the assumptions used, considering advice from external actuaries and considering analysis undertaken by the external auditors. The Committee noted that there was a range of acceptable assumptions but concluded that the assumptions applied were appropriate. The Committee noted that the Group had exited certain Local Government Pension obligations during the year ended 1 May 2021. The Committee considered and concurred with the accounting in the consolidated financial statements for that exit.	The total pensions expense recognised in the consolidated income statement for the year ended 1 May 2021 was £60.2m (2020: £63.4m) and the net retirement benefit liability as at 1 May 2021 was £263.8m (2020: £413.1m). In note 24 to the consolidated financial statements, analysis is provided that shows the sensitivity of pension amounts to changes in key assumptions.	1, 7, 24

Significant issues or judgements considered by Audit Committee	Work and conclusion of Audit Committee	Quantification	Relevant notes to the consolidated financial statements
RECURRING AGENDA ISSUES (continued)			
Claims provisions			
The estimation of the claims provisions in respect of traffic accidents and employee incidents is based on an assessment of the expected settlement on known claims together with an estimate of payments that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not been reported to the Group. Claims provision assumptions are a key source of estimation uncertainty described in note 1 to the consolidated financial statements.	The Committee discussed with management the key judgements made in determining the claims provisions, challenging the methodology used, and understanding the extent to which estimates are supported by third party actuarial advice and analysis provided by the external auditors. The Committee noted that there was a range of acceptable estimates for the year-end claims provisions and after challenge, concluded that the amount of the claims provision was at an appropriate point within that range.	The claims provisions in the consolidated balance sheet as at 1 May 2021 were £106.7m (2020: £106.8m). This provision contains £16.0m (2020: £20.2m) which is recoverable from insurance companies and is included within trade and other receivables.	1,23
Rail contractual positions			
The Group's former train operating companies are party to various contractual and regulatory arrangements typical of the UK rail sector. These include arrangements with the Department for Transport, Network Rail Transport for London, rolling stock lessors and other train operators. These arrangements give rise to estimation uncertainty in determining the carrying value of receivables and payables in respect of these arrangements. The Group's key sources of estimation uncertainty described in note 1 to the consolidated financial statements include rail contractual positions.	The Committee considered the work undertaken by the auditors in relation to rail contractual positions, including the extent to which balances had been validated with the relevant counterparties. The Committee noted the profit recognised in the year ended 1 May 2021 as a result of the release to profit of some liabilities previously held in respect of rail contractual positions. The Committee agreed that management's estimates of contractual receivables and payables in relation to former train operating companies were appropriate.	As at 1 May 2021, the UK Rail net liabilities shown in note 2(d) to the consolidated financial statements were £110.2m (2020: £133.3m). The Directors estimate that these could require adjustment by up to £10.0m in the year ending 30 April 2022, as a result of the reassessment of rail contractual positions.	1

5.4.2 Climate change considerations

Like many organisations, our focus on climate change matters has increased in recent years. Section 1.8.7 of this Annual Report provides more information on climate change matters.

As a Group, we aim to connect people in a sustainable way, which is better for the environment. We make a positive contribution to the environment by providing an alternative to single-person car travel, and as a result, reducing overall harmful emissions per journey. Analysis by the Centre for Economics and Business Research ("CEBR") in 2019 showed that without Stagecoach Group's bus services, there would be an annual increase of 190,000 tonnes of CO_2 through people using alternative modes of transport, principally the car.

The Board and the Health, Safety & Environmental Committee each consider climate change matters. However, during the year ended 1 May 2021, the Audit Committee considered the extent to which the current and future effects of climate change are appropriately reflected in the consolidated financial statements. In particular, the Committee considered the potential effect on estimates of onerous contract provisions, the valuation of the Deferred Payment Instrument, impairment of assets and the assumed useful lives and residual values of property, plant and equipment. Although no adjustments were required to the amounts reported in the financial statements as a result of that review, the Committee did concur with management's view that potential consequences of climate change did result in increased estimation uncertainty with respect to the useful lives of passenger service vehicles. Further information on climate change and the estimated useful lives of passenger service vehicles is provided in note 1(e)(ii) to the consolidated financial statements.

5.4.3 External auditors

Ernst & Young was appointed as the Group's external auditor at the Annual General Meeting in August 2016. Kevin Weston is the current audit engagement partner, and under partner rotation rules, a new lead audit partner will be required in 2025. In accordance with the Code, the Group will be expected to tender the external audit by 2026.

The external auditors presented a detailed audit plan to the Committee, setting out their analysis of significant audit risks and key judgemental accounting matters, which would inform their planned scope and approach to the current year audit. For the year ended 1 May 2021, the most significant risks identified were in relation to the impact of the COVID-19 pandemic on the Group's going concern assessment, provisioning for claims, valuation of pension liabilities, and management override of controls in relation to revenue recognition and government assistance receivable. The Committee challenged the work done by the auditors to test management's assumptions and estimates on these issues.

Private meetings were held with the external auditors at each Committee meeting without the presence of management. The Committee Chairman also holds discussions with the external auditors between Committee meetings.

The Audit Committee is responsible for agreeing the audit engagement letter, agreeing the scope of the audit, appointing the audit partner and making recommendations on the appointment, reappointment and remuneration of the external auditors. There have been no instances of disagreements between the Board and the Audit Committee relating to the external auditors.

5. Audit Committee report (continued)

Subject to the annual appointment of auditors by the shareholders, the Audit Committee conducts a continuous review of the relationship between the Group and the auditors. This review includes:

- the consideration of audit fees that should be paid and advance approval of any other fees in excess of £50,000 per annum which are payable to auditors or affiliated firms in respect of non-audit activities;
- the consideration of the auditors' independence and objectivity;
- the nature and scope of the external audit and the arrangements which have been made to ensure co-ordination where more than one audit firm or offices of the same firm are involved; and
- discussions on such issues as compliance with accounting standards.

The Committee formally assesses the effectiveness of the external audit process and the quality of the audit on an annual basis. As well as undertaking its own assessment of the audit effectiveness, the Committee also considers the views of a number of finance managers from various parts of the Group. The Audit Committee met with management, without the auditors present, to consider audit effectiveness and quality. The auditor assessment questionnaire is completed on an annual basis and examines three main performance criteria – robustness of the audit process, quality of delivery and quality of people and service. The Committee is particularly focused on understanding how the auditor has demonstrated professional scepticism and challenged management's assumptions where necessary. The Committee has seen good evidence of the auditors' professional scepticism and management challenge, with some changes being made to the draft financial statements as a result. Of course, the Committee also directly challenges management's assumptions when appropriate, and the table in section 5.4.1 of this report explains where the Committee challenged management's assumptions in respect of significant issues and judgements. The auditor assessment also includes consideration of the auditors' independence and objectivity, taking into account relevant laws, regulations and professional requirements. The assessment involves considering all relationships between the Group and the auditors, including the nature and quantum of non-audit services. Assurances are obtained from the auditors that they and their staff have no financial, business, employment, family or other personal relationship with the Group that could affect the auditors' independence and objectivity, taking account of relevant ethical standards. The auditors explain to the Audit Committee their policies and processes for maintaining independence and monitoring compliance with relevant requirements. Having completed the assessment of both the external audit process and the external auditor for the year ended 1 May 2021, a resolution to reappoint Ernst & Young as the Group's auditor will be put to the forthcoming Annual General Meeting.

The Audit Quality Review team of the FRC reviewed Ernst & Young's audit of the Group's consolidated financial statements for the year ended 2 May 2020. The FRC wrote to the Chairman of the Audit Committee setting out the scope of its review, its principal findings and areas of good practice identified. Overall, the Audit Committee noted the review did not raise any findings to consider and, accordingly, the Committee is satisfied that this was a high quality audit.

5.4.4 Non-Audit services

Procedures in respect of other services provided by the auditors are in place to safeguard audit objectivity and independence. The Group's policies on non-audit services are set by the Audit Committee and are currently:

- General – The auditors are not permitted to provide any non-audit services that they would be prohibited by law from providing due to either the nature of the services or the level of the fee for the services.
- Audit related services – These are services that the auditors must undertake or are best placed to undertake by virtue of their role as auditors. Such services include formalities relating to bank financing, regulatory reports, and certain shareholder circulars. The auditors would generally provide all such services, subject to any legal restrictions.
- Tax consulting – It is the Group's policy not to use the auditors for tax consulting work.
- General consulting – For other consulting work, the Group will select an advisor after taking account of the skills and experience required and the expected cost of the work. The Group uses a range of advisors for general consulting, including the auditors where they are best suited to the work being undertaken and subject to any legal restrictions.
- The auditors are only permitted to provide non-audit services to the Group when the Audit Committee and the auditors are satisfied that there are no circumstances that would lead to a threat to the audit team's independence or a conflict of interest that could not be effectively safeguarded.

The external auditor received no material non-audit related fees (2020: £0.1m) in the year ended 1 May 2021.

The Committee believes that the level and scope of non-audit services does not impair the objectivity of the auditors and that there is a clear benefit obtained from using professional advisors who have a good understanding of the Group's operations. Other accounting or consulting firms have been used where the Group recognises them as having particular areas of expertise or where potential conflicts of interest for the auditors are identified. The Committee will review its policy on non-audit services from time to time, to ensure continued compliance with laws and regulations.

5.4.5 Internal auditors

PricewaterhouseCoopers has managed the outsourced Risk Assurance Function (internal audit) since September 2016. The Committee has received several reports from PricewaterhouseCoopers during the year ended 1 May 2021 and since, detailing the planned schedule of audits as well as tracking key findings and any related material actions.

PricewaterhouseCoopers attended all meetings of the Committee, in addition to meeting privately with the Committee without the presence of management. The Audit Committee reviews the internal audit plan at least annually and considers whether it is aligned to the key risks of the Group. The Committee also has the responsibility for making recommendations on the appointment, reappointment, removal and remuneration of the Group Risk Assurance Function. There have been no instances of disagreements between the Board and the Audit Committee relating to the Risk Assurance Function.

The Committee has worked closely with the internal auditors in developing the scope of work, ensuring it was flexible to respond to the fluid nature of the COVID-19 pandemic. Over the past year, the internal auditors' work has involved reviews of several operating companies as well as assignments in respect of Coronavirus Job Retention Scheme ("CJRS") compliance; technology resilience and mobile device management; technology card data environment; business continuity and disaster recovery; procurement; accounts payable; treasury and tax compliance.

The Committee formally assesses the effectiveness of the Risk Assurance Function on an annual basis and seeks to satisfy itself that the quality, expertise and experience of the function is appropriate for the Group. This assessment involves both Audit Committee members and members of the management team completing a questionnaire with the results of that exercise then considered by the Committee. This assessment includes a consideration of independence and objectivity, the overall level of fees, the quality of the risk assurance process, and the role of the function in the context of the broader sources of risk assurance.

5. Audit Committee report (continued)

5.4.6 Code of Conduct and Whistleblowing Policy

The Audit Committee reviews compliance with the Group's Code of Conduct and the Board oversees use of the Group's "Speak Up" Whistleblowing policy, which provides a mechanism for employees with serious concerns about the conduct of the Group, or its employees, to report those concerns. The Board ensures that appropriate arrangements are in place to receive and act proportionately upon a complaint about malpractice.

All known instances of fraud, theft or similar irregularities affecting the Group were reported to and considered by the Committee, although there were no such matters that were material.

5.4.7 Other activities

The Committee has considered a range of other matters at its meetings over the last year and received various reports and presentations as follows:

- As part of an enhancement of the Committee's monitoring of risk management, additional "deep dive" reviews were performed on particular areas of risk, with presentations received from members of the senior management team on pensions risks, regulatory/political risk and major incident risk.
- A presentation was received from the Group Tax Director on the Group's tax affairs and related accounting judgements and risks. The Group Treasury team gave a presentation on the Group's treasury affairs and management of treasury risks.
- As part of the Committee's ongoing training and development, both management and the external auditors updated the Committee on developments in accounting standards, auditing standards, the Financial Reporting Council UK Corporate Governance Code, legislation affecting the Group more generally and other relevant regulatory developments and guidance.

5.4.8 Fair, Balanced and Understandable

The Audit Committee advised the Board on whether it considers the Annual Report and financial statements, taken as a whole, to be fair, balanced and understandable and to provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy. The Committee assessed the controls and processes in place in respect of the production of the Annual Report and financial statements as operating effectively during the year, and was able to provide positive assurance to the Board on the fair, balanced and understandable conclusion.

In advising the Board, the Audit Committee noted that:

- The Board considers the key risks facing the Group and the Audit Committee considered how these link to the description of principal risks and uncertainties in the Annual Report;
- The Board considers the strategy of the Group and its short and long-term objectives;
- The Board receives regular updates on the actual financial performance of the Group and significant developments affecting the Group;
- The Board receives summaries of significant media coverage relevant to the Group;
- The Board ordinarily reviews and approves the Group's budget each year and is updated at least twice a year on an updated forecast of financial performance for the year;
- The Audit Committee receives updates on developments in accounting standards and other relevant laws and regulations;
- The Audit Committee receives updates on key areas such as treasury, taxation and audit;
- The Audit Committee and the Board generally have the opportunity to consider, comment and request changes to the Annual Report prior to publication;
- The preparation of the "front end" of the Annual Report includes the Corporate Communications team, the Company Secretariat, and Group Finance as well as business unit management validating the appropriateness of the material relating to the relevant business unit. The involvement of these various groups helps ensure the balance, completeness and accuracy of the "front end";
- The Audit Committee receives reports from the external auditors, the Risk Assurance function and management in respect of various matters including the financial statements;
- The external auditors report on whether the "fair, balanced and understandable" statement is materially consistent with their knowledge of the Group acquired in the course of performing their audit.

The Audit Committee's assessment considered whether:

- Appropriate weight had been given to "bad news" as well as "good news" in the Annual Report;
- The description of the business, principal risks and uncertainties, strategy and objectives in the Annual Report was consistent with the Board's understanding;
- The principal risks and uncertainties were consistent with the Group risk register;
- The Annual Report was presented in an "understandable" way.

The Audit Committee also noted the established internal control and risk management systems in relation to the process for preparing consolidated financial statements, including those matters detailed in section 4.14 of this Annual Report.

5.5 Viability statement

The Audit Committee advised the Board on the statement on the Group's viability included in section 3.11 of this Annual Report, which was underpinned by the consideration of the following points:

- The Audit Committee assessed the reasonableness of the assumptions made about the Group's prospects, with reference to the strategy and risk appetite set by the Board;
- The Audit Committee identified which risks, including those described as principal risks and uncertainties in the Annual Report, could potentially impact the Board's assessment of the Group's viability;
- The Audit Committee reviewed the length of the assessment period;
- The Audit Committee examined the stress testing of financial forecasts, the potential effectiveness of mitigating actions, and consideration of the Group's ability to withstand the severe but plausible downside scenarios modelled.

A draft of the viability statement was presented to the Audit Committee and Board in June 2021 for review and finalisation.

5.6 Committee evaluation

The Committee's activities formed part of the external review of Board effectiveness performed in the year. Details of this review are provided in section 4.8. Audit Committee members also completed a separate questionnaire on the effectiveness of the Committee and the results of that exercise were considered by the Committee. Overall, the Committee considers that it has continued to operate effectively during the year.

6. Nomination Committee report

6.1 Introduction from Gregor Alexander, Chairman of the Nomination Committee

The Nomination Committee has an important place in the governance structure of the Group. An effective board needs to maintain balance over time, taking account of planned and unplanned changes to membership and the changing needs of the business. As Chairman of the Committee, I ensure that we regularly review our Board composition and ensure that the mix of skills and experience available is appropriate. We are aware that talented individuals can come from diverse backgrounds and we aim to promote diversity in the recommendations that we make to the Board. The Stagecoach Group aims to identify and break down barriers to candidates from diverse backgrounds throughout the business and ensure that its talent pipeline reflects the diversity of the population.

The Board underwent significant change at the end of 2019, with Ray O'Toole taking over as Chairman from Sir Brian Souter, who continues to serve as a Non-Executive Director. Co-founder, Ann Gloag, and long-standing non-executive director, Sir Ewan Brown, stepped down on 31 December 2019. Will Whitehorn, formerly our Deputy Chairman, stepped down on 30 June 2020. Lynne Weedall joined the Board on 1 August 2020 and took over the chair of the Remuneration Committee from 18 November 2020.

The independent voice on the Board has been strengthened by these changes. We were pleased to be able to appoint Lynne Weedall to the Board, meaning that 25% of the Board are now women, in line with our minimum aspiration. However, we believe that more can and should be done to improve the diversity of our Board. In April 2022, I shall have served on the Board for nine years and will thereafter no longer be considered to be independent. The Nomination Committee has agreed that it will seek to appoint an additional Board member with appropriate skills and experience to chair the Audit Committee following a handover period. In making this appointment, the Committee will seek a range of candidates with the aim of also helping to improve gender and ethnic diversity on the Board.

We have reviewed the performance and length of service of our executive and non-executive directors and are pleased to be able to recommend all of the Directors for re-election at the 2021 Annual General Meeting.

Gregor Alexander
Chairman of the Nomination Committee
30 June 2021

6.2 Composition of the Nomination Committee

The composition of the Nomination Committee is summarised in section 4.9. The Committee also invites other directors to attend its meetings from time to time.

6.3 Operation of the Nomination Committee

The Nomination Committee keeps under review the overall structure, size and composition of the Board, and is responsible for evaluating the balance of skills, knowledge and experience of the Board and its committees. Where appropriate, the Committee will suggest adjustments to achieve that balance. For a proposed appointment, the Committee will prepare a description of the role and the attributes required of the candidates, which will include a job specification and the estimate of the time commitment expected. In making any appointment, the Group's policy on directors having other significant commitments will be taken into account and potential candidates will be asked to disclose their other commitments and confirm that they will have sufficient time to meet what is expected of them. The Directors are also required to report any significant changes in their other commitments as they arise. The Committee identifies and evaluates suitable candidates and makes proposals for each appointment, although final appointments are the responsibility of the Board as a whole. The appointments process takes account of the benefits of diversity of the Board, including gender and ethnic diversity, and in identifying suitable candidates, the Committee considers candidates from a range of backgrounds. Recruitment consultants are selected based, amongst other factors, on their ability to access a diverse pipeline of talent.

When seeking to appoint a new non-executive director, the Nomination Committee compiles a shortlist of potential new non-executive directors by taking account of known candidates and candidates suggested by the Group's advisors and/or appointed recruitment consultants. The Company engaged the services of the executive search firm, Sam Allen Associates, to assist with the search that led to the appointment of Lynne Weedall to the Board and to assist with the search for a further Non-Executive Director. There is no other connection between Sam Allen Associates and the Group.

The search for candidates for non-executive directors is undertaken on the basis of search specifications that set out the key experience, skills and attributes that had been identified by the Company.

Non-executive directors receive a letter of appointment. For any new appointments, the expected time commitment is agreed with the director and included in the letter of appointment. No director of the Company is currently a chairman of a FTSE 100 company.

The terms of reference of the Nomination Committee are available on the Group's website at:
https://www.stagecoachgroup.com/terms-of-reference-nomination-committee.pdf

6.4 Appointments of Chairman and Chief Executive

The Chairman of the Company is responsible for leading any appointment for the post of Chief Executive.

The Chairman of the Committee, who is also the Senior Independent Director, is responsible for the succession planning process for the Chairman.

6.5 Board diversity and inclusion policy

The Company believes strongly that its Board benefits from being comprised of talented people with a range of perspectives and from differing backgrounds. It is our policy to maintain diversity on the Board with regards to aspects such as age, social and ethnic backgrounds, cognitive and personal strengths. The objectives of this diversity policy is to maintain a Board with directors that collectively have a broad range of skills appropriate to pursuing the Group's strategy and objectives, to ensure that the Board benefits from a range of perspectives and viewpoints and to ensure that no one director or viewpoint is dominant in the decision making process.

The diversity policy has been implemented by ensuring that the terms of reference of the Committee reflect diversity in the criteria for identifying suitable candidates for nomination to the Board. The policy is also reflected in the discussions the Committee has with external search consultancies in any search process for a new director.

We consider that our policy in respect of Board diversity has remained effective during the financial year ended 1 May 2021. In recent years, we have widened the range of skills and backgrounds that the Directors have by adding directors with greater expertise in digital, technology and marketing. The Company was co-founded by Dame Ann Gloag and throughout its life as a listed company it has had at least one woman on its Board and for almost all of the time since May 2001, at least two. During the year ended 2 May 2020, Dame Ann Gloag and Dame Jayne-Anne Gadhia stepped down from the Board. Karen Thomson remains on the Board and Lynne Weedall joined the Board on 1 August 2020. From then, 25% of the Board have been women. That is consistent with the Board's previously set aspiration for female representation on the Board of at least 25% and this aspiration will remain a factor in recruiting new members of the Board. Of the Executive Committee members and their direct reports (excluding personal assistants), 38.1% are female. The appointments during 2020/21 of a female UK Managing Director, a direct report to the Chief Executive, and a female Head of Procurement, a direct report to the Finance Director, have contributed to an increase in the proportion of the senior management team that is female. The Board is mindful that it has no non-white members and aims to address this with future appointments to the Board.

In addition to board diversity, the Company believes in promoting diversity and inclusion at all levels of the organisation, further details of which is provided in section 1.8.5 of the Strategic report.

6.6 Succession planning arrangements

The Board and the Nomination Committee recognise the importance of succession planning to ensure that the Group continues to prosper in the longer term. The Group operates a decentralised organisational structure with clearly defined limits of responsibility and authority, and oversight from head office. This structure provides the opportunity for managers to develop in some of the Group's smaller business units before progressing to wider and more responsible roles. The Group has a history of developing good managers who have progressed to take on senior positions within the Group. The Group operates a graduate recruitment programme, and some of the graduates recruited have gone on to become managing directors of individual business units.

The Chief Executive has established a centralised People Team to lead on further enhancing the recruitment, retention and development of talented employees throughout the Group.

Working with recruitment consultants and the People Team, the Committee supports the recruitment and development of a diverse pipeline of talent. A programme of diversity and inclusion is in place, which includes employee networks to encourage people from under represented communities to engage with each other, to feel supported by our leaders and to develop their confidence to progress further in their careers with the Group. We are rolling out bite size training sessions to hiring managers to ensure they are recruiting from a wide talent pool. We have also partnered with a recruitment expert, who specialises in diversity and inclusion to help us recruit into senior leadership roles.

The Nomination Committee aims to ensure that appropriate succession arrangements are in place for the Directors. The Nomination Committee and the Board seek to identify new directors and senior managers to ensure succession of directors is conducted in a managed way, without significant disruption to the ongoing business of the Group. The Committee believes that it is important to develop and promote existing talent from within the organisation.

The Group's Directors bring a broad range of skills to the Board, including general management skills. In its succession planning, the Committee considers the need to maintain and enhance this wide range of skills with particular emphasis on the following:

- Health and safety – As is explained in section 1.8.3, safety is at the heart of our business. The Group has a separate Health, Safety and Environmental Committee and the Nomination Committee considers it appropriate that the Non-Executive Directors collectively have an understanding of health and safety matters. A number of the Directors bring skills in these areas.
- Transport sector – The Committee considers it beneficial for the Non-Executive Directors to collectively have experience of transport businesses to bring a sector-specific perspective on matters such as health and safety, transport operations, sector regulation and accounting. Ray O'Toole and Sir Brian Souter bring considerable experience of bus, rail and the broader transport sector to the Board.
- Financial – The Committee considers it essential that the Non-Executive Directors collectively have recent and relevant financial experience, in order for the Audit Committee to function effectively but also to bring broader financial insights to the Board. As Chairman of the Audit Committee and as a serving FTSE 100 finance director, Gregor Alexander brings substantial recent and relevant financial expertise. Sir Brian Souter is a qualified accountant, while James Bilefield has investment banking experience, bringing further financial insight to the Board.
- Digital and technology – The Committee has identified the increasing importance of digital and technological opportunities and risks to the Group's strategy. James Bilefield and Karen Thomson have enhanced the Board's skills in these areas.
- Listed company – The Committee believes it is beneficial for the Non-Executive Directors to have collective experience of other publicly listed companies to contribute in the areas of corporate governance, management of potential conflicts, investor relations and regulatory compliance. Each of Gregor Alexander, James Bilefield, Ray O'Toole, Karen Thomson and Lynne Weedall serve or have served on the boards of other publicly listed companies.
- People and remuneration – Lynne Weedall brings considerable experience in human resources strategy and has significant experience on remuneration committees. James Bilefield brings experience in people development, mentoring and recruitment.
- Regulatory – The Group operates in regulated markets and the risk of regulatory change is a principal risk. The Committee therefore values the Non-Executive Directors' insight on regulatory matters. A number of the Directors have significant skills on regulatory matters, including Ray O'Toole (from the transport sector and the regulated water business), Sir Brian Souter (from the transport sector) and Gregor Alexander (from the regulated energy business).

Given the importance of succession planning, the views of all directors are considered and not just the views of the members of the Committee.

6.7 Board evaluation

Section 4.8 of this Annual Report sets out how the Board's evaluation has been conducted. Independent Audit Limited, the external evaluator, compiled a report to the Board based on responses to questionnaires from each individual director, review of Board papers and attendance throughout a full Board meeting (which was held online due to COVID-19 restrictions). Representatives of Independent Audit Limited presented the report findings to the following Board meeting.

The Chairman held one-to-one appraisal meetings with each of the other directors and the Senior Independent Director co-ordinated the evaluation of the Chairman.

Section 4.8 summarises the outcomes of the Board's evaluation, and the actions taken. The Committee considered how these influenced board composition, noting the need to appoint a new non-executive director capable of chairing the Audit Committee.

7. Health, Safety and Environmental Committee report

7.1 Introduction from Ray O'Toole, Stagecoach Group Chairman and Chairman of the Health, Safety and Environmental Committee

The Health, Safety and Environmental Committee assists the Board to fulfil its responsibilities by recommending Group policy in these areas and monitoring compliance with the Group policy. As the Chairman of the Committee, I ensure that the Committee challenges the Group management team to continue to strengthen its proactive safety culture and management processes to address identified risks and to respond to events.

While the importance we place on health and safety is undiminished, we are also increasingly focused on the environmental part of our remit and have updated our terms of reference to reflect that. We have oversight of the Group's sustainability strategy and its implementation.

We involve a range of contributors from the Group's businesses in the work of the Committee and the Committee actively engages with those businesses to help the Group to evolve its health, safety and environmental strategy and culture. Members of the Committee are encouraged to be visible to the Group's managers and staff through regular site visits. Unfortunately, site visits have not been possible over the past year due to COVID-19 restrictions but the Committee is keen to resume these when it is safe to do so. Managers are invited to attend meetings of the Committee and are encouraged to bring more junior members of their teams to engage with the Committee. By bringing contributors together at its meetings, the Committee aims to share knowledge between the Group's businesses and to challenge its business managers and safety advisers to promote sustained improvement over time.

The safety and security of our customers, our people and others is fundamental to our business. Public transport is the safest way to travel and health and safety is at the top of our agenda.

Ray O'Toole
Chairman of the Health, Safety and Environmental Committee
30 June 2021

7.2 Composition of the Health, Safety and Environmental Committee

The membership of the Health, Safety and Environmental Committee is summarised in section 4.9.

The terms of reference of the Health, Safety and Environmental Committee are available on the Group's website at:
https://www.stagecoachgroup.com/terms-of-reference-hse.pdf

7.3 Operation of the Health, Safety and Environmental Committee

The Committee considers health, safety and environmental risks, mitigations and issues across the Group and reports to the Board on these matters. The Committee also approves the Group's overall strategic safety framework. It has access to internal safety executives and also external consultants, where required.

Executive management is responsible for ensuring that local health and safety policies and procedures are consistent with the overall framework. Senior managers attend meetings of the Committee, providing the Committee with an opportunity to question and challenge management on health, safety and environmental matters and to share best practice across the Group. As incidents occur, the Committee, aided by the safety management teams, is able to analyse those incidents and learn lessons to further improve the Group's safety processes.

The Committee and its members visit operational locations to observe health, safety and environmental management in practice. Unfortunately, COVID-19 restrictions have made this impossible over the past year but we have made full use of video conferencing to bring presentations from the wider management team to the Committee. Members of the Committee have also attended meetings of the employee engagement forum, which have provided useful insights into matters of concern to employees, particularly arising from the COVID-19 pandemic.

The Committee allocates time in its agendas to detailed briefings and deep dive discussions on areas of specific interest or concern to it. During the year, presentations and deep dive discussions covered a range of topics, including:
- The initial response to the developing COVID-19 pandemic
- Updates on COVID-19 safety measures as the pandemic developed
- Investigation of the incident in Winchester in which a double deck vehicle on a school bus service struck a low bridge, causing injuries to a number of pupils
- Development of tools to assess individual drivers' risk profile
- The development of a new sustainability strategy
- Reports received through the Group's "Speak Up" whistleblowing platform relating to health, safety and environmental matters
- Employee health and wellbeing initiatives

The Committee supported management efforts to evaluate safety systems to prevent bridge strikes and was pleased that in January 2021, the Group was able to announce the roll-out of an enhancement to the GreenRoad telematics system which is expected to cover the approximately 8,000 coaches and buses in operation with the Group by summer 2021. This uses additional GPS location data and mapping to alert drivers to nearby low bridges. This will enhance the range of existing safety measures in place, including the design of bus routes to avoid low bridges, detailed classroom and practical route training for drivers, and ongoing work with authorities to ensure the placement of appropriate signage and other alerts.

The Committee receives reports on trends in health and safety indicators across the Group as well as information on significant incidents involving the Group. Management has continued to develop appropriate leading indicators in areas covered by the Committee's remit. Key performance indicators are provided and reviewed. Training, where relevant, is provided to the Committee on health, safety and environmental matters. The Committee liaises with the Remuneration Committee in determining any health, safety and environmental objectives to form part of the Executive Directors' personal objectives

8. Directors' remuneration report

In this section of the Annual Report, there are three separate sections dealing with the Directors' remuneration report as follows:

- the annual statement from the Chair of the Remuneration Committee;
- a summary of the 2020 directors' remuneration policy (the "2020 Policy"); and
- the annual report on remuneration (implementation).

8.1 A statement to shareholders from Lynne Weedall, Chair of the Remuneration Committee

I joined the Stagecoach Board and the Remuneration Committee in August 2020, and assumed the Chair of the Committee on 18 November 2020. I would like to thank my predecessor, Ray O'Toole, for his chairmanship of the Committee, and his engagement with our largest shareholders during the consultation on the 2020 directors' remuneration policy, which was overwhelmingly endorsed by shareholders at the 2020 Annual General Meeting. I would also like to express my personal thanks to Ray for the support he has provided to ensure a smooth transition. I am pleased that all of the other members of the Committee remained in post during the year, bringing their own valuable insights and continuity to the Committee. The Committee's main focus in 2020/21 was on progressing and obtaining the approval of the 2020 Policy and considering how best to implement the new Policy on behalf of shareholders against a backdrop of uncertain times. A complete copy of the approved 2020 remuneration policy is available on our website at: https://www.stagecoachgroup.com/about/managing-the-business/governance/directors-remuneration.aspx

Remuneration policy and substantial changes to directors' remuneration

We engaged in an extensive consultation involving correspondence and meetings with shareholders in the development of the 2020 remuneration policy. As a result, the 2020 Policy that emerged received strong support from shareholders at the 2020 Annual General Meeting.

In line with UK legislation, we do not intend to seek further approval of the policy at the 2021 Annual General Meeting because no changes are proposed to the approved policy.

Our remuneration policies are designed with the long-term success of the Company in mind. Reflecting the feedback from shareholders, we sought to ensure that our remuneration arrangements provide a clear alignment between the long-term interests of our shareholders and the corporate strategy to be implemented by the executive management. We consider it is important that the components of remuneration are easily understood and that overall remuneration is not excessive, having due regard to alignment with workforce pay. While the 2020 Policy made reductions in the Executive Directors' potential variable pay and future pension entitlements, the core principles applied to executive pay and remuneration are consistent with the previous remuneration policy.

The main new components of the 2020 Policy approved by shareholders were:

- A reduction in the Executive Directors' maximum annual bonus percentage from 150% to 130% of basic pay;
- A reduction in the Executive Directors' pension entitlements over the life of the policy to align with the majority of the workforce;
- The replacement of the Long Term Incentive Plan with a Restricted Share Plan with maximum annual awards reduced from 150% to 75% of basic pay;
- A minimum five-year holding period for awards under the Restricted Share Plan; and
- The introduction of post-employment shareholding requirements.

The business context in 2020/21

As discussed in section 1.3 of this Annual Report, from March 2020, and during the year ended 1 May 2021, the Directors took steps to address and mitigate the impact of the COVID-19 pandemic on the Group. Our focus was, and remains, on protecting the health and wellbeing of our colleagues and customers; working in partnership with government and local authorities to deliver the critical public transport the country and our communities need; and protecting the long-term sustainability of our business. The Committee is satisfied that the Executive Directors have done all that could have been reasonably expected of them in leading the Company and our staff through this extraordinary crisis, whilst protecting the long-term sustainability of our business.

Major decisions on directors' remuneration

This is the second Directors' Remuneration Report since COVID-19 hit the Group. The Committee has reflected on the impact of COVID-19 on the business and its stakeholders, exercising clear pay restraint with pay waivers and pay freezes in 2020 and again in 2021, cancelling all bonus awards in 2020, and for 2021, materially reducing bonuses otherwise earned. It was also decided that no cash bonuses would be paid to the Executive Directors or senior management. We acknowledge the challenges faced by all our staff and the enormous contribution from everyone to continue to run vital public services in the most difficult circumstances. We also recognise the greater uncertainty arising from the COVID-19 situation, and we therefore consulted with some major shareholders on our decisions on pay and performance-related awards for 2020/21. We did not take these decisions lightly and are grateful for the engagement with those shareholders, all of whom were supportive of the approach we have taken under these exceptional circumstances.

Since our last Directors' remuneration report in July 2020, we made the following major decisions on Directors' remuneration;

- We confirmed that the bonus objectives and performance targets that we set for the Executive Directors around the start of the financial year 2020/21, which took into account the COVID-19 context, remained appropriate and would not be changed.
- We confirmed the waivers of basic pay by the Executive Directors of 50% for April to June 2020 and 20% for July to September 2020.
- We approved the first awards under the new Restricted Share Plan, consistent with the 2020 Policy. An award of restricted shares, equivalent to 75% of annual basic pay, was made to each of the Executive Directors in December 2020.
- We reviewed the Executive Directors' performance against the objectives set for 2020/21. Our assessment is that the Executive Directors performed strongly and met in full the demanding financial and non-financial objectives, which would have merited performance related awards of 130% of basic salary. In light of the exceptional circumstances, we reduced the amount of the performance related awards by 50% and eliminated any cash awards to the Executive Directors for 2020/21.
- This resulted in an award of Deferred Shares to the Executive Directors under the Executive Participation Plan, with a face value equivalent to 65% of their basic pay. Additional performance conditions will attach to these Deferred Shares before they can vest in three years' time (details of which are set out in section 8.5.3 (iii)), and under which the Remuneration Committee may reduce the vesting to nil.
- For the fourth consecutive year, we decided that there would be no increases in the basic pay of the Executive Directors for 2021/22. It was also decided that there would be no increases in pay for the Chairman and the Non-Executive Directors.

8. Directors' remuneration report (continued)

Protecting our people and the business

As summarised above and as set out in detail elsewhere in this Annual Report, the Group has continued to show effective leadership in its responses to the COVID-19 pandemic, and this was reflected in our decisions on directors' remuneration.

As a Committee, we take a strong interest in the experience of all of our people, not just the senior management team. Over the past year, the Group has focused on protecting and promoting the health and wellbeing of our colleagues. Additional health and safety measures were put in place at the start of the pandemic to further protect our people and those who travel with us. Those additional measures included an enhanced cleaning regime on buses, protective screens between the drivers and passengers on all buses, and social distancing in line with applicable guidance from government. We were also early adopters of the Association of Local Authority Medical Advisors COVID-19 assessment tools to help us in managing occupational risks of COVID-19, maximising the protection of our employees and reducing risk based on clear occupational health guidance. We have increased the level of support to our managers and leaders in keeping our people informed, engaged and motivated during the pandemic, including using rotational furlough where we can to ensure that people have not been isolated and away from their work for the duration of the pandemic. We have also provided support for people returning from furlough to help them return confidently, with additional support for our clinically vulnerable employees who have been away from work for long periods. We appreciate the need for additional care and attention to promote the health and wellbeing of our people during the pandemic and through the recovery phase, with particular focus on physical, financial and mental health. During 2020/21, we held two Health & Wellbeing Champions events with representatives from our business to ensure our focus is consistent whilst encouraging ownership from our front line operations to deliver local initiatives to complement our overall strategy.

Pay and performance

We are continuing to apply pay restraint across the workforce, consistent with the continuing uncertainty we face as we emerge from the pandemic. However, for employees (excluding those managers that participate in the Executive Participation Plan) who are ordinarily eligible for an annual performance related bonus, we are awarding bonuses for 2020/21 to reflect the tremendous performance of our people over the past year. Pay negotiations at our operating businesses are managed locally and occur at different times, but we are anticipating pay increases, and/or one-off payments to recognise performance over the last year, for the majority of our workforce.

The Committee assessed the performance of the Executive Directors for the year, and details of the objectives and the Committee's assessment of the performance against the objectives are provided in Tables 4, 5 and 6 later in this report. The financial objectives reflected our view of the need to protect the Group's financial position during the pandemic and encompassed stretching targets on debt levels and available liquidity. The Executive Directors have led and guided the Company and our people through these most challenging times as well as we could have asked them to do. We remain fully aware, however, that our shared journey through this COVID pandemic is not yet complete, and I would like to thank the Executive Directors, the senior management team and all our people for their dedication and continued commitment through these times. The targets set for the year were met in full, technically meriting the maximum performance related award of 130% of basic pay for each director. However, the Remuneration Committee, in agreement with the Executive Directors, recognises the need to exercise continuing restraint in this incredibly difficult year, the importance of protecting the Group's liquidity, that no dividends have been paid or proposed in respect of 2020/21 and that the Group has received significant COVID-19 related payments from governments. It was therefore determined that despite the objectives being met in full, there will be no cash payments in respect of 2020/21 for the Executive Directors or those senior managers that participate in the Restricted Share Plan and/or the Executive Participation Plan.

The Committee remains aware, however, of the importance of striking the right balance between pay restraint, and the retention and incentivisation of a strong leadership team. Accordingly, the Committee exercised discretion to reduce the annual performance related awards to 65% of salary, which will be satisfied by an award of Deferred Shares to the Executive Directors. The resulting Deferred Shares will have additional performance conditions and will only vest in three years' time to the extent that the conditions are met. The performance conditions include the repayment of all COVID-19 related borrowings from government, satisfactory financial health of the business and good management of the Group. Further information on these awards and performance conditions is set out in section 8.5.3 (iii), and the Remuneration Committee may decide that none of the Deferred Shares vest.

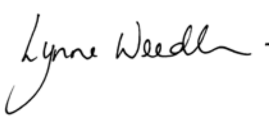
During the year, we approved the first awards under the new Restricted Share Plan approved by shareholders in September 2020. An award of restricted shares, with a face value at the date of grant equivalent to 75% of annual basic pay, was made to each of the Executive Directors in December 2020. Those awards are subject to underpins, consistent with the 2020 Policy. The Committee carefully considered the appropriateness of making these awards given the COVID-19 situation. We concluded that a share based award, with no cash cost to the Company, and which would not vest until between four to six years, was appropriate and would help retain and incentivise management as we seek to progress our recovery from the COVID-19 situation. The Committee noted its discretion under the 2020 Policy and is committed to reviewing any vesting of these awards to ensure that it does not result in any windfall gains, and that any vesting reflects the experience of stakeholders over the relevant period. Factors which the Committee may consider in making that assessment are summarised in section 8.5.5.

Conclusions

We are grateful for the support that the Remuneration Committee receives from the executive management team and our remuneration advisers, as well as the support we have continued to receive from our major shareholders and investor representative bodies. We welcome and greatly value shareholders' views on our remuneration arrangements and I can be contacted via the Company Secretary, should any shareholder wish to discuss any aspect of the remuneration report.

At the Group's Annual General Meeting on 3 September 2021, shareholders will be invited to approve this statement and the Annual Report on Remuneration in an advisory vote.

It is my hope that all of our shareholders, whether they are large institutional shareholders or individual shareholders, will find value in this report.



Lynne Weedall
Chair of the Remuneration Committee
30 June 2021

8. Directors' remuneration report (continued)

8.2 Compliance statement

This Directors' remuneration report covers the year from 3 May 2020 to 1 May 2021 and provides details of the Remuneration Committee's role and the remuneration policy we apply in decisions on executive remuneration.

This report has been prepared in accordance with the Large & Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ("the 2013 Regulations"). In accordance with Sections 439 and 439A of the Companies Act 2006, an advisory ordinary resolution to approve the statement by the Chair of the Remuneration Committee and the Annual Report on Remuneration will be proposed at the 2021 Annual General Meeting.

Remuneration payments and payments for loss of office can only be made to directors if they are consistent with the approved Directors' remuneration policy or otherwise approved by ordinary resolution of the shareholders.

Those sections in the remuneration report that have been audited have been highlighted as such. The other sections of the remuneration report are not subject to audit.

8.3 Remuneration Committee

During the year ended 1 May 2021, the Committee's principal function was to determine Stagecoach Group's policy on executive remuneration and to approve specific remuneration packages and service contracts for the Group's Chairman, Executive Directors and other senior management.

The terms of reference of the Committee are available on our website at: https://www.stagecoachgroup.com/terms-of-reference-remuneration-committee.pdf

8.4 Directors' remuneration policy

This section of the report sets out the tabular summary of the remuneration policy for executive directors and non-executive directors. The full policy was approved by a binding shareholder vote at the Company's Annual General Meeting on 25 September 2020 and took effect from that date. A complete copy of the approved remuneration policy is available on the Company's website at:
https://www.stagecoachgroup.com/about/managing-the-business/governance/directors-remuneration.aspx

8.4.1 Key principles of the remuneration policy

In determining appropriate levels of remuneration for the Executive Directors, the Remuneration Committee aims to provide overall packages of terms and conditions that are competitive and will attract, retain and motivate high quality executives capable of achieving the Group's objectives. The Committee also aims to ensure that the Executive Directors are fairly rewarded for their individual responsibilities and contributions to the Group's overall performance.

The Committee believes that remuneration packages for the Executive Directors should contain meaningful and effective performance-related elements, and that the performance-related elements should be designed to align the interests of the Executive Directors with the interests of shareholders.

The Remuneration Committee is able to consider all relevant factors when setting the Executive Directors' remuneration, including environmental, social and governance matters. Performance targets are established to achieve consistency with the interests of shareholders, with an appropriate balance between short-term and long-term targets. Performance targets can include financial measures as well as non-financial targets, such as environmental and safety objectives. The incentive arrangements for the Executive Directors are structured so as not to unduly increase environmental, social and governance risks by inadvertently motivating irresponsible behaviour.

The Remuneration Committee regularly reviews the existing remuneration of the Executive Directors, making comparisons with peer companies of similar size and complexity and with other companies in the public transport industry. Proposals are then discussed in the light of the prospects for the Group as a whole. The Remuneration Committee also reviews and sets the remuneration arrangements of other senior executives employed by the Group. The approach is consistent with that applied for the workforce in that we look to pay competitively with reference to the market rate for a job. With regard to pensions, the Remuneration Committee has access to reports from pension scheme trustees and scheme actuaries regarding the cost of pension obligations. As set out in the 2020 Policy, the defined benefit pension arrangements for the Executive Directors will be phased out by the end of the term of the 2020 Policy in 2023.

8.4.2 Remuneration policy table for the Executive Directors

This section of our report sets out in tabular form the key components of the 2020 Policy and the elements of the remuneration package for the Executive Directors.

8.4.2.1 Fixed elements of pay

Basic salary

Purpose and link to strategy objectives
To attract, retain and motivate executives, ensuring basic salaries are competitive in the market.

Operation
Basic salaries are generally reviewed as at 1 May each year but the Remuneration Committee also has discretion to adjust them at other times of the year. Account is taken of changes in individual responsibilities that may have occurred and the salaries for similar roles in comparable companies. Account is also taken of pay conditions throughout the Group.

Maximum value
Basic salary increases are applied in line with the outcome of the annual review.

An executive director's annual basic salary may not exceed £850,000.

Performance metrics
Basic salary levels are predicated on continued good performance by the director.

Salary levels are generally set effective from 1 May each year and as set out in the Annual Report on Remuneration.

8. Directors' remuneration report (continued)

Pensions and life assurance arrangements

Purpose and link to strategy objectives
To provide relevant life assurance and pension benefits that are competitive in the market.

Operation
The legacy pension arrangements for executive directors are designed to provide pension benefits on retirement of up to two-thirds of final pensionable pay and may be met through a combination of defined benefit pension arrangements, money purchase or cash allowances. Her Majesty's Revenue and Customs ("HMRC") and pension scheme rules provide that a defined benefit pension may not be drawn before age 55.

Freedom and Choice regulations introduced by the United Kingdom Government in 2015 impacted the flexibility and rights for pension scheme members in transferring benefits out of pension schemes. Consistent with the type of arrangements and rights for other members of relevant pension schemes, accrued defined benefits pensions may be transferred out to the beneficiary in accordance with the transfer arrangements established by the trustees, and in the case of the employer funded retirement benefits scheme ("EFURBS"), members are entitled to receive a transfer in settlement of all obligations at the amount accrued in the consolidated financial statements in respect of such benefits at the point of transfer.

Defined benefit accrual under legacy pension arrangements will cease by the end of the term of 2020 Policy in 2023 and will be replaced by a choice of cash allowance or defined contribution arrangements. The objective of delivering two-thirds pensionable pay on retirement will also cease by the end of the term of the 2020 Policy. The legacy defined benefit arrangements are accrued under an HMRC approved pension scheme (closed to future accrual since 2017), and for ongoing accrual through the EFURBS since 2012. Following cessation of ongoing accrual, accrued benefits will be frozen, subject only to increases for inflation as provided under the relevant scheme rules. On cessation of accrual under the EFURBS, the employer may wind up and eliminate its ongoing exposure to the arrangements by procuring for the accrued obligations to be provided by an insurer, or failing that, if requested, by payment of an equivalent amount to a member to settle and extinguish all obligations. Where the Company chooses to wind up the EFURBS, it would also be liable for any related expenses and national insurance costs resulting from the transfer or settlement of the EFURBS obligations. The employees are responsible for settling any income taxes due. There are no arrangements for any gross-up of employee income taxes.

For any new executive director that joins the Group after 1 August 2020, the pension entitlement will be consistent with the majority of the Group's workforce. For any existing executive director as at 1 August 2020, the pension entitlement will be changed to be consistent with the majority of the Group's workforce by the end of the period covered by the 2020 Policy.

Maximum value
Final salary elements are related to basic salary and length of service, and any payment to a money-purchase arrangement or an alternative employer cash allowance is limited to a third of basic salary.

For any new executive director that joins the Group after 1 August 2020, the pension entitlement will be consistent with the majority of the Group's workforce. For any existing executive director as at 1 August 2020, the pension entitlement will be changed to be consistent with the majority of the Group's workforce by the end of the period covered by the 2020 Policy. That will entitle the director to participate in defined contribution pension arrangements whereby the employer would match the employee's pension contributions up to a maximum of 10% of basic salary (or such other amount as is available to the majority of the Group's workforce). Alternatively, any director or employee who is subject to annual or lifetime savings limits may receive a cash allowance in lieu of pension up to a maximum of 10% of basic salary (or such other amount as is available to the majority of the Group's workforce).

For existing executive directors, the defined benefit arrangements will be phased out over the term of the 2020 Policy, and the defined contributions or cash allowance elements will be reduced in steps from the current rate of a third of basic salary down to 10% of basic salary by the end of the term of the 2020 Policy as follows:

- reduced to 23% on approval of the Policy in September 2020,
- reduced to 18% from September 2021,
- reduced to 13% from September 2022,
- reduced to 10% by September 2023, or such amount in line with the general workforce entitlements as at the end of the term of the 2020 Policy.

Life assurance arrangements provide a lump sum of four times salary on death in service, and pension benefits are provided under the defined benefit arrangements.

Performance metrics
Pensions and life assurance arrangements are predicated on continued good performance by the director.

Benefits in kind and other allowances

Purpose and link to strategy objectives
Designed to be competitive in the market.

Operation
Benefits in kind and other allowances can include:

- Healthcare benefits, life assurance cover, company car allowance, and telephone and communications costs.
- Opportunities to join the Buy As You Earn ("BAYE") scheme.
- Relocation assistance upon appointment if/when applicable.

Business related travel and subsistence costs will be met or reimbursed including directors' partners attending corporate events or management conferences. Where the Committee considers it appropriate, other benefits may be provided, such as paying reasonable legal fees or other costs related to recruitment, relocation or any proposed changes to terms and conditions of employment.

Executive Directors are entitled to participate in any all-employee HMRC approved share incentive plans on the same terms as all other employees, consistent with requirements of HMRC approved schemes.

Maximum value
Benefits vary by role, and are reviewed periodically to ensure they are reasonable relative to market.

Participation in the BAYE scheme is subject to HMRC limits.

Other than one-off relocation allowances and excluding any pension benefits or allowances set out elsewhere in this Policy, the value of an executive director's benefits in kind and other allowances may not exceed £50,000 per annum.

Performance metrics
Benefits in kind and other allowances are predicated on continued good performance by the director.

8.4.2.2 Variable pay

Performance-related annual bonuses

Purpose and link to strategy objectives
Aims to focus the Executive Directors on achieving demanding annual targets relating to Group performance.

The part deferral in shares is designed to align managers' and shareholders' interests, and incentivise managers to remain with the Group.

Operation
Around the start of each financial year, the Committee agrees specific objectives for each executive director. Following the end of each financial year, the Remuneration Committee determines the performance-related annual bonus for each executive director for the year just ended. This is based on each director's performance in achieving the set objectives, and affordability for the Group.

In accordance with the rules of the Executive Participation Plan ("the EPP"), at least 50% of any actual bonus award will be satisfied in Deferred Bonus Shares subject to a three-year deferral. Deferred Bonus Shares are subject to the malus and claw-back provisions (see section 8.4.3), and to post-employment holding obligations (see section 8.4.4).

It is an important part of this Policy that the level of bonuses paid, including for any personal or non-financial elements, are considered and are subject to the overall discretion of the Committee after taking into account the financial performance and standing of the Group and the overall individual performance of the relevant executive director. The Committee will also retain the flexibility to change the number and the nature of the financial performance measures in the annual performance and bonus plan at the start of each financial year, or over the course of a year, depending on the financial priorities of the Group and other relevant economic or business factors.

The Deferred Bonus Shares awarded under the EPP may be issued as either a conditional award or a nil-cost option, with an initial market value approximately equal to the amount of the actual cash bonus forgone.

The value of the Deferred Bonus Shares at vesting will reflect the market value of the shares on vesting and additional shares allocated in respect of dividends payable by the Company during the relevant period.

There are no further specific performance conditions attaching to the release of Deferred Bonus Shares because the annual bonus under which shares are earned is already subject to performance conditions.

Maximum value
The potential annual bonus that can be earned by an executive director in respect of any financial year will be capped at 130% of basic salary, of which no more than half of any actual bonus award in the year will be settled in cash, with the balance of any award satisfied in Deferred Bonus Shares under the EPP (further three year deferral).

Performance metrics
The performance conditions for the annual bonus awards are subject to a combination of financial objectives, and personal and/or strategic business related objectives.

Around the start of each financial year, the Committee will set one or more financial measures that will apply for bonus purposes for that year along with a range of personal and/or strategic objectives which may include objectives linked to safety, environmental and governance matters. The Committee will also determine the maximum potential bonus amount (expressed as a percentage of basic salary) that an executive director will have the ability to earn in respect of each measure.

The maximum potential bonus amount across the personal and/or strategic objectives will be up to 40% of the total potential annual bonus, with the remainder being allocated to the financial objectives.

For each financial measure, the Committee will determine the performance levels that will trigger "Threshold", "Target" and "Maximum" payout. The Threshold amount for a given financial measure will be triggered on the minimum satisfactory performance that needs to be achieved to earn any bonus in respect of that measure. The payout for only achieving the threshold amount shall not be more than 20% of the maximum potential bonus attributable to the relevant measure. The Maximum amount is the maximum potential bonus in respect of that measure.

A number of personal and/or strategic objectives may be set and to the extent the Committee is satisfied that a particular objective is satisfied then there would be a payout in respect of that objective in whole or in part as appropriate.

In assessing the level of bonuses that will be paid, including in respect of personal and/or strategic objectives, the Committee has the discretion to reduce the level of any payouts after taking into account the financial performance and standing of the Group and the overall individual performance of the relevant director. So, even where one or more of the specified objectives have been achieved, the Committee has the discretion to pay no or a reduced bonus.

8. Directors' remuneration report (continued)

Restricted share plan

Purpose and link to strategy objectives
Aims to create a strong and less volatile alignment of the interests of shareholders and management in focusing on the long-term prospects of the Group through the use of restricted share awards.

Operation
Participants are granted RSP awards, each in the form of ordinary shares in the Company, which will be held in trust or as treasury shares to be released to participants on vesting. Additional shares are allocated in respect of dividends payable during the relevant period.

Awards plus related dividend equivalent shares will vest:
- one-third of the award at the end of year four;
- one-third of the award at the end of year five;
- one-third of the award at the end of year six, so that the average vesting period of the award is five years, and furthermore, the shares that vest at year four (net of taxes) must additionally be held until five years from date of grant, ensuring that all RSP awards provide at least a five year lock-in and alignment.

Restricted share awards are subject to the malus and claw-back provisions (see section 8.4.3), and to post-employment holding obligations (see section 8.4.4).

The RSP will provide an effective alignment and promote a long-term perspective in that participants would lose part or all of their entitlement to the Restricted Shares if they left of their own volition during the six-year vesting period. This will be subject to provisions for standard 'good leaver' categories, but these will not trigger an early vesting.

Maximum value
The maximum awards granted in relation to any financial year for an individual is limited to RSP awards with an aggregate face value at the time of award of 75% of basic salary. The actual value of the awards on vesting or release will reflect the market value of the award released plus any additional shares representing dividend equivalents paid by the Company over the vesting period.

Performance metrics
All RSP awards are subject to underpins under which the Committee retains discretion to reduce an award in whole or in part if it is not satisfied with the management of the business considering factors such as:
- financial performance and status of the Group;
- further enhancing environmental credentials and innovation;
- employee engagement, welfare and working culture, including overall safety performance.

The Committee is satisfied that the remuneration policy is in the best interests of shareholders and does not promote excessive risk taking. As part of the Directors' remuneration policy, the Committee reserves the right to make minor amendments to the policies set out for regulatory, exchange control, administrative or tax purposes.

8.4.3 Malus and claw-back

The 2020 remuneration policy contains fuller details of the circumstances under which malus or clawback arrangements may be applied to the remuneration of executive directors. For the purposes of the Policy, malus refers to the withholding, cancellation or reduction of amounts of remuneration otherwise payable to a director. Malus may apply to unvested awards where stated in the policy table shown above. Claw-back arrangements apply to share awards granted after 28 August 2020 and under claw-back arrangements, the Remuneration Committee may require a participant to repay the elements of variable pay for a period of two years following payment.

8.4.4 Share ownership guidelines and post-employment holding periods for share incentive awards

The share ownership guidelines encourage executive directors to build or maintain (as appropriate) a shareholding in the Company equal to 200% of annual basic salary.

If any executive director does not meet the guidelines, they will be expected to retain up to the net of tax number of shares vesting under any of the Company's discretionary share incentive arrangements (including any Deferred Bonus Shares) until the guideline is met, after which they are expected to retain these levels as a minimum.

An executive director will be required to retain shares in the Company for a period of at least two years from the date he/she steps down as a director of the Company. The minimum number of shares to be retained will be the number equivalent in market value, at the date of stepping down, to 200% of the director's annual basic salary, or if lower, the director's relevant shareholding. A director's relevant shareholding will be valued at the date of stepping down, and will comprise the number of actual shares held from any of the Company's discretionary share incentive arrangements from awards granted after 2 May 2020, and for awards granted after 2 May 2020 that have not vested as at the date of stepping down, the number of shares that vest, net of taxes.

The Remuneration Committee has ensured that structures and processes are in place to ensure the continued enforcement of the post-employment shareholding requirements, particularly after a director has left the Company. Any individual who serves as an executive director from 2 May 2020 is required to contractually commit to abide by the post-employment shareholding requirements set out above. In addition, for shares that have yet to vest, the Company will not permit those to vest in respect of a former, or soon to be former, director until such time as it is satisfied that such vesting would not lead to the breach of a post-employment shareholding requirement.

8.4.5 Payments from outstanding awards

The Executive Directors remain eligible to receive payment under any contractual arrangement agreed under the 2017, or earlier, remuneration policy, including the vesting of awards granted prior to the 2020 Policy taking effect on 25 September 2020.

8.4.6 Remuneration policy table for the Chairman and the Non-Executive Directors

The table below summarises our policy on the remuneration paid to the Chairman and the other Non-Executive Directors.

Basic salary/fees

Purpose and link to strategy objectives
To attract and retain non-executive directors with an appropriate degree of skills, experience, independence and knowledge of the Company and its business.

To attract and retain a Chairman to provide effective leadership for the Board.

Operation
Fee levels for non-executive directors are generally reviewed annually with any adjustments effective 1 May in the year following review, although there is discretion to adjust them at other times of the year. Account is taken of individual responsibilities, involvement in Board committees and fees for similar roles in comparable companies. Remuneration comprises an annual fee for acting as a non-executive director and a director may be entitled to an additional fee if required to perform any specific and additional services.

Remuneration for the Chairman is determined by the Remuneration Committee and comprises an annual fee for acting as Chairman. Other non-executives' remuneration is determined by the Board.

Non-executive directors do not participate in pensions or incentive benefits, or receive other remuneration in addition to their fees. Business related expenses and travel and accommodation expenses will be met or reimbursed including for partners to attend corporate events or management conferences. Home telephone and communications costs may be met or reimbursed.

Maximum value
Any fee increases are applied in line with the outcome of the annual review.

A non-executive director's annual fees for acting as a director of the Company may not exceed £300,000.

Non-Executive Directors' fees are subject to an aggregate maximum cap which is stated in the Company's Articles of Association. Following shareholder approval at the 2017 Annual General Meeting, that cap was set at £1,200,000 and may subsequently be further adjusted by an ordinary resolution of the Company.

Performance metrics
Continued good performance.

8.4.7 Employment conditions across the Group

The Committee is kept regularly updated on pay and conditions across the Group, although when setting the Directors' remuneration policy, the wider employee group is not formally consulted. In determining any adjustments to the pay of the Executive Directors and other senior executives' salaries, the Committee considers the increases to pay levels across the broader employee population.

The Group engages with its workforce to explain how executive remuneration aligns with wider pay policy. As explained in section 1.8.4.5 of this Annual Report, the Group and the Board engages with employees in a number of ways, including through Colleague Forums. At the most recent Colleague Forum meeting in May 2021, Non-Executive Directors from the Remuneration Committee discussed how executive remuneration aligns with corporate strategy and wider pay policy.

8.4.8 Details of directors' service contracts

The Executive Directors are employed under contracts of employment. It is the Group's policy that executive directors should have 12-month rolling service contracts providing for a maximum of one year's notice. Due to the nature of the Group's businesses, the service contracts contain restrictive covenants.

The principal terms of the Executive Directors' service contracts (which have no fixed term) effective during the year were as follows:

Executive Directors' service contracts

Name of director	Date of contract	Notice period
Martin Griffiths	22 February 2013 *	12 months
Ross Paterson	11 February 2013 *	12 months

* as amended on 12 and 20 October 2020 respectively for Ross Paterson and Martin Griffiths to reflect changes introduced by the shareholder approval of the 2020 remuneration policy

The contract for the Chairman provides for a six months' notice period. Other non-executive directors are appointed by a letter, which provide for one month's notice. The letters of appointment do not contain any contractual entitlement to a termination payment and a non-executive director can be removed in accordance with the Company's Articles of Association.

All notice periods apply to both the director and the Company.

8.4.9 Consideration of shareholder views

The Committee considers shareholder feedback received in relation to the Annual General Meeting each year at its first meeting following the Annual General Meeting. This feedback, as well as any additional feedback received during other meetings with shareholders and representative bodies, is then considered when reviewing remuneration policy. When any material changes are proposed by the Group to the remuneration policy, the Committee will consult major shareholders.

8.4.10 External appointments

It is the Board's policy to allow the Executive Directors to accept directorships of other unconnected companies, and to retain any related remuneration, so long as the time commitments do not have any detrimental impact on the ability of the director to fulfil his duties. It is considered this will broaden and enrich the business skills of directors. Any such directorships must be formally approved by the Board.

8. Directors' remuneration report (continued)

8.5 Annual Remuneration Report

This section of the remuneration report provides details of how the remuneration policy was implemented during the year ended 1 May 2021. The Remuneration Committee considers that the remuneration policy operated as intended in terms of the Company's performance and the quantum of remuneration.

8.5.1 Committee members and main activities of the Committee

The Remuneration Committee is currently composed of four independent non-executive directors. The Committee met six times during the year.

The members who served on the Committee during the year ended 1 May 2021 were:
- Lynne Weedall (appointed to the Committee from 1 August and appointed Chair of the Committee from 18 November 2020)
- Ray O'Toole (stepped down as Chairman of the Committee on 18 November 2020 and left the Committee on 31 December 2020)
- Gregor Alexander
- James Bilefield
- Karen Thomson

The Group Taxation and Pensions Director attended meetings of the Remuneration Committee as Secretary to the Committee. The Chief Executive was invited to attend meetings to provide information on performance and strategy. A representative from the Committee's independent external remuneration advisor attended all meetings during the year. Attendance at meetings by individual members is detailed in section 4.10. No director was involved in decisions as to their own remuneration.

The main activities of the Committee during the year ended 1 May 2021 were:
- Concluded consultation with major shareholders and representative bodies on the 2020 remuneration policy.
- Reviewed the performance of the Executive Directors for the year ended 2 May 2020, but given the uncertainty facing the business from the COVID pandemic exercised discretion in deciding not to pay any annual bonus or award any Deferred Shares for 2019/20.
- Set annual performance targets for the Executive Directors' bonuses for the year ended 1 May 2021.
- Reviewed performance targets of the 2017 awards under the Long Term Incentive Plan ("LTIP"), in August and December 2020, and in each case, no amounts were payable on vesting.
- Considered the basis for issuing RSP awards to the Executive Directors and other senior managers in December 2020.
- Reviewed and approved the vesting in September 2020 of executive directors' 2017 EPP Deferred Share awards.
- As part of the Group's ongoing response to COVID-19:
  - Considered and approved a temporary reduction of 20% in basic salary for the Chairman and Executive Directors for the three months of July to September 2020, following on from the 50% reduction applied for April, May and June 2020.
  - Exercised discretion in deciding not to pay cash bonuses for 2020/21 (2019/20: £Nil) to the Executive Directors, both significantly reducing the level of bonus earned and introducing additional performance conditions that will need to be met for the vesting of the Deferred Share awards in respect of 2020/21.
- Decided on levels of basic pay in the annual salary review for the Company's Chairman and Executive Directors, and which for all Board members resulted in a consecutive annual pay freeze on basic pay for 2021/22.
- Reviewed and decided on levels of remuneration for the senior executive management team, which for all members resulted in a consecutive annual pay freeze on basic pay for 2021/22.
- Considered and approved the drawing of pension benefits on reduced terms in accordance with the rules and normal practice of the HMRC approved pension scheme.

The remuneration of executive directors was not considered by any other Committee or group of directors during the year.

8.5.2 Advisers

FIT Remuneration Consultants LLP ("FIT") is the remuneration consultant to the Committee. FIT provides independent research and advice to the Committee, as well as support on shareholder engagement. FIT is a signatory to the Remuneration Consultants Group's Code of Conduct. FIT has no other connection to the Company nor to any of the Company's individual directors and during the year, FIT provided no other services to the Group. Accordingly, the Committee was satisfied that the advice provided by FIT was objective and independent. During the year ended 1 May 2021, fees of £38,635 (2020: £40,731) were payable to FIT in respect of work it carried out. In the prior year ended 2 May 2020, the Committee's previous remuneration consultant, Osborne Clarke LLP, was paid £10,800 in respect of remuneration related services.

8.5.3 Remuneration of the Executive Directors and Non-Executive Directors

The remuneration of the Executive Directors and Non-Executive Directors may comprise a number of elements, as described in the Directors' remuneration policy. Although the Company's financial year was the 52 weeks from 3 May 2020 to 1 May 2021, certain amounts are shown in this section 8.5 for the years ended 30 April 2020 and 30 April 2021 to improve year-on-year comparability.

Directors' remuneration and the single figure total for the year ended 30 April 2021 are shown in Table 1 below. Each of the elements of remuneration is discussed further below.

8. Directors' remuneration report (continued)

TABLE 1 – DIRECTORS' REMUNERATION

	Year ended 30 April:	Executive Directors Martin Griffiths £000	Ross Paterson £000	Non-Executive Directors Gregor Alexander £000	James Bilefield £000	Sir Ewan Brown[1] £000	Dame Jayne-Anne Gadhia[3] £000	Dame Anne Gloag[1] £000	Ray O'Toole £000	Sir Brian Souter £000	Karen Thomson £000	Lynne Weedall[2] £000	Will Whitehorn[4] £000	Total £000
Basic salary/fees	**2021**	**565**	**377**	**53**	**53**	**–**	**–**	**–**	**169**	**53**	**53**	**44**	**13**	**1,380**
	2020	625	417	58	58	35	14	37	99	163	58	–	147	1,711
Benefits in kind & other allowances	**2021**	**24**	**23**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**47**
	2020	24	23	–	–	–	–	–	–	–	–	–	–	47
Short-term incentives (performance bonus)	**2021**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2020	–	–	–	–	–	–	–	–	–	–	–	–	–
Long-term incentives vested (LTIP or RSP)	**2021**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2020	–	–	–	–	–	–	–	–	–	–	–	–	–
Pension related benefits	**2021**	**321**	**216**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**537**
	2020	300	204	–	–	–	–	–	–	–	–	–	–	504
Total	**2021**	**910**	**616**	**53**	**53**	**–**	**–**	**–**	**169**	**53**	**53**	**44**	**13**	**1,964**
	2020	949	644	58	58	35	14	37	99	163	58	–	147	2,262

The split between fixed and variable remuneration was:

	Year ended 30 April:	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Total fixed remuneration	**2021**	**910**	**616**	**53**	**53**	**–**	**–**	**–**	**169**	**53**	**53**	**44**	**13**	**1,964**
	2020	949	644	58	58	35	14	37	99	163	58	–	147	2,262
Total variable remuneration	**2021**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2020	–	–	–	–	–	–	–	–	–	–	–	–	–

1 Resigned 31 December 2019
2 Appointed 1 August 2020
3 Resigned 31 July 2019
4 Resigned 30 June 2020

Notes to Table 1:

i. Basic Salary/fees

Salary is paid monthly and the basic salary/fees in Table 1 correspond to the amounts payable in respect of the years ended 30 April. Both Executive Directors participated in pension salary sacrifice arrangements during the year and the basic salary amounts are shown gross before any salary sacrifice arrangements.

In the context of the COVID-19 situation, all of the Directors agreed to waive 50% of their basic pay for the three months of April to June 2020, and to further waive 20% of their basic pay for the three months of July to September 2020. The amounts shown in the basic salary/fees column in Table 1 are the reduced amounts, after taking account of the effect of those waivers for the months of May through to September 2020. The amounts of the waivers for the months falling within the year ended 30 April 2021 were, rounded to the nearest thousand: £87,000 (2020: £27,000) for Martin Griffiths, £58,000 (2020: £18,000) for Ross Paterson, £26,000 (2020: £8,000) for Ray O'Toole, £2,000 (2020: £Nil) for Lynne Weedall, £13,000 (2020: £6,000) for Will Whitehorn, and £8,000 (2020: £3,000) for each of Gregor Alexander, James Bilefield, Sir Brian Souter and Karen Thomson.

ii. Benefits in kind and other allowances

TABLE 2 – BENEFITS IN KIND AND OTHER ALLOWANCES – YEAR ENDED 30 APRIL

	Cash allowance in lieu of company car		Healthcare benefits		Reimbursement of home telephone expenses		Employer BAYE contributions		Total	
	2021 £	2020 £	**2021 £**	2020 £	**2021 £**	2020 £	**2021 £**	2020 £	**2021 £**	2020 £
Martin Griffiths	**22,000**	22,000	**1,155**	1,158	**349**	151	**–**	227	**23,504**	23,536
Ross Paterson	**22,000**	22,000	**1,155**	1,158	**–**	–	**–**	227	**23,155**	23,385
Sir Brian Souter	**–**	–	**–**	–	**–**	146	**–**	–	**–**	146

During the year, both Executive Directors continued to hold shares under the Buy As You Earn ("BAYE") Plan. Reflecting the COVID-19 situation, the Group suspended share investments under the BAYE plan from 6 April 2020. The amounts shown in Table 2 are the values of matching shares allocated to directors as at the dates of allocation. Additional shares are allocated in respect of dividends payable during the relevant period. Details of the shares held under the BAYE plan are shown in Table 10.

iii. Performance-related bonus

Around the start of each financial year, the Committee agrees specific objectives comprising both key financial and individual business related objectives for each director. For 2020/21, each executive director had a maximum potential bonus of up to 130% of basic salary, with up to 100% of basic salary being based on achieving demanding financial objectives relating to the liquidity and financial stability of the Group over the course of the year, and up to 30% of basic salary based on achieving specified personal objectives.

8. Directors' remuneration report (continued)

Table 3 summarises the 2020/21 bonus potential for the Executive Directors that the Remuneration Committee set around the start of the financial year.

TABLE 3 – EXECUTIVE DIRECTORS' POTENTIAL ANNUAL BONUSES FOR THE YEAR ENDED 1 MAY 2021

	At Threshold performance	At Target performance	At Maximum performance
Potential bonus as a percentage of basic salary			
Potential bonus in respect of financial objectives	35.0%	67.5%	100.0%
Potential bonus in respect of personal objectives	30.0%	30.0%	30.0%
Bonus potential for 2020/2021	65.0%	97.5%	130.0%

The 2020/21 bonus parameters were set by the Remuneration Committee around the start of 2020/21 and so reflect the 2017 remuneration policy. The potential payouts for "at threshold" and "at target" performance would differ if applying the 2020 Policy. However, as maximum performance was achieved, the payouts merited would have been the same in applying the 2020 Policy. Bonus parameters for 2021/22 onwards will reflect the 2020 Policy.

The Remuneration Committee assessed the performance of the Executive Directors for the year, and details of the objectives and the Committee's assessment of the performance against the objectives are provided in Tables 4, 5 and 6. The Committee is satisfied that both directors fully met the financial and personal objectives that were set around the beginning of the year. The financial objectives reflected the Committee's view of the need to protect the Group's financial position during the pandemic and encompassed targets on debt levels and available liquidity. The targets set for the year were met in full and the Group has responded well to new challenges presented over the year, technically meriting the maximum performance related bonus award of 130% of basic pay for each director. However, the Remuneration Committee recognises the need to exercise restraint in this incredibly difficult year, the importance of protecting the Group's liquidity, that no dividends have been paid or proposed in respect of 2020/21 and that the Group has received significant COVID-19 related payments from governments.

The Committee, in agreement with the Executive Directors, has therefore exercised restraint in determining that;

- the amount of annual performance related awards will be significantly reduced (by half), so that there will be no cash bonus payments in respect of 2020/21 for the Executive Directors nor for those senior managers that participate in the Restricted Share Plan.
- reflecting our assessment of the Executive Directors' strong performance for 2020/21, we will award Deferred Shares to the Executive Directors, with a face value at award equivalent to 65% of 2020/21 basic salary.
- these Deferred Shares will only vest in three years' time if additional performance conditions are achieved, details of which are set out below.

The Committee decided this was the most effective way to reward performance and to retain and develop our senior leadership talent through the pandemic and into the recovery phase of the business, in the exceptional circumstances in which the Group is operating.

The additional performance conditions to be applied specifically to the award of the Deferred Shares in respect of 2020/21, are that the awards will only vest in 2024 if the Committee is satisfied that:

- the Group has repaid all COVID-19 related borrowings from government, including all amounts borrowed under the Covid Corporate Financing Facility.
- the Group is in satisfactory financial health at the vesting date.
- that any vesting of the awards does not result in windfall gains, and reflects the performance of the Group and the experience of stakeholders over the vesting period.
- that the Group has been well managed over the vesting period, including in respect of enhancing environmental credentials, innovation, employee engagement, employee welfare, working culture, and overall safety performance.

The performance assessment and awards made in respect of the year ended 1 May 2021 are summarised in Table 4:

TABLE 4 – EXECUTIVE DIRECTORS' ANNUAL BONUSES FOR THE YEAR ENDED 1 MAY 2021

	Chief Executive		Finance Director	
	Maximum bonus (% of basic salary)	Award (% of basic salary)	Maximum bonus (% of basic salary)	Award (% of basic salary)
Annual bonus in respect of financial objectives – see Table 5	100%	100%	100%	100%
Annual bonus in respect of personal objectives – see Table 6	30%	30%	30%	30%
Performance-related assessment	130%	130%	130%	130%
Reduction in award from Committee's discretion		(65%)		(65%)
Amount awarded (Deferred Shares only, subject to additional performance conditions on vesting)**		65%		65%

** Because of the additional performance conditions applied, the Deferred Shares awarded in respect of 2020/21 may not be included in Table 1 and will instead be included in the equivalent to Table 1 for the period in which they vest in 2024.

The financial targets set at the start of the year and the achievement in respect of those were as follows:

TABLE 5 – DIRECTORS' FINANCIAL OBJECTIVES FOR THE YEAR ENDED 1 MAY 2021

Proportion of maximum potential achievable:	Threshold 35% £m	Target 67.5% £m	Maximum 100% £m	Achievement £m	Maximum Potential Bonus (% of basic salary)	Award merited (% of basic salary)
Consolidated net debt as at 1 May 2021*	498.4	475.8	453.1	401.0	50%	50%
Cash balances, money market deposits and undrawn, committed bank facilities as at 1 May 2021**	150.0	162.5	175.0	878.4	50%	50%
Element of bonus related to Group financial objectives					100%	100%

* Consolidated net debt plus net train operating company liabilities

** Cash (net of bank overdrafts), money market deposits and undrawn, committed bank facilities adjusted to exclude;
(i) foreign currency cash balances, (ii) petty cash balances, (iii) cash in transit and (iv) cash pledged as collateral in respect of liabilities for loan notes.

A range of individual business-related objectives for each executive director, accounting for a bonus potential of 30% of basic salary, were set around at the start of the year. The objectives, and the Committee's assessment of the extent to which each executive director achieved the objectives, in respect of the year ended 1 May 2021 were as follows:

TABLE 6 – DIRECTORS' PERSONAL OBJECTIVES FOR THE YEAR ENDED 1 MAY 2021

Personal Objectives	Achievements	Award merited (% of basic salary)
Martin Griffiths		
To provide clear indicators of leadership in respect of health, safety and the environment, promoting a strong, health, safety and environmentally friendly culture aiming to deliver continuous improvement in health, safety and environmental performance.	The Remuneration Committee liaised with the Health, Safety and Environmental Committee in evaluating Martin's leadership in respect of health, safety and the environment. The Committee understood that the pandemic had presented a sudden and significant health challenge for our business and it recognised that Martin had shown excellent leadership in ensuring we were early in responding to the challenges, establishing and giving clear direction to our crisis response unit, and ensuring that we were focused on the health and safety of our people and our customers. Taking account of performance on a number of indicators, the Remuneration Committee was satisfied with Martin's leadership in these areas and considered that he continued to promote a strong, health, safety and environmentally friendly culture, aiming to deliver continuous improvement in health, safety and environmental performance. The Remuneration Committee was pleased to see further investment in technology to make the Group's services even safer. The Committee also welcomed the Group's new Sustainability Strategy.	7.5%
Develop and implement a post COVID-19 recovery strategy.	While the Remuneration Committee noted that the COVID-19 situation is ongoing, it was satisfied that Martin had ensured the Group was appropriately positioned for the post COVID-19 recovery, including through: • Financial and operational plans for multiple scenarios at local level; • Continued engagement with government on recovery and longer term growth, including in the context of the National Bus Strategy for England and equivalent ambitions in Scotland and Wales; • Ensuring continued cost control and management of sources of finance. • The evolution of the Group's corporate strategy, including the new Sustainability Strategy.	7.5%
Leverage off the Group's leadership in the sector, and to lead the Group's engagement with government on support for the bus sector's COVID-19 recovery and on the long-term regulation and development of bus as part of tackling the climate emergency	The Remuneration Committee was satisfied that Martin had ensured appropriate engagement with government to ensure the continuation of vital transport services during the COVID-19 pandemic and to plan for post-COVID recovery and growth. The engagement with government has included consideration of long-term plans, actions to tackle the climate emergency and the transition to zero emission buses in the UK. The Committee was pleased to see the appointment of a new Policy & External Affairs Director to support the Group's ongoing engagement with government.	7.5%
Re-evaluate the Group's senior leadership requirements post COVID-19 and re-shape the team as appropriate including possible recruitment of a new UK Managing Director.	The Remuneration Committee was satisfied that Martin had continued to evaluate and re-shape the Group's senior leadership. Notable new appointments during the year included a new UK Managing Director, two new Regional Directors, a new Policy & External Affairs Director and a new Head of Procurement. In April 2021, the Board considered the Group's executive succession planning arrangements and processes, taking account of the new appointments made in the year.	7.5%
Ross Paterson		
Continue to actively manage the Group's costs and cash flows to reduce the financial effect of the COVID-19 situation.	The Remuneration Committee was satisfied that Ross continued to ensure active management of the Group's costs and cash flows. Despite the challenges of COVID-19, the Group finished the year ended 1 May 2021 with net debt below the level at the start of the year, and with liquidity of over £850m. Ross ensured that net capital expenditure was maintained at below the c.£75m limit authorised by the Board, and ensured that other costs and cash flows were appropriately managed.	7.5%
Ensure compliance with the applicable COVID-19 Government Support schemes (including CBSSG and the JRS) whilst making best use of them to reduce the financial effect of the COVID-19 situation on the Group.	After liaising with the Audit Committee, the Remuneration Committee was satisfied that Ross ensured appropriate compliance with the terms of COVID-19 payments from government. Significant payments were received from government in the year ended 1 May 2021 for the continued operation of our transport services during the COVID-19 situation. This involved significant administrative effort and close liaison with the relevant authorities. Taking account of reports to the Audit Committee from both the external and internal auditors on COVID-19 payments, the Remuneration Committee was satisfied by the Group's management of the arrangements. The Remuneration Committee also noted that had these payments not been received, the Group would have experienced a far greater significant, adverse financial effect of the COVID-19 situation in the year.	7.5%
Establish new long-term funding arrangements as appropriate for the Stagecoach Group Pension Scheme that strengthen the Scheme's position while balancing that with the Group's long-term success.	The Remuneration Committee was satisfied that Ross ensured appropriate liaison between pension scheme trustees and the Group in managing long-term pension arrangements. During the year ended 1 May 2021, the Group de-risked its exposure to Local Government Pension Schemes by agreeing an exit (at no additional cost to the Group) from one Local Government Scheme and by agreeing a switch to a less risky asset allocation at another Local Government Scheme. The Committee was also pleased to note that the 2020 valuation of the Stagecoach Pension Scheme was concluded during the year and that the estimated deficit and the changes to contributions were within the Group's range of expectations at the start of the year. The Committee noted that the Group had agreed with the Stagecoach Pension Scheme Trustees to begin work on evaluating potential asset-backed contribution structures as a further development of the long-term funding arrangements.	7.5%
Present a cohesive vehicle strategy to the Board that reflects post COVID-19 customer demand, the climate emergency and the pressure to reduce vehicle emissions.	Ross presented a cohesive vehicle strategy to the Board during the year and also contributed to the development of the Group's latest Sustainability Strategy. Both the vehicle strategy and the Sustainability Strategy were agreed by the Board, including the target of having a 100% zero emission UK bus fleet by 2035.	7.5%

8. Directors' remuneration report (continued)

The Committee is therefore satisfied that both directors met their personal objectives in full, which would merit an award of 30% of basic salary in respect of the objectives set.

iv. LTIP

The LTIP Incentive Units awarded to the Executive Directors in December 2017 had the potential to vest during 2020/21. However, none of the performance conditions for vesting were met and so none of those Incentive Units vested during 2020/21. Accordingly, no amount is shown in Table 1 in respect of LTIP vestings.

TABLE 7 – LTIP AWARDS VESTING

Grant date	As at 2 May 2020 (Incentive Units)	Lapsed during year (Incentive Units)	As at 1 May 2021 (Incentive Units)	Amounts included in Table 1 including dividend amounts £	Vesting Date
Martin Griffiths					
7 Dec 17	314,272	(314,272)	–	–	7 Dec 20
Ross Paterson					
7 Dec 17	209,530	(209,530)	–	–	7 Dec 20

In the 2020 Annual Report, an estimate of nil value was included in respect of the August 2017 LTIP awards, and it is confirmed that this was in accordance with the actual vesting as no payment was made on vesting in August 2020.

v. Pension related benefits

The pension amounts shown in Table 1 are calculated in accordance with the provisions of 2013 Regulations and so represent 20 times the increase (excluding inflation) in the accrued annual pension entitlement plus the increase (excluding inflation) in the accrued cash lump sum entitlement, less any director's contributions.

vi. External Appointments

Ross Paterson is a non-executive director of The Unite Group plc and was permitted to retain the £55,259 fees received from that position in the year ended 30 April 2021 (2020: £57,086). Martin Griffiths was a non-executive director of A.G. Barr plc until 19 March 2020, and was permitted to retain the £58,095 fees received from that position in the year ended 30 April 2020.

8.5.4 Pensions (audited)

Under the legacy terms of their service agreements, the Executive Directors accrued benefits under defined benefit pension arrangements. Historic benefits previously accrued under an HMRC approved pension scheme and included in Table 8 below were revalued in 2019/20 and 2020/21 only for inflation. Other than adjustments for inflation, no further benefits accrued under the HMRC approved Group defined benefit pension scheme during the year. The Directors only accrued benefits in the year ended 1 May 2021 under Group funded pension arrangements. Pension benefits are targeted with a normal retirement age of 60 and in accordance with HMRC rules, accrued defined benefits may not be drawn before age 55. Pension benefits drawn before normal retirement age are discounted for early payment to the extent required under the rules of the relevant scheme and as determined by the trustees of the schemes.

Table 8 below provides the pensions information required by the 2013 Regulations and gives details of benefits accruing during the year under the Group's pension arrangements.

TABLE 8 – DIRECTORS' PENSION BENEFITS

Director name	Normal Retirement date	Contributions paid by the director for the year ended 1 May 2021 £000	Accrued cash entitlement at 2 May 2020 £000	Accrued annual pension entitlement at 2 May 2020 £000	Accrued cash entitlement at 1 May 2021 £000	Accrued annual pension entitlement at 1 May 2021 £000
Martin Griffiths	31 March 26	59	182	219	–*	178*
Ross Paterson	29 July 31	39	148	130	149	144

* Part of Martin Griffiths' prior year pension and cash lump sum benefits were accrued under the historic HMRC approved scheme prior to 2012. In accordance with current regulations, and as provided for under the rules of that scheme, the accrued benefits became payable on a reduced basis from March 2021, when Martin Griffiths reached age 55. The residual annual pension entitlement shown in Table 8 is payable under Group funded pension arrangements on an undiscounted basis from age 60, or on a reduced basis from age 55. As set out in the 2020 remuneration policy, ongoing accrual under the Group funded pension arrangements will be discontinued by September 2023.

The totals in Table 8 for Ross Paterson include pension benefits accrued for service prior to appointment as a director of the Company.

The directors' contributions to pension schemes are made by way of salary sacrifice arrangements.

No non-executive directors accrued benefits in the year under money purchase schemes or defined benefit schemes in connection with their roles with the Group.

8. Directors' remuneration report (continued)

8.5.5 Share based awards during the financial year (audited)

Table 9 sets out the awards to the Executive Directors under the Company's share schemes during the year ended 1 May 2021.

TABLE 9 – RSP AWARDS IN YEAR

Award date	Type of interest awarded	Share price at time of award £	Basis of award (% of basic salary)	Awards granted in year (Restricted Shares)	Maximum and expected total value of award at time of grant £	Release schedule – proportion of award 10 Dec 2024	10 Dec 2025	10 Dec 2026
Martin Griffiths								
10 Dec 2020	Restricted shares	0.7865	75%	621,741	488,999	33.33%	33.33%	33.33%
Ross Paterson								
10 Dec 2020	Restricted shares	0.7865	75%	414,526	326,025	33.33%	33.33%	33.33%

Each Restricted Share shown in Table 9 represents an entitlement to one of the Company's ordinary shares and was granted to be a share-settled award. No amount is shown in Table 1 in respect of the RSP awards as they are subject to underpins under which the Committee retains discretion to reduce an award in whole or in part if it is not satisfied with the management of the business considering factors such as the financial performance and status of the Group, environmental credentials and innovation, employee engagement, welfare and working culture, and overall safety performance. The full value, if any, realised by an executive director from the Restricted Shares will be recognised in the equivalent of Table 1 in the period the shares are released to the director.

In awarding Restricted Shares, the Committee considers the prevailing share price and the number of Restricted Shares that should be awarded. The closing price on the preceding dealing day was used to determine the number of Restricted Shares awarded and the Committee was satisfied that the level of awards granted in 2020/21 was appropriate.

The Remuneration Committee carefully considered the appropriateness of making RSP awards in 2020/21 given the COVID-19 situation. It concluded that a share based award, with no cash cost to the Company, and which would not vest until between four to six years, was appropriate and would help retain and incentivise management as the Group seeks to progress its recovery from the COVID-19 situation. The Committee noted its discretion under the 2020 Policy and is committed to reviewing any vesting of these awards to ensure that it does not result in any windfall gains, and that any vestings reflect the experience of stakeholders over the relevant period. Factors which the Committee may consider in making that assessment include, but are not limited to: the overall single figure of remuneration for each executive director in the year of vesting; the proportion of the value of the awards on vesting that results from share price appreciation since the date of the awards; the recovery of the market and of the business from COVID-19; absolute total shareholder returns compared to appropriate comparators; shareholders', employees', customers' and other stakeholders' experience of the Group over the relevant period.

There were no Deferred Shares granted to the Executive Directors under the EPP during the year ended 1 May 2021.

8.5.6 Payments to past directors (audited)

Other than in respect of pension entitlements accrued during employment with the Group, there have been no payments (2020: £Nil) in excess of the de minimis threshold to former directors during the year ended 1 May 2021 in respect of their former roles as directors. The Company has set a de minimis threshold of £10,000 under which it would not report such payments.

8.5.7 Payments for loss of office (audited)

There have been no payments for loss of office to directors during the year ended 1 May 2021 (2020: £Nil).

8.5.8 Statement of directors' shareholdings and share interests (audited)

The Executive Directors and certain other senior executives are expected to accumulate significant shareholdings in the Company. In the case of the Executive Directors, they are each expected to accumulate an effective interest in shares in the Company with a value of at least 200% of basic salary. For these purposes, EPP Deferred Shares are counted on a post-tax basis only, and all interests in shares are counted at current value as at the relevant measurement date. Unvested LTIP Incentive Units and RSP awards are not included in this measurement. The percentage share interests that follow are on that basis. The Committee noted that both directors again increased their interest in the number of shares held outright during the year. As at 1 May 2021, Martin Griffiths had an interest in shares equivalent to 124% (2020: 98%) of his basic salary (before the effect of waivers) and Ross Paterson had an interest in shares equivalent to 124% (2020: 98%) of his basic salary (before the effect of waivers). As such, they are below the intended target because of the fall in the Company's share price over recent years. The Committee appreciates that each director has continually invested in the shares over a prolonged period of time, and notes that on a cost basis their interests in the shares are around three times their basic salaries on a post-tax basis, and so in effect reflects an investment in shares of nearly six years' basic salary on a pre-tax basis. Each director has also undertaken to further increase their holdings by retaining shares received from the vestings of the share incentive schemes. As such, the Committee remains satisfied that both Executive Directors have built and retain significant interests in the shares of the Company and it is satisfied that the Executive Directors are continuing to increase the level of the shareholdings year-on-year to achieve the shareholding guideline.

8. Directors' remuneration report (continued)

The effective interests of the Directors (including those of connected persons) in the shares of the Company as at 1 May 2021 were:

TABLE 10 – DIRECTORS' INTERESTS IN SHARES OF THE COMPANY AS AT 1 MAY 2021

	Interests as at 1 May 2021					Vested during year ended 1 May 2021
	Shares held outright	RSP Restricted Shares (subject to underpins)	LTIP Incentive Units (subject to performance conditions)	EPP Deferred Shares (not subject to performance conditions)	BAYE Shares (not subject to performance conditions)	EPP Deferred Shares (not subject to performance conditions)
Executive Directors						
Martin Griffiths	684,387	621,741	1,447,990	372,226	9,042	94,880
Ross Paterson	387,384	414,526	965,399	369,935	9,042	61,256
Non-Executive Directors						
Gregor Alexander	10,406	–	–	–	–	–
James Bilefield	–	–	–	–	–	–
Ray O'Toole	18,000	–	–	–	–	–
Sir Brian Souter	80,167,713	–	–	–	–	–
Karen Thomson	11,071	–	–	–	–	–
Lynne Weedall	12,000	–	–	–	–	–

Further details of directors' interests in the RSP, LTIP, EPP and BAYE schemes are shown in Table 11 below.

TABLE 11 – SUMMARY OF INTERESTS IN THE LTIP, EPP, RSP AND BAYE SCHEMES

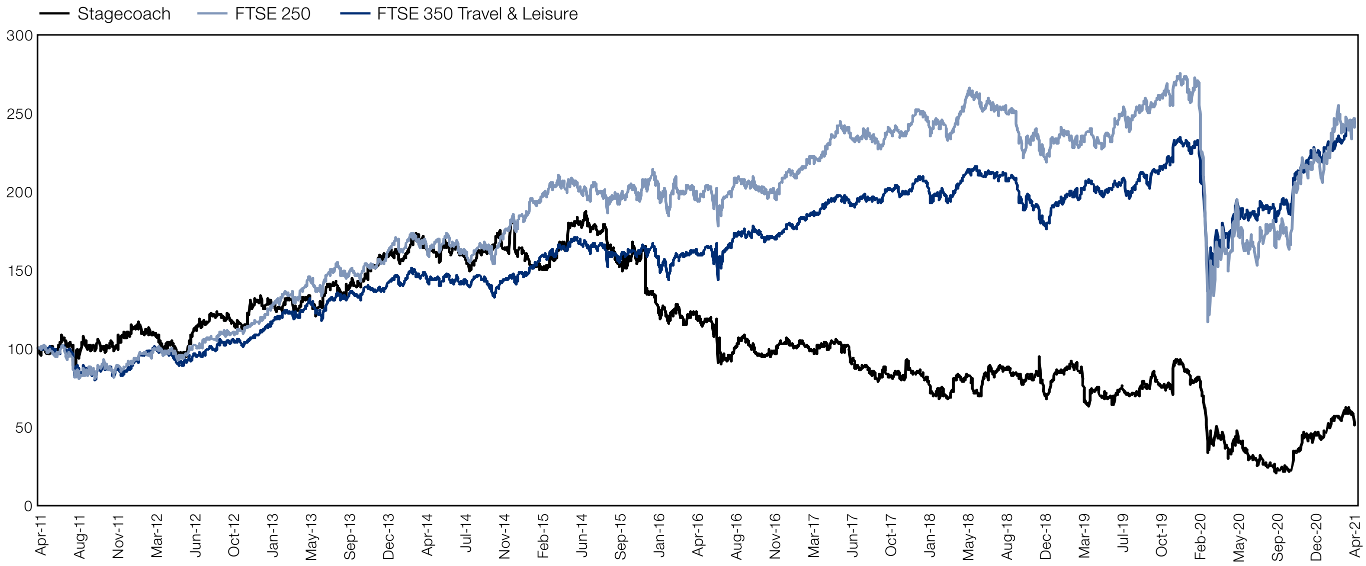
	As at 2 May 2020	Granted in year	Lapsed during year	Vested during year	As at 1 May 2021	Vesting Date
Long Term Incentive Plan						
Martin Griffiths	336,013	–	(336,013)	–	–	25 Aug 20
	314,272	–	(314,272)	–	–	7 Dec 20
	649,693	–	–	–	649,693	7 Dec 21
	429,408	–	–	–	429,408	27 Jun 22
	368,889	–	–	–	368,889	12 Dec 22
	2,098,275	–	(650,285)	–	1,447,990	
Ross Paterson	224,025	–	(224,025)	–	–	25 Aug 20
	209,530	–	(209,530)	–	–	7 Dec 20
	433,161	–	–	–	433,161	7 Dec 21
	286,293	–	–	–	286,293	27 Jun 22
	245,945	–	–	–	245,945	12 Dec 22
	1,398,954	–	(433,555)	–	965,399	
Executive Participation Plan						
Martin Griffiths	94,880	–	–	(94,880)	–	2 Sept 20+
	372,226	–	–	–	372,226	27 Jun 22
	467,106	–	–	(94,880)	372,226	
Ross Paterson	61,256	–	–	(61,256)	–	2 Sept 20+
	121,766	–	–	–	121,766	6 Dec 21
	248,169	–	–	–	248,169	27 Jun 22
	431,191	–	–	(61,256)	369,935	
Restricted Share Plan						
Martin Griffiths	–	621,741	–	–	621,741	2024–2026
Ross Paterson	–	414,526	–	–	414,526	2024–2026
Buy As You Earn Plan						
Martin Griffiths	9,042	–	–	–	9,042	n/a
Ross Paterson	9,042	–	–	–	9,042	n/a

+ The original vesting date of 29 June 2020 was deferred until 2 September 2020 under the terms of the scheme.

8.5.9 Performance graph

The graph below charts the performance of the total shareholder return (''TSR'') (share value movement plus reinvested dividends) from the Company's ordinary shares over the ten years to the end of April 2021 compared with that of the FTSE 350 Travel and Leisure Index, and the FTSE 250 Index. The FTSE 250 Index has been selected for this comparison because it is the index currently used by the Company for the TSR based performance criterion for the LTIP Scheme, while the FTSE 350 Travel and Leisure Index is shown as the Company and a number of its peers made up a significant element of that index when the LTIP awards were granted.

Stagecoach 10-Year TSR Comparative Performance to the end of April 2021:



Source: Datastream

Note: TSR shows a theoretical growth in value of a shareholding over a specified period, assuming that dividends are re-invested to purchase additional units of an equity or unit trust at the closing price applicable on the ex-dividend date. For unit trusts, the closing bid price is used.

For comparative purposes, the pay for the role of Chief Executive over time is shown in Table 12 below.

TABLE 12 – PAY FOR THE ROLE OF CHIEF EXECUTIVE – YEAR ENDED 30 APRIL

	Sir Brian Souter*		Martin Griffiths							
Year ended April:	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Bonus (percentage of maximum)*	47%	64%	100%	65%	53%	47%	0%	100%	0%	0%
LTIP vesting rates against maximum opportunity	n/a	61%	56%	10%	0%	0%	0%	0%	0%	0%
Single figure of total remuneration (£000)	1,227	3,443	2,212	1,451	1,316	1,313	987	1,803	949	910

* Sir Brian Souter waived entitlement to part of his cash bonus, with the amounts waived being used to support funding of medical screening in the UK Bus businesses. Therefore the bonus percentages shown in Table 12 above reflect the amounts awarded to Sir Brian net of the waivers. For information, the full bonus percentage entitlements based on performance, and before the waivers, are shown in Table 13 below.

TABLE 13 – BONUS AWARDED TO CHIEF EXECUTIVE (BEFORE WAIVERS)

	Sir Brian Souter Year ended April:	
(before waivers)	2012	2013
Bonus (percentage of maximum)	90%	90%

The total remuneration figures in Table 12 are calculated on the same basis as the single total figure of remuneration for directors shown in Table 1 in section 8.5.3.

8. Directors' remuneration report (continued)

8.5.10 Chief Executive remuneration pay ratio

The table below shows the ratio of the Chief Executive's pay to the 25th ("P25"), median ("P50") and 75th ("P75") percentile total remuneration of full time equivalent UK employees in accordance with legislation which came into effect for financial years starting on or after 1 January 2019.

The Company uses its gender pay gap data to select the employees who sit at the lower, median and upper quartile positions in that data across the UK workforce. The total annual remuneration relating to each of these employees is then calculated on the same basis as the Chief Executive's total remuneration in Table 1 to produce the ratios below:

TABLE 14 – PAY RATIO TABLE

Financial year	Method	Measure	Chief Executive	25th percentile	50th percentile	75th percentile
2020/21	Option B	Pay ratio		35:1	32:1	30:1
		Total pay	£910,000	£26,296	£28,347	£30,569
		Base salary	£565,000	£25,187	£26,258	£29,163
2019/20	Option B	Pay ratio		40:1	39:1	38:1
		Total pay	£949,000	£23,452	£24,265	£24,869
		Base salary	£625,000	£22,653	£23,696	£24,796

Notes to Table 14:

i. Total pay for the percentile employees selected include the following pay elements: base salary including adjustments for furlough pay, overtime payments, bonus and employer pension contributions. No other benefits or long-term incentive awards were payable to the employees at the above percentiles.

ii. The Remuneration Committee is satisfied that using this approach delivers a representative Chief Executive pay ratio relative to the general employee workforce.

Staff costs are a substantial proportion of the Group's costs. To ensure we continue to support the success of the Group and remain competitive in the transport markets in which we operate, the Group endeavours to offer remuneration that attracts and retains high quality employees but does not result in the Group's cost base being uncompetitive in the relevant markets. Remuneration for the vast majority of the Group's employees is therefore driven by the particular markets in which we operate. In attracting and retaining directors and senior managers, we compete with organisations from a range of sectors and for those employees, remuneration is less affected by the particular transport markets we operate in and more by pay rates for the relevant roles more generally.

8.5.11 Change in directors' remuneration compared to average employee remuneration (audited)

In previous years, we reported the change in the Chief Executive's remuneration in comparison to a comparator group of employees. In accordance with the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, we report from 2020/21 the percentage change in each of the Directors' remuneration compared with the average change for employees. Table 15 shows that information for 2020/21 and this disclosure will build up over time to cover a rolling five-year period.

The parent company, Stagecoach Group plc, has no employees. Accordingly, information in Table 15 is presented for a comparator group of the Group's employees. The comparator group used comprises around 250 employees including the senior management team, the corporate head office employees and their administrative support staff. This comparator group was used because the Committee believes it provides a sufficiently large and relative comparator group to give a reasonable understanding of underlying increases, based on similar annual bonus performance measures utilised by Group management and support functions. The Group seeks to ensure that the basis for pay increases for Group management support functions are generally consistent with the pay rises for the broader workforce.

8. Directors' remuneration report (continued)

TABLE 15 – PERCENTAGE CHANGE IN DIRECTORS' REMUNERATION COMPARED TO AVERAGE EMPLOYEE REMUNERATION

	Percentage change from 2019/20 to 2020/21		
	Fees/Salary	Benefits	Bonus
Executive Directors			
Martin Griffiths	(9.6)%[1]	(0.1)%	n/a[2]
Ross Paterson	(9.6)%[1]	(1.0)%	n/a[2]
Non-Executive Directors			
Gregor Alexander	(8.6)%[1]	n/a[9]	n/a[9]
Sir Ewan Brown	(100.0)%[3]	n/a[9]	n/a[9]
James Bilefield	(8.6)%[1]	n/a[9]	n/a[9]
Dame Jayne-Anne Gadhia	(100.0)%[4]	n/a[9]	n/a[9]
Ray O'Toole	70.7%[5]	n/a[9]	n/a[9]
Sir Brian Souter	(67.5)%[6]	(100.0%)[6]	n/a[9]
Karen Thomson	(8.6)%[1]	n/a[9]	n/a[9]
Lynne Weedall	n/a[7]	n/a[9]	n/a[9]
Will Whitehorn	(91.2)%[8]	n/a[9]	n/a[9]
Average employee			
Employee comparator group	0.9%	2.5%	n/a[2]

1 The decrease in the fees/salary of each of Martin Griffiths, Ross Paterson, Gregor Alexander, James Bilefield and Karen Thomson reflect the effect of the waivers of pay explained in note i to Table 1 in section 8.5.3.
2 No bonuses were awarded to the Executive Directors or employees in respect of 2019/20.
3 Sir Ewan Brown left the Board on 31 December 2019 and so received no remuneration in respect of 2020/21.
4 Dame Jayne-Anne Gadhia left the Board on 31 July 2019 and so received no remuneration in respect of 2020/21.
5 The significant increase in Ray O'Toole's fees in 2020/21 reflect his appointment as Chairman from 1 January 2020. Prior to 1 January 2020, he was a non-executive director.
6 The significant decrease in Sir Brian Souter's fees and benefits in 2020/21 reflect that he served as Chairman until 31 December 2019 and from 1 January 2020, he has been a non-executive director. For 2019/20, he received a modest amount of benefits in addition to his fees (see Table 2 in section 8.5.3) but he received no such benefits for 2020/21.
7 Lynne Weedall joined the Board in 2020/21 and so has no comparative remuneration for 2019/20.
8 Will Whitehorn left the Board on 30 June 2020 and so received remuneration in respect of only the first two months of 2020/21, which was reduced by the effect of the waivers of pay explained in note i to Table 1 in section 8.5.3.
9 The Non-Executive Directors do not receive bonuses and do not generally receive significant benefits other than their fees.

8.5.12 Relative importance of spend on pay (audited)

The table below shows the expenditure of the Group on employee remuneration costs in the year ended 1 May 2021 and the year ended 2 May 2020. In addition, it details the disbursements from profit made by way of dividend payments during the same periods.

TABLE 16 – SPEND ON PAY RELATIVE TO DIVIDENDS AND STAFF COSTS

	2021 £m	2020 £m	Percentage change
Profit distributed by way of dividends to shareholders	–	42.6	(100.0)%
Overall spend on pay for employees	753.4	815.3	(7.6)%

The fall in the overall spend on pay for employees principally reflects the expiry of the Group's East Midlands Trains franchise in August 2019.

8.5.13 Shareholder voting at general meetings

The following table shows the results of the votes on the remuneration report and the remuneration policy at the 2020 Annual General Meeting held on 25 September 2020.

TABLE 17 – SHAREHOLDER VOTES

	Directors' 2020 Remuneration Report		Directors' 2020 Remuneration Policy	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For +	396,458,946	99.49%	392,300,406	98.45%
Against	2,025,673	0.51%	6,174,765	1.55%
Total votes cast (excluding withheld votes)	398,484,619	100.00%	398,475,171	100.00%
Votes withheld*	91,139		100,587	
Total votes cast (including withheld votes)	398,575,758		398,575,758	

+ The number of votes "for" the resolution includes those cast at the Chairman's discretion.
* A withheld vote is not a vote in law and is not counted in the calculation of the proportion of votes cast for and against a resolution.

8. Directors' remuneration report (continued)

8.5.14 Implementation of remuneration policy in the financial year ending 30 April 2022

In the year ending 30 April 2022, the Executive Directors' and Non-Executive Directors' remuneration policies will be implemented as follows.

8.5.14.1 Implementation of Executive Directors' remuneration policy

8.5.14.1.1 Fixed elements – basic salary

There will be no increase in basic salary for 2021/22. This represents the fourth consecutive year of a freeze in basic pay for the Executive Directors. In 2020/21 and in response to the COVID-19 crisis, all of the Directors agreed to waive 50% of their basic pay for the first two months of the year and also to waive 20% of their basic pay for the three months from 1 July. The salary amounts and percentage changes in Table 18 are based on the annual salary levels excluding the impact of the COVID-related waivers of basic pay. For information, the actual salaries paid for 2020/21 reflecting the impact of the COVID-related waivers are shown in the rightmost column.

TABLE 18 – CHANGE IN BASIC SALARY – YEAR ENDING/ENDED 30 APRIL

	2021/22 Salary £	2020/21 Salary (before waivers) £	Percentage Change	2020/21 actual salary (net of waivers) £
Martin Griffiths	652,000	652,000	0.0%	565,067
Ross Paterson	434,700	434,700	0.0%	376,740

Salaries are effective from 1 May each year. The Committee has considered the broader employee context in determining salaries.

8.5.14.1.2 Other elements

The implementation of policy in relation to other elements of remuneration is in line with the Directors' remuneration policy. The maximum potential bonus award for the year to 30 April 2022 has been retained at 130% of basic salary, and the nominal value of RSP awards will be 75% of basic salary.

Short-term incentives – Annual Bonus

The implementation of policy in relation to annual bonus is in line with the 2020 Policy. Measures and targets are approved by the Remuneration Committee around the beginning of the year. For 2021/22, each director has a maximum potential bonus of up to 130% of basic salary, with up to 40% of the maximum (equating to up to 52% of basic salary) being based on achieving specified personal objectives and the balance (not to exceed 78% of basic salary) being based on achieving demanding financial objectives.

The bonus targets and objectives in respect of 2020/21, and the Committee's assessment of performance against those targets and objectives, are set out in section 8.5.3. We plan to continue to disclose annual targets and objectives for each financial year following the end of the relevant financial year. The Committee is of the view that the 2021/22 targets and objectives are commercially sensitive for the time being and that it would be detrimental to the interests of the Company to disclose these before the end of the financial year. However, we are planning to disclose the targets and achievements in respect of the year ending 30 April 2022 in the 2022 Annual Report. At least 50% of any actual bonus earned in the year will be satisfied by an award of Deferred Shares under the EPP.

Restricted Share Plan awards

Restricted Shares will be issued under the RSP with a maximum value at the date of award in 2021/22 of 75% of basic pay. Awards will vest one-third each year from the fourth anniversary of the date of grant. The shares that vest at year four must additionally be held for five years from date of grant, ensuring that all RSP awards provide a minimum five-year lock-in and alignment. All RSP awards are subject to underpins as explained in section 8.4.2.2.

A summary of the intended awards during the year ending 30 April 2022 is provided in Table 19 below.

TABLE 19 – INTENDED RSP AWARDS IN 2021/22

			Release schedule – proportion of award		
	Award Type	Face value of award (% of salary)	July 2025	July 2026	July 2027
Martin Griffiths	Restricted Shares	75%	33.3%	33.3%	33.3%
Ross Paterson	Restricted Shares	75%	33.3%	33.3%	33.3%

8.5.14.2 Implementation of Non-Executive Directors' remuneration policy

The implementation of policy in relation to the Non-Executive Directors is in line with the Directors' remuneration policy. The Chairman's fee is set by the Remuneration Committee and each other non-executive director's fee is set by the Board, taking account of the views of each director, the specific responsibilities of each director and the fees for equivalent roles in similar companies. In 2020/21 and in response to the COVID-19 crisis, all of the Directors agreed to waive 50% of their basic pay or fees for the first two months of the year and also to waive 20% of their basic pay or fees for the three months from July to September 2020. The non-executive director fees set out in Table 20 are based on the annual fee levels excluding the impact of the COVID-related waivers.

TABLE 20 – NON-EXECUTIVE DIRECTOR FEES

	2021/22 Annual fee levels £	2020/21 Annual fee levels £
Fees for role of Chairman	195,000	195,000
Deputy Chairman*	n/a	153,000
Other non-executive directors	60,900	60,900

* The role of Deputy Chairman was discontinued following Will Whitehorn's retiral from the Board on 30 June 2020.

9. Responsibility statement

The Directors confirm that to the best of their knowledge:

- The consolidated financial statements, prepared in accordance with IFRSs in conformity with the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the parent company and the undertakings included in the consolidation taken as a whole; and
- The Annual Report, including the Strategic report and the Directors' report include a fair review of the development and performance of the business and the position of the parent company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors also confirm that they consider the Annual Report and consolidated financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position, performance, business model and strategy. The approach taken in reaching this conclusion is explained in the Audit Committee report in section 5.4.8 of this Annual Report.

Signed on 30 June 2021 on behalf of the Board by:

Martin A Griffiths
Chief Executive

Ross Paterson
Finance Director

10. Independent auditors' report to the members of Stagecoach Group plc (Company No. SC100764)

Opinion

In our opinion:

- Stagecoach Group plc's consolidated financial statements (the "consolidated financial statements") and separate financial statements of the parent (the "Company financial statements") give a true and fair view of the state of the Group's and of the parent Company's affairs as at 1 May 2021 and of the Group's profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Stagecoach Group plc (the "parent Company") and its subsidiaries (together, the "Group") for the year ended 1 May 2021, which comprise:

Group	Parent company
Consolidated income statement for the year ended 1 May 2021	Company balance sheet as at 1 May 2021
Consolidated statement of comprehensive income for the year ended 1 May 2021	Company statement of changes in equity
Consolidated balance sheet (statement of financial position) as at 1 May 2021	Related notes 1 to 15 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity	
Consolidated statement of cash flows for the year ended 1 May 2021	
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law, International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard as applied to listed public interest entities, 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

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 evaluation of the Directors' assessment of the Group and parent Company's ability to continue to adopt the going concern basis of accounting included:

Risk assessment procedures

- We confirmed our understanding of the going concern process and engaged with management early to ensure all key matters were considered in its assessment;
- We performed our own assessment of the going concern risks at the planning and execution stages of the audit;

Management's method

- We obtained management's board approved forecast cash flows, going concern assessment and covenant calculations covering the review period from the date of signing to 29 October 2022, being the going concern review period;

Stress testing and management's plans for future actions

- We performed reverse stress testing on management's forecasts, assuming the receipt of no government support beyond 31 August 2021 together with a further deterioration in operating profit by 35%, to understand how severe the downside scenarios would have to be to result in the elimination of liquidity headroom or a covenant breach;
- We reviewed management's assessment of plausible controllable mitigations available to the Group to reduce cash flow spend in the going concern period, including the reduction in variable costs such as fuel, engineering and payroll costs, in order to determine whether such actions could be affected and would be within the Group's control;

Assumptions

- We assessed management's future passenger assumptions by comparing these to historical data trends and through considering actual passenger data trends from April 2021 through to June 2021;
- We reviewed industry reports and market data for indicators of contradictory evidence to challenge the going concern assessment, including the review of profit warnings within the sector;
- We reviewed existing government assistance, COVID-19 Bus Services Support Grant (CBSSG) and CBSSG Restart that continues to support the Group, assessing the impact of the assistance on future cash flows;
- We reviewed management's COVID-19 impact assessment on the forecasts, considering accuracy of management's forecasting against the actual impact experienced by the Group;

Debt facilities, liquidity and banking covenants

- We performed a detailed review of all the borrowing facilities to assess their continued availability to the Group and to ensure completeness of covenants identified by management. We have engaged with our debt advisory specialists to support this review. We reviewed the accuracy of management's covenant forecast model, verifying inputs to board approved forecasts and facility agreement terms;
- We verified the covenant waivers in place covering the October 2021 and April 2022 measurement dates, which are replaced by the requirement to maintain a minimum level of available liquidity at 30 October 2021 of £450m and at 30 April 2022 of £150m;

Disclosures

- We considered whether management's disclosures, in the Annual Report and financial statements, were appropriate and sufficiently capture the impacts of COVID-19 on the going concern assessment.

The audit procedures performed in evaluating the Directors' assessment were performed by the Group engagement team.

Our key observations:

As reported to the Audit Committee, we noted that the Group is forecasted to maintain liquidity and headroom within its covenants and the reverse stress test scenario suggested that the Group would need to be exposed to severe downside events impacting profitability and cash flows, including receiving no further government support beyond 31 August 2021, in order to breach liquidity or covenants. Further, the Directors consider that the impact can be mitigated by further cash and cost saving measures which are within their control during the going concern period.

Conclusion:

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent Company's ability to continue as a going concern from when the financial statements are authorised for issue until 29 October 2022. Going concern has also been determined to be a key audit matter.

In relation to the Group and parent Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's or parent Company's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of 14 components and audit procedures on specific balances for a further 23 components. • The components where we performed full or specific audit procedures accounted for 97% of profit before tax, 99% of revenue and 98% of total assets.
Key audit matters	• Valuation of provision for claims • Valuation of pension liabilities • Management override of controls in relation to revenue recognition • Impact of COVID-19 on the Group's going concern assessment
Materiality	• Overall Group materiality of £3.8m, which represents 0.4% of revenue

10. Independent auditors' report to the members of Stagecoach Group plc (Company No. SC100764) (continued)

An overview of the scope of the parent Company and Group audits

	Components		Percentage of profit before tax		Percentage of revenue		Percentage of total assets	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
Full scope	**14**	12	**69%**	34%	**58%**	48%	**68%**	37%
Specific scope	**23**	23	**33%**	36%	**41%**	51%	**30%**	38%
	37	35	**102%**	70%	**99%**	99%	**98%**	75%
Parent and consolidation adjustments			**(5)%**	28%	**0%**	0%	**0%**	24%
Overall coverage			**97%**	98%	**99%**	99%	**98%**	99%

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the consolidated financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 55 (2020:55) reporting components of the Group, we selected 37 components (2020: 35) covering entities within the UK Rail, UK Bus (regional operations) and UK Bus (London) segments, which represent the principal business units within the Group.

Of the 37 components selected, we performed an audit of the complete financial information of 14 components ("full scope components") that were selected based on their size or risk characteristics. For the remaining 23 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 99% of the revenue measure used to calculate materiality. In the prior year, adjusted profit before tax was used to calculate materiality and the reporting components accounted for 98% of this in 2020. In summary, reporting components accounted for 99% (2020: 99%) of the revenue, 97% (2020: 98%) of adjusted profit before tax and 98% (2020: 99%) of total assets. For the current year, the full scope components contributed 58% of revenue. In the prior year, the full scope components contributed 34% of adjusted profit before tax used to calculate materiality. In summary, full scope components accounted for 58% (2020: 48%) of revenue, 69% (2020: 34%) of adjusted profit before tax and 68% (2020: 37%) of total assets. The specific scope components contributed 41% of revenue. In the prior year, the specific scope components contributed 36% of adjusted profit before tax used to calculate materiality. In summary, specific scope components accounted for 41% (2020: 51%) of the revenue 33% (2020: 36%) of adjusted profit before tax and 30% (2020: 38%) of total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group. We also instructed three locations to perform specified procedures over certain aspects of costs and deferred consideration.

Of the remaining components none is individually greater than 1% of revenue. For these components, we performed other procedures, including analytical review to respond to any potential risks of material misstatement to the consolidated financial statements.

Changes from the prior year

An additional 2 companies have been added to specific scope 3 companies have increased from specific scope to full scope and 1 company reduced from full scope to specific scope.

Involvement with component teams

The audit work on all in scope reporting units, with the exception of Virgin Rail Group, was performed directly by the Group engagement team. We communicated with a firm outside of the EY network of firms with respect to the specific scope audit of the Virgin Rail Group joint venture. The Group engagement team held meetings and calls with the Virgin Rail Group auditors to clarify and discuss their audit approach, materiality and our reporting requirements. In addition, we had meetings and calls with them as their audit work progressed so that we could effectively supervise, direct and understand the findings from their work.

This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the financial statements.

The performance of the year end audit was also required to be conducted remotely due to COVID-19 restrictions and social distancing requirements. This was supported through remote access to the Group's financial systems and the use of EY software collaboration platforms for the secure and timely delivery of requested audit evidence. Due to COVID-19, we have performed essential physical site visits only due to travel restrictions. We have maintained oversight of the audit work performed by our non-EY component team in respect of Virgin Rail Group through the use of share screen functionality to allow for the effective review of key audit evidence and also to attend closing meetings via video call.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the impact of COVID-19 on the Group's going concern assessment addressed above, the matters listed in the table below were the key audit matters.

10. Independent auditors' report to the members of Stagecoach Group plc (Company No. SC100764) (continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of provision for claims The bus insurance claims provision is a key source of estimation uncertainty that includes a forecast-based element that relies on actuarial assessments and management judgement. The key audit matter is unchanged compared to 2020. Refer to the Audit Committee report (section 5.4.1), accounting policies in note 1, and note 23 to the consolidated financial statements. As at 1 May 2021, the Group recognised total claims provisions amounting to £106.7m (2020: £106.8m), of which £96.0m (2020: £99.9m) relates to amounts payable on individual claims in relation to the bus businesses. The Group protects against the cost of bus claims through third party insurance policies. The Group has exposure primarily relating to an "excess" it is responsible for paying per claim and this is provided for on a discounted basis. The estimate is based on an assessment of the expected settlement of known claims and claims not yet reported but related to incidents prior to the balance sheet date. The provisions are based on an independent actuarial computation, with adjustment by management to reflect its view of volatility in actuarial estimates from year to year. The significant risk arises due to the inherent uncertainty in actuarial assessments and the level of management judgement exercised in determining the appropriate level of volatility adjustment.	We gained an understanding of management's key controls and processes in place to assess claims and related provisions. We evaluated the appropriateness of the processes, methodologies and assumptions used by management through performance of our process walkthrough tests. We assessed the terms and conditions within the insurance policy documents to ensure all relevant terms have appropriately been considered in the provision calculation. Through the involvement of our insurance actuarial specialists, we evaluated the independence, competence, capabilities and objectivity of management's external actuarial specialists, and the appropriateness of the processes, methodologies and assumptions used by them. We challenged management's assumptions and methodology in relation to the volatility adjustment, by using insurance actuarial specialists, corroborating to comparable benchmarks and considering contra indicators. We also considered a number of other client specific risk factors (e.g. claims experience and claims development trends) in assessing the appropriateness of the amount of the claims provisions recorded. We corroborated a sample of both open and closed claims, and reserve movements to source documentation. We recalculated the arithmetical accuracy of the model used by management. We assessed the appropriateness of disclosures. All audit work in relation to this key audit matter was undertaken by the Group engagement team, with the assistance of EY insurance actuarial specialists.	Based on our consideration of management's actuarial experts' report and testing of source claims data, we concluded that the methodology, assumptions and approach used by management's specialists was appropriate. We have also confirmed that management's adjustments to the actuarial central estimate are appropriate and we did not note any material exceptions based on our testing of the claims and settlement information. We concluded management's external actuarial specialists are competent and objective. We concluded that the valuation of the bus insurance claims provision is appropriate and are satisfied with the appropriateness of the related disclosures within the financial statements.
Valuation of pension liabilities The valuation of pension liabilities is a key source of estimation uncertainty that includes a forecast-based element that relies on actuarial assessments and management judgement. The key audit matter is unchanged compared to 2020. Refer to the Audit Committee report (section 5.4.1), accounting policies in note 1, and notes 7 and 24 to the consolidated financial statements. At 1 May 2021, the Group recognised a net pension deficit of £263.8m (2020: £413.1m). The significant risk relates to the potential misstatement of the gross pension liabilities of £1,981.1m (2020: £2,026.1m) due to the significant judgements being exercised by management in determining the appropriate underlying actuarial assumptions.	We understood and walked through management's process and methodology for calculating the pension liability for each of the pension schemes. We evaluated the competence and objectivity of management's external actuarial specialists. Through the involvement of our internal pension actuarial specialists, we corroborated key assumptions (including discount rate, life expectancies of scheme members and inflation rate) using external third party data and independently assessed the assumptions to allow us to determine whether the Group's assumptions are within an appropriate range. We tested a sample of the membership data used by the actuaries to source documentation. We assessed the appropriateness of disclosures within the financial statements. All audit work in relation to this key audit matter was undertaken by the Group engagement team, with the assistance of EY pension actuarial specialists.	We concluded that management's judgements in relation to the underlying actuarial assumptions are appropriate and that the recorded balances lie within our acceptable range. We concluded management's external actuarial specialists are competent and objective. We are satisfied with the appropriateness of the related disclosures within the financial statements.

10. Independent auditors' report to the members of Stagecoach Group plc (Company No. SC100764) (continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Management override of controls in relation to revenue recognition This is a risk of error in revenue due to the non-routine nature of the timing and valuation of certain revenue and manual revenue journals. The key audit matter has been updated to remove government assistance compared to 2020. Refer to the accounting policies in note 1, and notes 2 and 3 to the consolidated financial statements. For the year ended 1 May 2021, the Group recognised revenue from continuing operations of £928.2m (2020: £1,417.6m). Revenue recognition is a particular area of focus for our audit in considering possible areas of management bias and fraud, arising from management override of controls. Revenue arrangements for customer travel are generally routine. However, in some instances, manual adjustments are required to reflect appropriately the timing and valuation of revenue recognised, for example cash received for the sale of season tickets or travel cards. The relevant government bodies have continued to make concession and tender payments as a percentage of pre-COVID levels in order to help provide support to operators in order to maintain a level of service required. Additionally, Transport for London ("TfL") has paid contractual revenue amounts. The accuracy of recording any such material adjustments to revenue related transactions may represent a fraud risk of material misstatement to revenue. This includes material manual adjustments to accrued or deferred income balance sheet items that impact revenue in the income statement.	We obtained an understanding of the key controls and processes in place over revenue recognition and the recording of manual revenue journal entries. We assessed the Group's accounting policy is in compliance with IFRS 15. On full and specific scope ledgers, we employed data analytic techniques to correlate sales journals to cash journals and then vouched a sample of those journals to supporting evidence. We tested non-correlating entries to third party evidence to ensure that revenue had been appropriately recognised. On full and specific scope ledgers, we used risk-based filters to test material manual journal entries to revenue through to supporting evidence to confirm that the revenue recognised was appropriate and was in line with the Group's accounting policy. In relation to Transport for London revenues and UK Bus regional concession and tender revenues, we reviewed correspondence with Transport for London, the Department for Transport and local authorities as appropriate to confirm the terms and conditions of amounts received and receivable, ensuring that revenue was recognised appropriately and in accordance with IFRS 15. We assessed the appropriateness of disclosures within the financial statements. All audit work in relation to this key audit matter was undertaken by the Group engagement team.	On the basis of the procedures performed, we have concluded that revenue has been recognised and disclosed appropriately in the financial statements.

In the prior year, our auditor's report included a key audit matter in relation to the valuation of the North America deferred payment instrument. As the Group continues to approach the expiry date for the deferred payment instrument, the remaining balance receivable is no longer material and we no longer consider the audit of the North America deferred payment instrument to be a matter which has the greatest effect on directing the efforts of the engagement team. Accordingly, the valuation of the North America deferred payment instrument is not a key audit matter in the current year.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

Using professional judgement, we determined materiality for the Group to be £3.8m (2020: £4.5m), which is 0.4% of revenue (2020: 5% of adjusted profit before tax). We believe that revenue provides us with a key indication of the Group's performance in the current environment. In determining our benchmark for materiality, we considered a number of different metrics used by investors and other users of the financial statements. We consider that analysts are focused on the speed at which underlying operations and revenue are returning to normal. Setting materiality when the businesses of the Group have been impacted by COVID-19 requires greater auditor judgment. We continue to believe that ordinarily materiality based on adjusted profit before tax would be appropriate given the long term users of the financial statements key measure of performance, but 2021 results have been significantly impacted by the requirement for social distancing and travel restrictions caused by COVID-19 pandemic. In selecting revenue as the basis of materiality, we have chosen 0.4% of revenue, which is below our normal materiality range of 0.5% – 2%. This reflects the FY21 risks associated with COVID-19.

This approach is a change from the prior year which was based on 5% of adjusted profit before tax.

We determined materiality for the parent Company to be £3.8m (2020: £4.5m), which is 0.2% (2020: 0.3%) of total assets. The materiality determined for the Company financial statements is consistent with the materiality determined for the consolidated financial statements. For the purposes of the audit of the consolidated financial statements, our procedures, including those on balances in the parent Company, are undertaken with reference to the Group materiality and performance materiality set out in this report.

During the course of our audit, we reassessed initial materiality and there no was reason to change it.

10. Independent auditors' report to the members of Stagecoach Group plc (Company No. SC100764) (continued)

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2020: 75%) of our planning materiality, namely £2.8m (2020: £3.4m). We have set performance materiality at this percentage due to the past history of misstatements, our ability to assess the likelihood of misstatements, the effectiveness of the internal control environment and other factors affecting the entity and its financial reporting.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.6m to £1.9m (2020: £0.7m to £1.9m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £190k (2020: £225k), which is set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report, including the shareholder information set out in section 14, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 course of 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 themselves.
If, based on the work we have performed, we conclude that there is a material misstatement of the 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, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with 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 the light of the knowledge and understanding of the Group and the parent 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 parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited 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.

Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and parent Company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out in section 3.11.1;
- Directors' explanation as to its assessment of the Groups prospects, the period this assessment covers and why the period is appropriate set out in section 3.11.2;
- Directors' statement on fair, balanced and understandable set out in section 9;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out in section 4.12.3;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out in section 4.12.2; and;
- The section describing the work of the Audit Committee set out in section 5.

10. Independent auditors' report to the members of Stagecoach Group plc (Company No. SC100764) (continued)

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out in section 3.5, 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 Group and parent 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 Group or the parent 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

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

However, the primary responsibility for the prevention and detection of fraud rests with those charged with governance of the Group and parent Company, and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant include compliance with applicable health & safety, environmental and data protection regulations, competition and consumer protection laws, labour regulations and employee rights laws.
- We understood how the Group is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures, and the Company Secretary. We corroborated our enquiries through our review of board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management within various parts of the business to understand where they considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures included a review of board minutes to identify any non-compliance with laws and regulations and enquiries of senior management.
- We identified any instances of non-compliance with laws and regulations at Group components through the direction and oversight of our component audit teams. We discussed any findings with senior management.

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

Other matters we are required to address

Following the recommendation of the Audit Committee, our appointment to audit the financial statements for the year ending 1 May 2021 and subsequent financial periods was updated on 5 May 2021.

The period of total uninterrupted engagement including previous renewals and reappointments is five years, covering the years ended 29 April 2017 to 1 May 2021.

The non-audit services prohibited by the Financial Reporting Council's Ethical Standard were not provided to the Group or the parent Company and we remain independent of the Group and the parent Company in conducting the audit.

The audit opinion is consistent with our additional report to the Audit Committee.

Use of our report

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

Ernst & Young LLP

Kevin Weston
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
30 June 2021

11. Consolidated financial statements

Consolidated income statement

For the year ended 1 May 2021

	Notes	2021 Performance excluding separately disclosed items £m	2021 Separately disclosed items (note 4) £m	2021 Results for the year £m	2020 Performance excluding separately disclosed items £m	2020 Separately disclosed items (note 4) £m	2020 Results for the year £m
CONTINUING OPERATIONS							
Revenue	*2(a)*	**928.2**	**–**	**928.2**	1,417.6	–	1,417.6
Operating costs and other operating income	*3*	**(883.9)**	**10.3**	**(873.6)**	(1,315.5)	(32.5)	(1,348.0)
Operating profit of Group companies	*2(b)*	**44.3**	**10.3**	**54.6**	102.1	(32.5)	69.6
Share of profit of joint ventures after finance income and taxation	*2(c)*	**3.8**	**–**	**3.8**	17.6	–	17.6
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	*2(b)*	**48.1**	**10.3**	**58.4**	119.7	(32.5)	87.2
Finance income	*6*	**0.5**	**–**	**0.5**	0.9	–	0.9
Finance costs	*6*	**(31.6)**	**(2.6)**	**(34.2)**	(29.7)	(17.8)	(47.5)
Profit before taxation		**17.0**	**7.7**	**24.7**	90.9	(50.3)	40.6
Taxation	*8*	**(2.0)**	**10.8**	**8.8**	(16.0)	12.8	(3.2)
Profit from continuing operations		**15.0**	**18.5**	**33.5**	74.9	(37.5)	37.4
DISCONTINUED OPERATIONS							
Loss after tax for the year from discontinued operations	*5*	**–**	**–**	**–**	–	(1.3)	(1.3)
TOTAL OPERATIONS							
Total profit for the year		**15.0**	**18.5**	**33.5**	74.9	(38.8)	36.1
Attributable to:							
Equity holders of the parent		**15.0**	**18.4**	**33.4**	74.9	(39.1)	35.8
Non-controlling interest		**–**	**0.1**	**0.1**	–	0.3	0.3
		15.0	**18.5**	**33.5**	74.9	(38.8)	36.1
Earnings per share							
Continuing operations							
Adjusted basic/Basic	*10*	**2.7p**		**6.1p**	13.5p		6.7p
Adjusted diluted/Diluted	*10*	**2.7p**		**6.0p**	13.4p		6.6p
Discontinued operations							
Adjusted basic/Basic	*10*	**–**		**–**	–		(0.2)p
Adjusted diluted/Diluted	*10*	**–**		**–**	–		(0.2)p
Total operations							
Adjusted basic/Basic	*10*	**2.7p**		**6.1p**	13.5p		6.4p
Adjusted diluted/Diluted	*10*	**2.7p**		**6.0p**	13.4p		6.4p

The accompanying notes form an integral part of this consolidated income statement.

11. Consolidated financial statements (continued)

Consolidated statement of comprehensive income

For the year ended 1 May 2021

	2021 £m	2020 £m
Profit for the year	**33.5**	36.1
Items that may be reclassified to profit or loss		
Continuing operations		
Cash flow hedges:		
– Net fair value gains/(losses) on cash flow hedges	**25.8**	(71.0)
– Reclassified and reported in profit for the year	**11.4**	4.9
– Share of other comprehensive expense on joint ventures' cash flow hedges, net of tax	**–**	(0.2)
– Tax effect of cash flow hedges	**(7.1)**	12.4
Total items that may be reclassified to profit or loss	**30.1**	(53.9)
Items that will not be reclassified to profit or loss		
Continuing operations		
Actuarial gains/(losses) on Group defined benefit pension schemes	**154.9**	(220.1)
Tax effect of actuarial (gains)/losses on Group defined benefit pension schemes	**(28.8)**	45.7
Share of actuarial gains on joint ventures' defined benefit pension schemes, net of tax	**–**	6.3
Total items that will not be reclassified to profit or loss	**126.1**	(168.1)
Other comprehensive income/(expense) for the year	**156.2**	(222.0)
Total comprehensive income/(expense) for the year	**189.7**	(185.9)
Attributable to:		
Equity holders of the parent	**189.6**	(186.2)
Non-controlling interest	**0.1**	0.3
	189.7	(185.9)

Consolidated balance sheet (statement of financial position)

As at 1 May 2021

	Notes	2021 £m	2020 (restated – see note 1(b)) £m
ASSETS			
Non-current assets			
Goodwill	*11*	**51.9**	51.9
Other intangible assets	*12*	**12.3**	9.5
Property, plant and equipment:			
– Owned assets	*13(a)*	**760.4**	819.3
– Right-of-use assets	*13(b)*	**90.6**	95.6
Interests in joint ventures	*14*	**6.7**	16.3
Deferred tax asset	*22*	**–**	33.3
Derivative instruments at fair value	*25(g)*	**4.1**	–
Retirement benefit assets	*24*	**1.1**	–
Other receivables	*17*	**18.1**	24.8
		945.2	1,050.7
Current assets			
Inventories	*16*	**9.5**	8.8
Trade and other receivables	*17*	**117.3**	106.4
Derivative instruments at fair value	*25(g)*	**0.8**	2.9
Cash and cash equivalents	*19*	**602.3**	580.7
Assets classed as held for sale	*13(c)*	**0.8**	–
		730.7	698.8
Total assets	*2(d)*	**1,675.9**	1,749.5
LIABILITIES			
Current liabilities			
Trade and other payables	*20*	**271.5**	303.7
Current tax liabilities		**1.1**	11.0
Borrowings:			
– Lease liabilities	*21*	**22.7**	25.0
– Other borrowings	*21*	**434.9**	249.9
Derivative instruments at fair value	*25(g)*	**7.8**	38.6
Provisions	*23*	**41.0**	51.9
		779.0	680.1
Non-current liabilities			
Other payables	*20*	**15.5**	10.0
Borrowings:			
– Lease liabilities	*21*	**59.4**	60.8
– Other borrowings	*21*	**406.6**	606.7
Derivative instruments at fair value	*25(g)*	**4.3**	26.6
Deferred tax liabilities	*22*	**0.8**	–
Provisions	*23*	**84.4**	82.4
Retirement benefit obligations	*24*	**264.9**	413.1
		835.9	1,199.6
Total liabilities	*2(d)*	**1,614.9**	1,879.7
Net assets/(liabilities)	*2(d)*	**61.0**	(130.2)
EQUITY			
Ordinary share capital	*26*	**3.2**	3.2
Share premium account	*28*	**8.4**	8.4
Retained earnings	*28*	**(299.0)**	(460.1)
Capital redemption reserve	*28*	**422.8**	422.8
Own shares	*28*	**(69.6)**	(69.6)
Cash flow hedging reserve	*28*	**(4.8)**	(34.9)
Total equity attributable to the parent		**61.0**	(130.2)

These financial statements have been approved for issue by the Board of Directors on 30 June 2021. The accompanying notes form an integral part of this consolidated balance sheet.

Martin A Griffiths
Chief Executive

Ross Paterson
Finance Director

Consolidated statement of changes in equity

	Notes	Ordinary share capital £m	Share premium account £m	Retained earnings £m	Capital redemption reserve £m	Own shares £m	Cash flow hedging reserve £m	**Total equity attributable to parent £m**	Non-controlling interest £m	**Total equity £m**
Balance at 27 April 2019		3.2	8.4	(285.4)	422.8	(39.4)	18.8	**128.4**	–	**128.4**
Profit for the year		–	–	35.8	–	–	–	**35.8**	0.3	**36.1**
Other comprehensive expense, net of tax		–	–	(168.3)	–	–	(53.7)	**(222.0)**	–	**(222.0)**
Total comprehensive (expense)/income		–	–	(132.5)	–	–	(53.7)	**(186.2)**	0.3	**(185.9)**
Own ordinary shares purchased into treasury		–	–	–	–	(30.2)	–	**(30.2)**	–	**(30.2)**
Shareholder transactions with non-controlling interest		–	–	–	–	–	–	**–**	(0.3)	**(0.3)**
Cash paid to settle share based payments originally intended to be equity-settled		–	–	(0.5)	–	–	–	**(0.5)**	–	**(0.5)**
Credit in relation to equity-settled share based payments		–	–	0.9	–	–	–	**0.9**	–	**0.9**
Dividends paid on ordinary shares	9	–	–	(42.6)	–	–	–	**(42.6)**	–	**(42.6)**
As at 2 May 2020		3.2	8.4	(460.1)	422.8	(69.6)	(34.9)	**(130.2)**	–	**(130.2)**
Profit for the year		–	–	33.4	–	–	–	**33.4**	0.1	**33.5**
Other comprehensive income, net of tax		–	–	126.1	–	–	30.1	**156.2**	–	**156.2**
Total comprehensive income		–	–	159.5	–	–	30.1	**189.6**	0.1	**189.7**
Shareholder transactions with non-controlling interest		–	–	–	–	–	–	**–**	(0.1)	**(0.1)**
Credit in relation to equity-settled share based payments		–	–	1.6	–	–	–	**1.6**	–	**1.6**
As at 1 May 2021		3.2	8.4	(299.0)	422.8	(69.6)	(4.8)	**61.0**	–	**61.0**

The accompanying notes form an integral part of this consolidated statement of changes in equity.

Consolidated statement of cash flows

For the year ended 1 May 2021

	Notes	2021 £m	2020 (restated – see note 1(b)) £m
Cash flows from operating activities			
Cash generated by operations	*29*	**136.2**	149.5
Interest paid		**(21.4)**	(22.4)
Interest received		**0.5**	0.9
Dividends received from joint ventures		**2.4**	27.3
Net cash flows from operating activities before tax		**117.7**	155.3
Tax paid		**(2.6)**	–
Net cash from operating activities after tax		**115.1**	155.3
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**–**	(3.3)
Disposal of subsidiaries, net of cash disposed of		**–**	(2.8)
Purchase of property, plant and equipment		**(56.6)**	(93.3)
Cash proceeds from sale and leaseback of property		**5.9**	–
Disposal of other property, plant and equipment		**1.8**	8.6
Receipt of capital grants		**5.5**	9.3
Purchase of intangible assets		**(6.0)**	(5.5)
Disposal of intangible assets		**–**	0.5
Loan to joint venture		**(0.2)**	–
Net cash outflow from investing activities		**(49.6)**	(86.5)
Cash flows from financing activities			
Purchase of own shares into treasury		**–**	(30.2)
Payments of principal portion of lease liabilities		**(27.1)**	(28.4)
Proceeds from Covid Corporate Financing Facility		**596.6**	–
Repayment of Covid Corporate Financing Facility		**(300.0)**	–
Drawdown of other borrowings		**–**	210.0
Repayment of other borrowings		**(200.1)**	(10.7)
Loan from joint venture		**–**	11.0
Dividends paid on ordinary shares	*9*	**–**	(42.6)
Net cash inflow from financing activities		**69.4**	109.1
Net increase in cash and cash equivalents		**134.9**	177.9
Cash and cash equivalents at the beginning of the year		**348.3**	170.4
Cash and cash equivalents at the end of year	*19*	**483.2**	348.3

Cash and cash equivalents shown in the above consolidated statement of cash flows include the cash and cash equivalents of £602.3m (2020 restated: £580.7m) shown on the consolidated balance sheet, less bank overdrafts of £119.1m (2020 restated: £232.4m) included in other borrowings within current liabilities in the consolidated balance sheet.

International Accounting Standard 7, Statement of Cash Flows, states that investments will normally qualify as cash equivalents only if the maturity, at acquisition, is less than three months. The Group's cash equivalents can include deposits with well-rated financial institutions with a maturity, at acquisition, of up to twelve months but only where the Group considers that any "break cost" in converting the deposits to cash in advance of their maturity is insignificant.

Cash equivalents include investments in certain money market funds. The Group's investments in money market funds can generally be converted to cash with less than one days' notice and the risk of day-to-day changes in the value of the investments is considered to be insignificant.

The accompanying notes form an integral part of this consolidated statement of cash flows.

Notes to the consolidated financial statements

Note 1 IFRS accounting policies

(a) Introduction

These consolidated financial statements are presented in respect of the group of companies headed by Stagecoach Group plc. Stagecoach Group plc is a public limited liability company, limited by shares. It is incorporated, domiciled and has its registered office in Scotland. Its registered number is SC100764 and its registered address is 10 Dunkeld Road, Perth PH1 5TW.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), in conformity with the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. The accounting policies have been consistently applied to all the years presented.

(b) Basis of preparation

The consolidated financial statements have been prepared in accordance with IFRSs in conformity with the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The consolidated financial statements have been prepared under the historical cost convention as except for:
(i) assets classified as fair value through other comprehensive income ("FVOCI"); and
(ii) financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss ("FVTPL").

The consolidated financial statements are presented in pounds sterling, the presentation currency of the Group, and the functional currency of the Company. All values are rounded to the nearest one hundred thousand (£0.1m) except where otherwise indicated.

The Group reports its annual results based on a financial year ending on the Saturday nearest to 30 April. This report therefore sets out the Group's results for the 52-week period from 3 May 2020 to 1 May 2021. Prior year comparatives are for the 53-week period from 28 April 2019 to 2 May 2020.

The Group disposed of its North America segment on 16 April 2019. The segment is therefore presented as discontinued operations. Note 5 sets out the details and impact of discontinued operations.

These financial statements have been prepared on a going concern basis. In applying the going concern basis, the Directors recognised that the uncertainty caused by the COVID-19 pandemic required a higher level of judgement in assessing whether the Group is a going concern. Taking account of the COVID-19 situation, and other relevant factors, the Directors concluded that it remained appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements. The Directors have a reasonable expectation that the Group will continue to operate as a going concern for the duration of the going concern period, being the period to 29 October 2022.

The Strategic report in section 1 of this Annual Report includes information on the actions taken in response to the COVID-19 pandemic (including in section 1.3), the outlook for the Group (including in sections 1.3 and 1.7) and the Group's financial position and liquidity (including in section 1.6.10). Section 3.11 of this Annual Report provides additional information on the Directors' assessment of the Group's ability to continue as a going concern, and of its longer term viability. Section 5.4.1 of this Annual Report includes information on the Audit Committee's consideration of going concern, and the work and conclusions of the Audit Committee in respect of that.

Change in presentation of cash and overdraft balances in bank offset arrangement

The Group has a bank offset arrangement whereby the Company and several of its subsidiaries each have bank accounts with the same bank, which are subject to rights of offset. In the consolidated financial statements of previous years, the Group has presented the net balance on all of these offset accounts within cash and cash equivalents on the consolidated balance sheet, and disclosed the gross amounts (that is, the values of positive bank balances and bank overdrafts) in the notes to the consolidated financial statements.

International Accounting Standard 32 ("IAS 32"), Financial Instruments: Presentation, specifies that a financial asset and a financial liability should be offset and the net amount reported when, and only when, certain conditions are met. The application of those requirements to the Group's bank offset arrangement involves consideration of the intent to net settle. How companies present balances in similar arrangements has developed and, in light of that, the Group has reviewed its presentation and has restated its consolidated financial statements to reclassify overdraft balances within the offset arrangement to be a component of borrowings within current liabilities.

The effect of this change is to increase cash and cash equivalents as at 2 May 2020 by £232.4m (27 April 2019: £220.5m) and to increase bank overdrafts within borrowings by the same amount. The change has no impact on the Group's net assets/(liabilities), the consolidated income statement, the consolidated statement of comprehensive income or the consolidated statement of cash flows.

Voluntary change in the accounting policy for the treatment of capital grants in the consolidated statement of cash flows

The Group receives capital grants from governments relating to the purchase of property, plant and equipment. These are recorded as deferred grant income within trade and other payables and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

In previous years, the receipt of the capital grants and the subsequent credit to the income statement were presented within the movement in payables in reconciling operating profit to cash generated by operations in the consolidated statement of cash flows.

As we progress our transition to zero emission vehicles, we might be eligible for an increasing level of capital grants to support the investment in those vehicles and related infrastructure. The availability of those grants form part of our investment decision making. Following a review of the treatment adopted by other transport companies, the Group has decided to make a voluntary change to its accounting policy, to classify cash inflows from the receipt of capital grants within cash inflows from investing activities, as it believes that the revised presentation is a better representation of the cash flows of the Group. This has no effect on the total cash flows reported by the Group. The voluntary change in accounting policy has no change to the previously reported consolidated income statement or consolidated statement of financial position.

Note 1 IFRS accounting policies (continued)

(b) Basis of preparation (continued)

The effect of the voluntary change in the accounting policy on the affected lines in the consolidated statement of cash flows for the year to 2 May 2020 is summarised in the table below:

	As previously reported £m	Effect of voluntary change in accounting policy £m	Restated £m
Capital grant amortisation	–	(0.8)	(0.8)
Operating cashflows before working capital movements	213.7	(0.8)	212.9
Decrease in payables	(90.8)	(8.5)	(99.3)
Other working capital movements	35.9	–	35.9
Cash generated by operations	158.8	(9.3)	149.5
Net cash flows from operating activities before tax	164.6	(9.3)	155.3
Receipt of capital grants	–	9.3	9.3
Net cash outflow from investing activities	(95.8)	9.3	(86.5)

(c) New accounting standards adopted during the year

There have been no new accounting standards, amendments to standards and interpretations that are mandatory for the first time for the financial year beginning 3 May 2020 that have any significant effect on the consolidated financial statements.

Other new standards, amendments to standards and interpretations that are mandatory for the first time for the financial year beginning 3 May 2020, do not have any significant effect on the consolidated financial statements and are listed below.

International Accounting Standards and Interpretations	*Effective for annual periods beginning on or after*
Amendments to references to conceptual framework in IFRS	1 January 2020
Definition of a Business (Amendments to IFRS 3)	1 January 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020

(d) New accounting standards not yet applied

The International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") have issued the following standards and interpretations with an effective date for financial years beginning on or after the dates disclosed below and therefore after the date of these financial statements:

International Accounting Standards and Interpretations	*Effective for annual periods beginning on or after*
Amendment to IFRS 16, COVID-19 Related Rent Concessions (issued on 28 May 2020)	1 June 2020
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to IFRS 16, Leases: Covid-19-Related Rent Concessions beyond 30 June 2021 (issued on 31 March 2021)	1 April 2021*
Amendments issued on 14 May 2020 to: • IFRS 3, Business Combinations • IAS 16, Property, Plant and Equipment • IAS 37, Provisions, Contingent Liabilities and Contingent Assets • Annual Improvements 2018-2020	1 January 2022*
IFRS 17, Insurance Contracts, issued on 18 May 2017, including amendments to IFRS 17 issued on 25 June 2020	1 January 2023*
Amendments to IAS 1, Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current – Deferral of Effective date, issued on 23 January 2020 and 15 July 2020 respectively	1 January 2023*
Amendments to IAS 1, Presentation of Financial Statements, and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021)	1 January 2023*
Amendments to IAS 8, Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021)	1 January 2023*
Amendments to IAS 12, Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021)	1 January 2023*

* Not yet adopted by the UK Endorsement Board

Notes to the consolidated financial statements (continued)

Note 1 IFRS accounting policies (continued)

(e) Critical accounting judgements and key sources of estimation uncertainty

Preparation of the consolidated financial statements requires directors to make judgements and estimates that affect the reported amounts in the consolidated financial statements and accompanying notes. The Directors believe that the judgements and key sources of estimation uncertainty discussed below represent those that require the greatest exercise of judgement.

The discussion below should be read in conjunction with the full statement of accounting policies.

(i) Judgements

Paragraph 122 of International Accounting Standard 1 requires disclosure of significant judgements made in applying an entity's accounting policies. Apart from those involving estimations (see (ii) below), the Directors consider there to be the following significant judgements involved in the process of applying the Group's accounting policies.

Accounting for certain contracts for the provision of batteries

The Group leases electric buses. In some cases, the Group enters into separate agreements for the provision of batteries to power the buses (the "Battery Contracts"). Some judgement is involved in determining whether each Battery Contract is, or contains, a lease.

The Battery Contracts are separate legal agreements from any leases of buses, and contain separate terms and conditions. In the Directors' view, the Battery Contacts do not meet the IFRS definition of leases. The battery provider has control of the battery assets and has substantive rights of substitution for the batteries.

The consolidated income statement for the year ended 1 May 2021 includes an expense of £0.3m in respect of the Group's use of the batteries pursuant to the Battery Contracts. Had the Battery Contracts been assessed as meeting the requirement to be treated as leases, the Group would have recognised further right-of-use asset additions of £5.0m in the year ended 1 May 2021 with an associated depreciation charge of £0.3m and lease finance costs of £0.1m in place of the recognised expense of £0.3m. At 1 May 2021, the Group would have reported additional right-of-use assets with a net book value of £4.7m and an associated closing lease liability of £4.8m.

Contingent liabilities in respect of former North American business

The Directors consider that the Group has contingent liabilities in respect of its former North American business, Coach USA, as set out in note 30(iv). These contingent liabilities are only expected to crystallise in circumstances where Coach USA is unable or unwilling to settle certain of its own liabilities. There is judgement involved in determining the likelihood of that occurring and, accordingly, there is judgement involved in determining whether the items should be classified as provisions, or as contingent liabilities, in the Group's consolidated financial statements. The adverse effect of the COVID-19 situation on the financial performance and financial position of Coach USA, and the fact that COVID-19 has persisted for longer than the Directors anticipated last year, increases the degree of judgement involved in evaluating the likelihood of Coach USA settling the relevant liabilities.

The estimated amount of the contingent liabilities is stated in note 30(iv), and that is also the amount up to which provisions would increase as at 1 May 2021 if it were determined that the items should be classified as provisions rather than contingent liabilities.

(ii) Key sources of estimation uncertainty

Paragraph 125 of International Accounting Standard 1 requires disclosure of key sources of estimation uncertainty. The Directors consider the following to be the most significant sources of estimation uncertainty.

The Directors have used their best judgement in determining the estimates and assumptions used in these areas but a different set of judgements could result in material changes to the Group's reported financial performance and/or financial position.

Pensions

As in previous years, the determination of the Group's pension benefit obligation and expense for defined benefit pension schemes is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. The Directors' assumptions are based on actual historical experience and external data. Whilst the Board believes that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the pension obligation and future expense.

The pensions assumptions may vary due to actual changes in market conditions following the balance sheet date but IAS 19 requires the assumptions to be set based on the market conditions prevailing at the balance sheet date. The pensions assumptions are also affected by judgements the Directors are required to make on matters that cannot be directly observed from market prices such as life expectancies, future pay increases, the valuation of harder to value assets and the criteria for bonds to be included in the population from which the discount rate is determined.

Neither the valuations on the trustees' technical provisions basis nor the net liabilities reflected in the financial statements reflect the amounts at which the Group could "buy out" its pension obligations. A "buy out" of the obligations would cost the Group substantially more than the figures reflected in the financial statements.

Note 24(f) provides information on the sensitivity of pension benefit obligations to changes in assumptions.

COVID-19 Bus Support Schemes

The respective governments in England, Scotland and Wales have put in place measures to protect the continuity of local bus services. These principal bus support schemes are: COVID-19 Bus Services Support Grant Restart ("CBSSG") for local bus services in England (excluding London); COVID-19 Support Grant Restart ("CSG") for bus services in Scotland; and Bus Emergency Scheme 2 ("BES 2") for bus services in Wales.

Estimating the amount of bus support grant income receivable for the year ended 1 May 2021 involves significant estimation uncertainty. The extent to which certain costs are eligible for inclusion in claiming bus support grant income and how certain costs should be determined for the purposes of the schemes remains subject to reconciliation processes. That creates estimation uncertainty in determining the Group's bus support grant income.

Notes to the consolidated financial statements (continued)

Note 1 IFRS accounting policies (continued)

(e) Critical accounting judgements and key sources of estimation uncertainty (continued)

In the year ended 1 May 2021, the Group has recognised bus support scheme grant income of £185.0m (2020:£15.6m), being the amount in respect of which the Group considers there to be reasonable certainty that: (a) the Group will comply with the conditions attaching to the grant and (b) the grant will be received and retained by the Group, taking account of the potential adjustments to grant payments as a result of the schemes' reconciliation processes. Ignoring any government budgetary caps, the Group estimates that it is entitled to £17.6m (2020: £6.9m) more bus support scheme income than the cumulative amount of income recognised in the consolidated financial statements through to 1 May 2021, and so the amount ultimately received could exceed the amount recognised by £17.6m (2020: £6.9m).

Rail contractual positions

The Group's former train operating companies are party to various contractual and regulatory arrangements typical of the UK rail sector. Consistent with the sector, these contractual arrangements can be often complex and be open to legal interpretation. These include arrangements with the Department for Transport, Network Rail, Transport for London, rolling stock lessors and other train operators. These arrangements give rise to estimation uncertainty in determining the carrying value of receivables, payables and provisions in respect of these arrangements.

Given the nature of some of those items, there is judgement involved in determining whether items are classified as accruals, provisions or contingent liabilities.

The Directors estimate that the carrying value of the net payables in respect of rail contractual positions as at 1 May 2021 could require adjustment by up to £10.0m in the year ending 30 April 2022 (2020: £10.0m in the year ending 1 May 2021).

Claims provisions

The Group receives claims in respect of traffic incidents and employee incidents. The Group protects against the cost of such claims through third party insurance policies. An element of the claims is not insured as a result of the "excess" or "deductible", and loss corridors, on insurance policies.

Provision is made for the estimated cost to the Group to settle claims, as well as for the estimated costs of any fines or regulatory action, in relation to incidents occurring prior to the balance sheet date. The estimation of the claims provisions is based on an assessment of the expected settlement on known claims together with an estimate of payments that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not been reported to the Group. The eventual payments on such matters may differ from the amounts provided for at the balance sheet date.

Given the varying factors that ultimately determine the cost of a incident, it is difficult to provide precise sensitivity analysis on the amount of the claims provisions. However, based on analysis undertaken by independent actuaries and an analysis of the historic volatility of estimates of claims costs, the Group considers it unlikely that the estimated claims provisions as at 1 May 2021 will require adjustment in the year ending 30 April 2022 by more than £10.0m (2020: £10.0m in year ending 1 May 2021).

Climate change and the estimated useful lives of passenger service vehicles

Depreciation on passenger service vehicles is calculated on the straight-line method to write off the cost, fair value at acquisition or deemed cost of each asset to their residual values over their estimated useful lives (or lease term, if shorter). The estimated useful lives for passenger service vehicles range from seven to 16 years depending on the type of vehicle. The majority of the Group's passenger service vehicles are diesel powered, although the Group expects that over time, an increasing proportion of its vehicle fleet will be electric or hydrogen powered. The actual useful lives of the diesel powered vehicles could be affected by measures taken by government to tackle climate change that restrict the use of such vehicles. Estimating the useful lives of passenger service vehicles therefore involves some estimation uncertainty.

The UK Government is consulting on a date after which the sale of new diesel powered buses would be prohibited in the UK. However, the UK Government has not proposed to set a date from which diesel buses are prohibited from being used on the UK roads. The estimated useful lives applied are consistent with the previous year and, taking account of the latest proposals from the UK Government, the Directors consider that those estimates of useful lives remain appropriate. Had it been assumed, with effect from the start of the year ended 1 May 2021, that no diesel powered passenger service vehicle could be used after 31 December 2029, then the depreciation expense for the year would have been £6.6m higher than reported and the net book value of the vehicles as at 1 May 2021 would have been correspondingly reduced. Had it been assumed that no diesel powered passenger service vehicle could be used after 31 December 2034, then the depreciation expense for the year would have been £0.2m higher than reported.

Provision for onerous contracts

As at 1 May 2021, provisions for onerous contracts amount to £13.6m (2020: £15.8m). The estimation of the provisions involve forecasting the unavoidable costs of meeting the obligations under the applicable contracts and the economic benefits expected to be received under the contracts. The forecast net unavoidable costs (benefits less costs) are discounted to present value. Judgements are required in forecasting unavoidable costs and economic benefits.

As at 1 May 2021, the majority of the provisions related to the Sheffield Supertram concession agreement pursuant to which the Group has an obligation to operate a tram system through to March 2024. The key area of estimation uncertainty is in respect of forecast passenger revenue. Forecasting the extent to which COVID-19 has a lasting effect on passenger revenue adds to the uncertainty. The forecasts assume that underlying passenger revenue returns to around 85% of underlying pre-COVID levels by May 2022. If the forecast revenue used in determining the provision was reduced by 10%, the provision as at 1 May 2021 would be £3.6m higher (2020: £5.4m higher). If the forecast revenue was increased by 10%, the provision would be £3.6m lower (2020: £5.4m lower).

(iii) Others

The Directors considered whether other judgements and estimates made in preparing the financial statements represent critical judgements or key sources of estimation uncertainty. In particular, the Directors considered the significant issues or judgements examined by the Audit Committee (see section 5.4.1 of this Annual Report), the areas of key audit focus (see section 5.4.3 of this Annual Report) and the risks of material misstatement that the auditors identified as having the greatest effect on their overall audit strategy (see section 10 of this Annual Report). While matters of audit and Audit Committee focus are not necessarily limited to critical judgements or key sources of estimation uncertainty, they do overlap.

Notes to the consolidated financial statements (continued)

Note 1 IFRS accounting policies (continued)

(f) Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiary undertakings and joint ventures made up to a period broadly one year in length that ends on the Saturday nearest to 30 April.

The consolidated income statement includes the results of businesses purchased from the effective date of acquisition and excludes the results of disposed operations and businesses sold from the effective date of disposal.

Non-controlling interest represents the portion of earnings and equity attributable to a third party shareholder of a subsidiary of the Group.

(g) Subsidiaries and joint ventures

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Where a business is acquired, the purchase method (also known as the acquisition method) of accounting is used to account for the acquisition of the subsidiaries and other businesses. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition.

The excess of the cost of acquisition over the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Costs attributable to the acquisition are expensed to the consolidated income statement.

(ii) Joint ventures

Joint ventures are entities over which the Group has joint control with other investors.

Investments in joint ventures are accounted for using the equity method of accounting.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's reported interest in joint ventures includes goodwill on acquisition.

The Group applies its own accounting policies and estimates when accounting for its share of joint ventures making appropriate adjustments where necessary, having due regard to all relevant factors.

(h) Presentation of income statement and separately disclosed items

Where applicable, income statement information has been presented in a columnar format, which separately highlights separately disclosed items. This is intended to enable users of the financial statements to determine more readily the impact of non-software intangible asset amortisation and other separately disclosed items on the results of the Group, improve comparability of the Group's results with those of peer companies and respond to analysts who have requested reporting on that basis.

Separately disclosed items are defined in note 34.

(i) Revenue

The Group recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration (payment) to which the Group expects to be entitled in exchange for those goods or services. Performance obligations of the Group are generally clear and transaction prices are even over the period to which they relate and are time apportioned. Customer compensation is treated as a reduction in revenue.

The Group principally generates revenue from the provision of transport services to its customers.

The Group has a number of revenue streams, as set out below. In general, revenue presented in the income statement is recognised at the fair value of the consideration received or receivable. Where appropriate, amounts are shown net of discounts, rebates, VAT and other sales taxes. The revenue is recognised as performance obligations are satisfied as described below for each significant revenue stream.

Commercial passenger revenue

Commercial passenger revenue primarily relates to ticket sales for travel on the Group's transport services. Passenger revenue is recognised in the income statement in the period in which the related travel occurs. This can involve some estimation – for example, revenue from the sale of season tickets and travelcards, that entitle individuals to use certain of our services during a specified period of time, is deferred within liabilities and recognised in the income statement over the period covered. The recognition of season ticket and travelcard income is recorded on a straight-line basis over the applicable period.

In UK Rail, travel on a train operating company's services can be sold by other train operating companies as well as other travel retailers. Certain tickets for train travel can be sold which provide the holder with a choice of train operators to travel with. In light of those factors, the Group's UK Rail revenue includes amounts receivable from individuals or groups of individuals to travel on UK rail services that is attributed to train operating companies by the Railway Settlement Plan Limited ("RSP"). RSP administers the income allocation system within the UK rail industry and allocates revenue to operators principally on agreed models of route usage. Similar revenue allocations apply to rail services in the Transport for London area and in respect of multi-operator ticket schemes in which some of the Group's UK bus and tram businesses participate. Procedures exist to allow operators to challenge the appropriateness of revenue allocation. Where the revenue allocated to the Group is subsequently adjusted, the effect of the adjustment is recognised in the income statement in the period in which the Group is made aware of it. Where an adjustment results in additional revenue being attributed to the Group, the additional revenue is recognised when the amount of revenue can be reliably estimated and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

Concessionary revenue

In the UK, the Group receives concessionary revenue from public bodies, such as local authorities, for transporting certain qualifying individuals free of charge to the passenger. Although the revenue is received from a party other than the person receiving the service, the Group accounts for such revenue in accordance with IFRS 15, Revenue from Contracts with Customers, with the performance obligation being the provision of the free travel to those eligible.

Note 1 IFRS accounting policies (continued)

(i) Revenue (continued)

Amounts that are receivable from government bodies in respect of travel by individuals on the Group's transport services is recognised in the income statement in the period in which the related travel occurs. Such amounts are included in revenue because they represent payments for transport services provided. This can involve some estimation – for example, revenue receivable in respect of UK concessionary travel schemes can involve some negotiation with relevant public authorities on the amount of revenue due and/or be subject to adjustment based on the levels of concessionary travel across a number of operators. Revenue is recognised based on the Group's best estimates of the amounts receivable in respect of travel prior to the balance sheet date and where it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

Tendered and school revenue

Other amounts that the Group receives from government bodies to pay for the operation of transport services they consider to be socially desirable are included in revenue and recognised in the income statement in the period that the relevant payment relates to. This includes tender and school revenue receivable to financially support certain bus services the Group operates in the UK.

Contract revenue

Contract revenues mainly relate to UK Bus (London) contracts with Transport for London. Revenue receivable from government bodies and others to the Group for operating transport services under contract is recognised in the income statement in the period that the contracted services relate to. In general, the revenue in respect of any particular period can be clearly determined from the contract. Where there is a contingent element to contract revenue (for example, where additional amounts are payable or receivable based on the punctuality of transport services and/or other operational measures), revenue is recognised based on the applicable operational measures when the amount of revenue can be reliably estimated and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

Other revenue and income

Revenue that is incidental to the Group's principal activity of providing transport services is reported as other revenue. Such revenue is recognised as the service is provided, the amount of revenue can be reliably estimated and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. This may include income from:

- commissions for selling travel on other operators' transport services;
- undertaking maintenance work on other operators' vehicles;
- selling fuel to other transport operators.

Income from other sources is reported as other operating income. These other sources include:

- COVID-related grant income;
- selling advertising space on vehicles and premises that the Group operates;
- access income for others to use railway stations and depots that the Group operates;
- property rental; and
- Network Rail in respect of UK railway operating performance regimes.

Finance income

Finance income is recognised under the effective interest method as interest accrues and is shown separately in the consolidated income statement.

Contract liabilities

A contract liability is the obligation to provide services for a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group provides the services, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract. Customers include individuals, corporations and public bodies who pay the Group for transport services. Contract liabilities include amounts in respect of unexpired season tickets and other tickets giving the holder a right to travel on the Group's services after the balance sheet date.

Contract assets

Contract assets include trade receivables, representing amounts that have been invoiced prior to the balance sheet date and which remain outstanding at the balance sheet date.

Rail franchise payments and subsidies

Franchise payments payable to or receivable from the UK Department for Transport under rail franchise agreements are recognised as operating costs or other operating income in the income statement.

Under the contractual terms of its franchise agreements to previously operate rail services, the Group has revenue sharing arrangements with the Department for Transport. As a result of these arrangements, the Group may be liable to make payments to the Department for Transport or receive amounts from the Department for Transport. The arrangements vary by franchise. The Group recognises revenue share amounts payable or receivable in the income statement in the same period in which it recognises the related revenue. Revenue share amounts payable or receivable (if any) are treated as operating costs or other operating income.

(j) Performance incentive payments

Performance incentive payments received from or made to Network Rail by the Group in respect of rail operational performance are recognised in the same period that the performance relates to and are treated as operating costs or other operating income.

Notes to the consolidated financial statements (continued)

Note 1 IFRS accounting policies (continued)

(k) Government grants

Grants from government are recognised where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs (or net losses) are deferred and recognised in the income statement over the period necessary to match them with the costs (or net losses) they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are recorded as liabilities and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Revenue grants receivable (and franchise premia amounts payable) in respect of the operation of rail franchises in the UK are recognised in the income statement in the period in which the related revenue or expenditure is recognised in the income statement or where they do not relate to any specific revenue or expenditure, in the period in respect of which the amount is receivable or payable. These premia payments and rail franchise grants are classified within operating costs and other operating income.

Government grants received in excess of the amounts recognised in the income statement are held as deferred grant income within trade and other payables.

COVID-19 related grants are government grants receivable in light of the ongoing COVID-19 situation. The amounts principally reflect grants receivable under the Coronavirus Job Retention Scheme ("CJRS"), the COVID-19 Bus Services Support Grant ("CBSSG") scheme, the COVID-19 Support Grant ("CSG") scheme for Scotland, the Bus Emergency Scheme ("BES") for Wales and the Light Rail Revenue Grant ("LRRRG") scheme.

Under the CJRS, grant income may be claimed in respect of certain costs to the Group of furloughed employees. CJRS income is recognised in the income statement in the same period in which the related costs are incurred to the extent there is reasonable certainty that the grant will be received.

Under the CBSSG, CSG and BES schemes, grant income may be claimed by operators of local bus services to close the shortfall of revenue earned by them during the period affected by COVID-19 and the costs incurred by them in that period. The estimation of the grant income involves significant uncertainty, as explained in note 1(e)(ii). Income is recognised in the income statement in the same period in which the related shortfall of revenue over costs is incurred to the extent there is reasonable certainty that: (a) the Group will comply with the conditions attaching to the grant and (b) the grant will be received and retained by the Group, taking account of the potential adjustments to grant payments as a result of any reconciliation process.

(l) Share based payments

The Group issues equity-settled and cash-settled share based payments to certain employees.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period. In valuing equity-settled transactions, no account is taken of any non-market based vesting conditions and no expense is recognised for awards that do not ultimately vest as a result of a failure to satisfy a non-market based vesting condition. None of the Group's equity-settled transactions have any market based performance conditions.

Fair value for equity-settled share based payments is determinable from the Company's quoted share price at the time of the award. At each balance sheet date, before vesting, the cumulative expense is calculated based on management's best estimate of the number of equity instruments that will ultimately vest taking into consideration the likelihood of achieving non-market based vesting conditions. The movement in this cumulative expense is recognised in the income statement, with a corresponding entry in equity.

Where an equity-settled award is cancelled by the Group or the holder, it is treated as if it had vested on the date of cancellation and any cost not yet recognised in the income statement for the award is expensed immediately. Where an award is cancelled or settled in cash on vesting, any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market based performance conditions are taken into account when determining fair value. At each balance sheet date, the liability recognised is based on the fair value of outstanding awards (ignoring non-market based vesting conditions) at the balance sheet date, the period that fell prior to the balance sheet date and management's estimate of the likelihood and extent of non-market based vesting conditions being achieved. Changes in the carrying amount of the liability are recognised in the income statement for the period.

Fair value for cash-settled share based payments relating to the Long Term Incentive Plan is estimated by use of a simulation model.

Choice of settlement

The Company can choose to settle awards under the Executive Participation Plan in either cash or equity, although it generally expects to settle such outstanding awards in equity. The awards under the Plan can also be structured as deferred shares or share options with a zero exercise price. The Company intends the awards to operate in substance as deferred shares such that, subject to fulfilling the service condition, each participant receives actual shares on the applicable vesting date. Awards under the Executive Participation Plan are accounted for as equity-settled transactions (see above).

Employment taxes

Liabilities are recognised for employment taxes (principally, employers' national insurance liabilities) payable by the Group on share based payments. The liability for employment taxes is calculated at the balance sheet date with reference to the fair value of the related share based payments at that date. In the case of cash-settled share based payments, the fair value is the pre-tax amount recorded in the balance sheet.

Movements in the liabilities for employment taxes on share based payments are charged or credited to the income statement.

(m) Operating profit

Consolidated operating profit is stated inclusive of restructuring costs and the share of after-tax results of joint ventures but before finance income, finance costs, non-operating separately disclosed items and taxation.

Note 1 IFRS accounting policies (continued)

(n) Taxation

Tax, current and deferred, is calculated using tax rates and laws enacted or substantively enacted at the balance sheet date.

Corporation tax is provided on taxable profit at the current rate applicable. Tax charges and credits are accounted for through the same primary statement as the related pre-tax item.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is measured at tax rates that are expected to apply in periods in which the temporary differences reverse based on tax rates and law enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Management estimates amounts relating to uncertain tax treatments based on the applicable law and regulations, historic outcomes of similar matters, independent specialist advice and consideration of the progress on, and nature of, current discussions with the tax authorities. Where management determines that a greater than 50% probability exists that the tax authorities would accept the position taken in the tax return, amounts are recognised in the consolidated financial statements on that basis. Where the amount of tax payable or recoverable is uncertain, the Group recognises a liability or asset based on either: management's judgement of the most likely outcome; or, when there is a wide range of possible outcomes, a probability weighted average approach.

(o) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing performance of operating segments, which for this purpose has been identified as the Board of Directors.

(p) Foreign currency translation

Foreign currency monetary assets and liabilities are translated into the respective functional currencies of the Group entities at the rates of exchange ruling at the balance sheet date. Foreign currency transactions arising during the year are translated into the respective functional currencies of Group entities at the rate of exchange ruling on the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

The principal rates of exchange applied to the consolidated financial statements were:

	2021	2020
US Dollar:		
Year-end rate	**1.3845**	1.2542
Average rate	**1.3204**	1.2664

(q) Business combinations and goodwill

On the acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill represents the excess of the fair value of the consideration given for a business over the fair value of such net assets. The fair value of intangible assets (other than goodwill) and acquired customer contract provisions on the acquisition of a business are amortised to the income statement.

Goodwill arising on acquisitions is capitalised and is subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the combination. The non-current assets of cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the non-current assets is less than their carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the cash generating unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Any impairment of goodwill is recognised immediately in the income statement.

Where goodwill forms part of a cash generating unit and all or part of that unit is disposed of, the associated goodwill is included in the carrying amount of the disposed operation when determining the overall gain or loss on disposal.

(r) Discontinued operations and non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through their continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of the asset or disposal group, excluding any finance costs and related income tax expense.

Property, plant, equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Discontinued operations are excluded from the results of continuing operations and are presented in the consolidated income statement as a single amount of profit or loss after tax from discontinued operations.

Notes to the consolidated financial statements (continued)

Note 1 IFRS accounting policies (continued)

(s) Impairment of non-current assets

Property, plant, equipment, intangible assets (excluding goodwill) and other non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal at each reporting date.

In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Any impairment loss is recognised immediately in the income statement.

(t) Intangible assets

Intangible assets acquired separately from a business combination are initially capitalised at cost and subsequently measured at cost less accumulated amortisation and accumulated impairment losses. The initial cost recognised is the aggregate amount paid plus the fair value of any other consideration given to acquire the asset. Intangible assets acquired as part of a business combination are capitalised, separately from goodwill, at fair value at the date of acquisition if (i) the asset is separable or arises from contractual or legal rights and (ii) its fair value can be measured reliably. Such assets are subsequently measured at fair value at acquisition less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated to write-off the cost or fair value at acquisition (as the case may be) of each asset over their estimated useful lives shown below, and is recorded in operating costs in the income statement. Amortisation of intangible assets relating to customer contracts is amortised based on the pattern of the consumption of economic benefits obtained from the relevant contract. Amortisation on other intangible assets is calculated on the straight-line method.

Customer contracts	Over the life of the contract (1 to 5 years for current contracts)
Software costs	2 to 7 years

Marketing costs incurred during the start-up phase of a new activity are charged to the income statement as incurred.

(u) Property, plant and equipment

Property, plant and equipment acquired as part of a business combination is stated at fair value at the date of acquisition and is subsequently measured at fair value on acquisition less accumulated depreciation and any provision for impairment. All other property, plant and equipment is stated at cost less accumulated depreciation and any provision for impairment. 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 calculated on the straight-line method to write off the cost, fair value at acquisition or deemed cost of each asset to their residual values over their estimated useful lives (or lease term, if shorter) as follows:

Heritable and freehold buildings and long leasehold properties	50 years
Short leasehold properties	period of lease
IT and other equipment, furniture and fittings	3 to 10 years
Passenger Service Vehicles and transportation equipment	7 to 16 years
Motor cars and other vehicles	3 to 5 years

Freehold land is not depreciated.

The useful lives and residual values of property, plant and equipment are reviewed at least annually and, where applicable, adjustments are made on a prospective basis.

An item of property, plant or equipment is derecognised upon disposal. An item on which no future economic benefits are expected to arise from the continued use of the asset is impaired if it is continued to be used by the Group. Gains and losses on disposals are determined by comparing the net disposal proceeds received with the carrying amount of the asset and are included in the income statement. Any gain or loss on derecognition of the asset is included in the income statement in the period of derecognition.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

(v) Leases

The Group leases many assets including properties, passenger service vehicles, company cars and office equipment. Rental contracts are typically made for a fixed period of 6 months to 100 years. Certain leases have extension options which the Group may choose to exercise.

For contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration, the Group recognises lease liabilities to make lease payments, and right-of-use assets representing the right to use the underlying asset.

Effect of lease extensions and break clauses on lease terms

Options to extend leases and break clauses are included in a number of the Group's leases. These are used by the Group to maximise flexibility in managing its assets and operations to meet passenger demands. The Group considers all the circumstances that create an economic incentive to exercise an extension option or not utilise a break clause. An extension option or the periods after a break clause are only included in a lease term if the lease is reasonably certain to be extended or if the break clause is reasonably certain not to be utilised.

Note 1 IFRS accounting policies (continued)

(v) Leases (continued)

For leases of passenger service vehicles, the Group considers the duration of any tendered routes or forecast plans for a depot when considering whether it is reasonably certain to extend a lease or not to utilise a break clause.

For leases of properties, the Group considers the likely value of future rentals and anticipated changes in services operated from the property when considering whether it is reasonably certain to extend a lease or not to utilise a break clause.

Measurement of lease liabilities

Liabilities arising from a lease are initially measured at present value. Lease liabilities include the net present value of the following lease payments:
- Fixed lease payments, less any lease incentives receivable;
- Amounts expected to be payable by the Group under residual value guarantees;
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option;
- Payments to be made under reasonably certain extension options;
- Variable lease payments that are based on an on index or rate, initially measured using the index or rate at the commencement date.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group's incremental borrowing rate is used, being the rate that the individual Group company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Incremental borrowing rates are determined for each internal reporting period and applied to the leases entered into during each such period.

To determine the incremental borrowing rate, the Group:
- uses recent third party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since the third party financing was received;
- makes adjustments to the rate to reflect the terms and conditions specific to the lease. These will include adjustment for items such as the lease term and the right-of-use asset being leased.

The Group is exposed to potential future increases in variable lease payments for some properties based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. There are no leases with other forms of variable payment.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Contracts can contain lease and non-lease components. For all property leases, the Group has separated lease and non-lease components. For all other leases, the Group has elected not to separate lease and non-lease components but instead accounts for these as a single lease component. Non-lease components for properties are excluded from the projection of future lease payments and are treated as a separate expense on a straight-line basis within operating costs.

Lease terms are negotiated lease by lease resulting in a wide range of terms and conditions. The lease agreements do not generally impose any financial covenants. The principal restriction on assets held under lease or hire purchase agreements is a restriction on the right to dispose of the assets during the period of the agreement.

Right-of-use assets

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- dilapidation provisions.

Right-of-use assets are generally depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Short-term leases and low-value assets

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets have a capital value, when new, of less than £4,500 and comprise principally IT equipment and small items of office equipment.

Lease cash flows

Lease payments are presented in the consolidated statement of cash flows as follows:
- Payments in respect of short-term leases and leases of low-value assets are included within cash generated by operations as part of overall cash flows from operating activities.
- Payments in respect of the interest element of recognised lease liabilities are included within interest paid as part of overall cash flows from operating activities.
- Payments in respect of the principal portion of recognised lease liabilities are separately presented as a component of cash flows from financing activities.

Notes to the consolidated financial statements (continued)

Note 1 IFRS accounting policies (continued)

(w) Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow moving items. Cost is determined using the first-in, first-out or average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

(x) Contract provisions

A provision is recognised in the consolidated balance sheet for any contract that is "onerous" or, when acquired as part of a business combination, that is unfavourable to market terms. A contract is considered onerous where it is probable that the future economic benefits to be derived from the contract are less than the unavoidable costs under that contract. Determining the amount of any contract provision (that is the lower of the net costs of fulfilling or terminating the contract) may involve forecasting future financial performance.

The recognition of a contract provision (other than a provision arising from a business combination) is charged to the consolidated income statement. Losses that subsequently arise on that contract are treated as the utilisation of the provision to the extent they have been provided for.

The amount of any contract provision (or potential contract provision) is re-assessed at each balance sheet date. Any increase or decrease required to the amount of the provision is charged or credited to the consolidated income statement.

(y) Restructuring provisions

Provisions for restructuring are recognised when the Group has a present legal or constructive obligation as a result of past events and a reliable estimate of associated costs can be made.

(z) Claims provisions

The Group receives claims, and can incur fines, in respect of traffic incidents and employee claims. The Group protects against the cost of claims through third party insurance policies. An element of the claims is not insured as a result of the "excess" or "deductible", and loss corridors, in insurance policies. Provision is made on a discounted basis for the estimated cost to the Group to settle liabilities for incidents occurring prior to the balance sheet date. The estimate of the balance sheet claims provisions is based on an assessment of the expected settlement of known claims together with an estimate of payments that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not yet been reported to the Group. The provisions are set after taking account of advice from third party actuaries. Provisions are determined on a gross basis, with a separate reimbursement asset identified for amounts recoverable from insurance policies.

(aa) Retirement benefit obligations

The Group contributes to a number of pension schemes. In respect of defined benefit schemes, obligations are measured at discounted present value whilst scheme assets are recorded at market value. In relation to each scheme, any recognised net asset is limited to the present value of economic benefits available in the form of any future refunds from the scheme or reductions in future contributions to the scheme.

An economic benefit is available to the Group if it is realisable during the life of the scheme or on settlement of the scheme liabilities. The service costs of defined benefit schemes are spread systematically over the working lives of employees and included within operating profit. Scheme administration expenses are also included within operating profit. Net interest expense or income is calculated by applying the discount rate to the net defined benefit asset or liability and included within net finance costs. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Actuarial gains and losses include the difference between the actual return on assets (net of investment administration costs and taxes, such as amounts levied by the UK Pension Protection Fund) and the discount rates applied to the assets. Life expectancies are considered when retirement benefit obligations are calculated.

A full actuarial valuation is undertaken triennially for each scheme and updated annually using independent actuaries following the projected unit credit method. The present value of the scheme obligations is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds which have terms to maturity equivalent to the terms of the related obligations. Experience adjustments and changes in assumptions which affect actuarial gains and losses are reflected in the actuarial gain or loss for the year.

For defined contribution schemes, the Group pays contributions to separately administered pension schemes. Once the contributions have been paid, the Group has no further payment obligations. The Group's contributions to defined contribution schemes are charged to the income statement in the period to which the contributions relate.

(ab) Financial instruments

Financial assets

On initial recognition, the Group classifies its financial assets as being subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss ("FVTPL"). Financial assets which are held to collect contractual cash flows and give rise to cash flows that are solely payments of principal and interest on the principal outstanding are subsequently measured at amortised cost. Interest on these assets is calculated using the effective interest rate method and is recognised in the income statement as interest income.

The Group uses an impairment model with impairment provisions based on expected credit losses rather than incurred credit losses. For trade receivables, accrued income and other receivables, the Group applies a simplified approach and determines expected credit losses for significant portfolios of receivables.

The Group recognises a provision for expected credit losses for all financial assets measured at amortised cost. Where there has not been a significant increase in credit risk since initial recognition, provision is made for defaults that are possible within the next 12 months. Where there has been a significant increase in credit risk since initial recognition, provision is made for credit losses expected over the remaining life of the asset.

The Group's financial assets that are categorised as FVTPL include a Deferred Payment Instrument in respect of the sale of the North America Division in April 2019, and certain financial derivatives. Until February 2021, they also included an embedded derivative.

Notes to the consolidated financial statements (continued)

Note 1 IFRS accounting policies (continued)

(ab) Financial instruments (continued)

Trade receivables

Trade receivables are recorded at their original amount less provision for expected credit losses. The lifetime expected credit losses are assessed for all balances. The Group has established a provision matrix that is based on its historical credit loss experience and is adjusted for specific forward-looking factors. The carrying amount of the receivable is reduced through the use of a provision account and movements in the provision are recognised in the income statement within operating costs and other income. When a previously provided trade receivable is uncollectable, it is written off against the provision. Balances which are more than 180 days past due are considered to be in default and are fully provided against but continue to be actively pursued. Adjustments to this policy may be made in specific circumstances. At each reporting date, the Group assesses whether trade receivables are credit-impaired. This includes a review of whether the customer is in significant financial difficulty, the probability that the customer will enter bankruptcy or financial reorganisation, and any default or delinquency in payments.

Financial liabilities

When a financial liability is recognised initially, the Group measures it at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability. Financial liabilities include trade payables, accruals, loans from joint ventures, borrowings and derivative financial instruments. Subsequent measurement depends on its classification as follows:

- Financial liabilities at fair value through profit or loss: Financial liabilities classified as held for trading and derivative liabilities that are not designated as hedging instruments are classified as financial liabilities at fair value through profit or loss. Such liabilities are carried on the balance sheet at fair value with gains or losses being recognised in the income statement.
- All other financial liabilities not classified as fair value through profit or loss are measured at amortised cost using the effective interest method.

Fair values

The fair value of quoted financial instruments is determined by reference to appropriate market prices at the close of business on the balance sheet date. Where there is no active market for a financial instrument, fair value is determined using valuation techniques. These techniques include using pricing models and discounted cash flow analysis.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges, when hedging the exposure to changes in the fair value of a recognised asset or liability; or
- Cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

Net gains or losses arising from changes in the fair value of all other derivatives, which are classified as held for trading, are taken to the income statement. These may arise from derivatives for which hedge accounting is not applied because they are either not designated or not effective as hedging instruments from an accounting perspective.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

Fair value hedges: For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged; the derivative is remeasured at fair value and gains and losses from both the derivative and the hedged item are taken to the income statement.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

Cash flow hedges: For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in the statement of comprehensive income, while the ineffective portion is recognised in the income statement. Amounts recorded in the statement of comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast purchase occurs. For cash flow hedges of forecast fuel purchases, the transfer is to operating costs within the income statement.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recorded in the statement of comprehensive income remain in equity until the forecast transaction occurs and are then transferred to the income statement. If a forecast transaction is no longer expected to occur, amounts previously recognised in the statement of comprehensive income are transferred to the income statement immediately.

Notes to the consolidated financial statements (continued)

Note 1 IFRS accounting policies (continued)

(ab) Financial instruments (continued)

Cash and cash equivalents

For the purposes of reporting "cash and cash equivalents" in the consolidated balance sheet, cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

International Accounting Standard 7, Statement of Cash Flows, states that investments will normally qualify as cash equivalents only if the maturity, at acquisition, is less than three months. The Group's cash equivalents can include deposits with well-rated financial institutions with a maturity, at acquisition, of up to twelve months but only where the Group considers that any "break cost" in converting the deposits to cash in advance of their maturity is insignificant.

Cash equivalents include investments in certain money market funds. The Group's investments in money market funds can generally be converted to cash with less than one days' notice and the risk of day-to-day changes in the value of the investments is considered to be insignificant.

Cash in transit largely comprises amounts receivable on credit and debit cards where the on-bus transaction has been authorised but the funds have yet to clear the bank. These balances are considered highly liquid with minimal risk of default, with funds typically received in less than 3 days.

Interest bearing loans and borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method subject to any adjustments in respect of fair value hedges. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Interest on borrowings to purchase property, plant and equipment is expensed in the income statement.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer or rollover settlement for at least 12 months after the balance sheet date.

Trade and other payables

Trade and other payables are generally not interest bearing and are stated at amortised cost which approximates to nominal value due to creditors days being relatively low.

(ac) Share capital and dividends

Ordinary shares are classified as equity.

Incremental external costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds. Where the Company purchases its own ordinary shares, the consideration paid, including any attributable incremental external costs net of income taxes, is deducted from equity. Where such shares are subsequently sold or reissued, any consideration received is included in equity.

Dividends on ordinary shares are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders, or in the case of interim dividends, in the period in which they are paid.

Note 2 Segmental information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions.

The Group is managed, and reports internally, on a basis consistent with its three continuing operating segments and the segmental information set out in this note is on the basis of those segments as follows:

Segment name	*Service operated*	*Country of operation*
UK Bus (regional operations)	Coach and bus operations	United Kingdom
UK Bus (London)	Bus operations	United Kingdom
UK Rail	Rail operations and business development activities	United Kingdom

The Group has interests in two material joint ventures: WCT Group (formerly Virgin Rail Group) that operates in UK Rail and Citylink that operates in UK Bus (regional operations).

The results of these joint ventures are shown separately in notes 2(c) and 2(g).

The Group's accounting policies are applied consistently, where appropriate, to each segment.

(a) Revenue

Due to the nature of the Group's business, the origin and destination of revenue (the United Kingdom) is the same in almost all cases. As the Group predominantly sells bus and rail services to individuals, it has few customers that are individually "major". Its major customers are typically public bodies that subsidise or procure transport services – such customers include local authorities, transport authorities and the UK Department for Transport.

Almost all of the revenue of the UK Bus (London) segment is from Transport for London. As at 1 May 2021, the Group had receivables from Transport for London of £10.2m (2 May 2020: £9.6m). Notwithstanding reports of Transport for London's financial pressures, the Group does not consider those receivables impaired.

Revenue, split by class and segment, was as follows:

Year ended 1 May 2021	**Commercial passenger revenue £m**	**Concessionary revenue £m**	**Tendered & school revenue £m**	**Contract & other revenue £m**	**Total £m**
UK Bus (regional operations)	**268.0**	**243.0**	**114.0**	**37.0**	**662.0**
UK Bus (London)	**–**	**–**	**–**	**261.7**	**261.7**
Total bus operations	**268.0**	**243.0**	**114.0**	**298.7**	**923.7**
UK Rail	**4.7**	**–**	**–**	**–**	**4.7**
Total Group revenue	**272.7**	**243.0**	**114.0**	**298.7**	**928.4**
Intra-Group revenue – UK Bus (regional operations)	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Reported Group revenue	**272.7**	**243.0**	**114.0**	**298.5**	**928.2**

Year ended 2 May 2020	Commercial passenger revenue £m	Concessionary revenue £m	Tendered & school revenue £m	Contract & other revenue £m	Total £m
UK Bus (regional operations)	611.5	256.6	104.4	39.4	1,011.9
UK Bus (London)	0.2	–	–	246.0	246.2
Total bus operations	611.7	256.6	104.4	285.4	1,258.1
UK Rail	150.1	–	–	11.0	161.1
Total Group revenue	761.8	256.6	104.4	296.4	1,419.2
Intra-Group revenue – UK Bus (regional operations)	–	–	–	(1.6)	(1.6)
Reported Group revenue	761.8	256.6	104.4	294.8	1,417.6

Notes to the consolidated financial statements (continued)

Note 2 Segmental information (continued)

(b) Operating profit

Operating profit, split by segment, was as follows:

	2021			2020		
	Performance excluding separately disclosed items £m	**Separately disclosed items (note 4) £m**	**Results for the year £m**	Performance excluding separately disclosed items £m	Separately disclosed items (note 4) £m	Results for the year £m
UK Bus (regional operations)	**24.5**	**8.1**	**32.6**	90.6	(14.5)	76.1
UK Bus (London)	**18.7**	**–**	**18.7**	16.1	–	16.1
Total bus operations	**43.2**	**8.1**	**51.3**	106.7	(14.5)	92.2
UK Rail	**10.1**	**2.5**	**12.6**	4.4	(17.3)	(12.9)
	53.3	**10.6**	**63.9**	111.1	(31.8)	79.3
Group overheads	**(8.7)**	**(0.3)**	**(9.0)**	(8.1)	(0.7)	(8.8)
Restructuring costs	**(0.3)**	**–**	**(0.3)**	(0.9)	–	(0.9)
Total operating profit of Group companies	**44.3**	**10.3**	**54.6**	102.1	(32.5)	69.6
Share of joint ventures' profit after finance income and taxation	**3.8**	**–**	**3.8**	17.6	–	17.6
Total operating profit: Group operating profit and share of joint ventures' profit after taxation	**48.1**	**10.3**	**58.4**	119.7	(32.5)	87.2

(c) Joint ventures

The share of profit from joint ventures was further split as follows:

	2021 £m	2020 £m
WCT Group (formerly, Virgin Rail Group) (UK Rail)		
Operating profit	**5.4**	18.9
Finance income (net)	**0.1**	0.4
Taxation	**(1.4)**	(3.5)
	4.1	15.8
Citylink (UK Bus, regional operations)		
Operating (loss)/profit	**(0.4)**	2.3
Taxation	**0.1**	(0.5)
	(0.3)	1.8
Share of profit of joint ventures after finance income and taxation	**3.8**	17.6

(d) Gross assets and liabilities

Assets and liabilities, split by segment, were as follows:

	Non–current assets		**2021**			2020 (restated – see note 1(b))		
	2021 £m	2020 £m	**Gross assets £m**	**Gross liabilities £m**	**Net assets/ (liabilities) £m**	Gross assets £m	Gross liabilities £m	Net assets/ (liabilities) £m
UK Bus (regional operations)	**803.7**	857.4	**908.3**	**(334.2)**	**574.1**	949.0	(490.3)	458.7
UK Bus (London)	**112.5**	115.6	**127.1**	**(199.9)**	**(72.8)**	128.5	(225.9)	(97.4)
UK Rail	**–**	–	**1.7**	**(111.9)**	**(110.2)**	5.1	(138.4)	(133.3)
	916.2	973.0	**1,037.1**	**(646.0)**	**391.1**	1,082.6	(854.6)	228.0
Central functions	**22.3**	28.1	**29.8**	**(43.4)**	**(13.6)**	36.6	(71.7)	(35.1)
Joint ventures	**6.7**	16.3	**6.7**	**–**	**6.7**	16.3	–	16.3
Borrowings, cash and cash equivalents	**–**	–	**602.3**	**(923.6)**	**(321.3)**	580.7	(942.4)	(361.7)
Taxation	**–**	33.3	**–**	**(1.9)**	**(1.9)**	33.3	(11.0)	22.3
Total	**945.2**	1,050.7	**1,675.9**	**(1,614.9)**	**61.0**	1,749.5	(1,879.7)	(130.2)

Central assets and liabilities include interest payable and receivable and other net assets of the holding company and other head office companies. Segment assets and liabilities are determined by identifying the assets and liabilities that relate to the business of each segment but excluding intra–Group balances, cash, cash equivalents, borrowings, taxation, interest payable and interest receivable.

Note 2 Segmental information (continued)

(e) Additions to property, plant and equipment

The additions to property, plant and equipment are shown below and are on an accruals basis, not on a cash basis. They include additions to right-of-use assets and assets acquired as part of business combinations.

	2021 £m	2020 £m
UK Bus (regional operations)	**40.4**	87.6
UK Bus (London)	**18.2**	21.8
UK Rail	**–**	1.1
	58.6	110.5

(f) Additions to intangible assets

The additions to intangible assets (including goodwill) are shown below:

	2021 £m	2020 £m
UK Bus (regional operations)	**6.0**	6.2

(g) Earnings before interest, tax, depreciation and amortisation ("EBITDA")

The results of each continuing segment are further analysed below:

	Year ended 1 May 2021									
	EBITDA before separately disclosed items £m	Joint venture interest and tax £m	**EBITDA including joint venture interest and tax £m**	Depreciation and impairment expense £m	Software amortisation £m	**Operating profit before separately disclosed items £m**	Intangible asset (excl. software) amortisation £m	Other separately disclosed items £m	Allocation of restructuring costs £m	**Operating profit £m**
UK Bus (regional operations)	118.8	–	**118.8**	(91.4)	(2.9)	**24.5**	(0.3)	8.4	(0.2)	**32.4**
UK Bus (London)	41.8	–	**41.8**	(23.1)	–	**18.7**	–	–	–	**18.7**
UK Rail – subsidiaries	10.1	–	**10.1**	–	–	**10.1**	–	2.5	(0.1)	**12.5**
UK Rail – joint venture WCT Group	5.4	(1.3)	**4.1**	–	–	**4.1**	–	–	–	**4.1**
UK Bus – joint venture Citylink	(0.4)	0.1	**(0.3)**	–	–	**(0.3)**	–	–	–	**(0.3)**
Group overheads	(8.7)	–	**(8.7)**	–	–	**(8.7)**	–	(0.3)	–	**(9.0)**
Restructuring costs	(0.3)	–	**(0.3)**	–	–	**(0.3)**	–	–	0.3	**–**
	166.7	(1.2)	**165.5**	(114.5)	(2.9)	**48.1**	(0.3)	10.6	–	**58.4**

	Year ended 2 May 2020									
	EBITDA before separately disclosed items £m	Joint venture interest and tax £m	**EBITDA including joint venture interest and tax £m**	Depreciation and impairment expense £m	Software amortisation £m	**Operating profit before separately disclosed items £m**	Intangible asset (excl. software) amortisation £m	Other separately disclosed items £m	Allocation of restructuring costs £m	**Operating profit £m**
UK Bus (regional operations)	180.8	–	**180.8**	(85.7)	(4.5)	**90.6**	(0.7)	(13.8)	(0.5)	**75.6**
UK Bus (London)	39.6	–	**39.6**	(23.5)	–	**16.1**	–	–	–	**16.1**
UK Rail – subsidiaries	4.7	–	**4.7**	(0.3)	–	**4.4**	–	(17.3)	(0.4)	**(13.3)**
UK Rail – joint venture WCT Group	18.9	(3.1)	**15.8**	–	–	**15.8**	–	–	–	**15.8**
UK Bus – joint venture Citylink	2.3	(0.5)	**1.8**	–	–	**1.8**	–	–	–	**1.8**
Group overheads	(8.1)	–	**(8.1)**	–	–	**(8.1)**	–	(0.7)	–	**(8.8)**
Restructuring costs	(0.9)	–	**(0.9)**	–	–	**(0.9)**	–	–	0.9	**–**
	237.3	(3.6)	**233.7**	(109.5)	(4.5)	**119.7**	(0.7)	(31.8)	–	**87.2**

Notes to the consolidated financial statements (continued)

Note 3 Operating costs and other operating income

Operating costs and other operating income were as follows:

	2021 £m	2020 £m
Miscellaneous revenue (see explanation below)	**9.5**	29.7
COVID–19 related grants receivable (see explanation below)	**255.2**	38.3
Rail franchise premia (see explanation below)	**8.5**	(14.7)
Rail revenue share payable (see explanation below)	**(0.5)**	(7.2)
Materials and consumables	**(142.9)**	(198.3)
Staff costs (note 7)	**(753.4)**	(815.3)
Depreciation on property, plant and equipment	**(107.7)**	(109.2)
Expenditure on property plant and equipment	**(6.6)**	(4.7)
(Loss)/gain on disposal of property, plant and equipment	**(1.5)**	0.9
Impairment of property, plant and equipment	**(6.8)**	(0.8)
Amortisation of intangible assets	**(3.2)**	(5.2)
Impairment of inventories, and impairment reversals	**(0.1)**	1.0
Network Rail charges including electricity for traction (see explanation below)	**0.4**	(27.9)
Rentals payable on low-value and short-term leases	**(2.8)**	(15.0)
Other external charges	**(121.4)**	(218.7)
Restructuring costs	**(0.3)**	(0.9)
Total operating costs	**(873.6)**	(1,348.0)

Miscellaneous revenue comprises other operating income incidental to the Group's principal activities. It includes amounts receivable from Network Rail under performance regimes, advertising income, railway station access income, railway depot access income and property income.

Under the Schedules 4 and 8 possessions and performance regimes, amounts were payable or receivable by the Group's train operating companies to or from Network Rail. Schedule 4 compensates train operators for the impact of planned service disruption and Schedule 8 compensates rail industry participants for the impact of unplanned service disruption. The amounts payable or receivable reflect the Group's operational performance as well as Network Rail's and other train operators'. The amounts are intended to cover the wider effects of disruption on the Group's and others' revenue and costs, such as those associated with the impact on customer demand for train services and the costs of managing disruption. Any compensation received from Network Rail is not therefore intended to correspond to the refunds that might be payable to train passengers. £Nil (2020: £13.2m) is included in respect of these possessions and performance regimes in the overall miscellaneous revenue of £9.5m (2020: £29.7m) shown above.

COVID-19 related grants receivable reflects the amounts receivable in respect of government grants provided to organisations in light of the ongoing COVID-19 situation. The amounts reflect grants receivable in respect of the year ended 1 May 2021 under the Coronavirus Job Retention Scheme ("CJRS"), the COVID-19 Bus Services Support Grant ("CBSSG") scheme, the COVID-19 Support Grant ("CSG") scheme for bus services in Scotland, the Bus Emergency Scheme ("BES") in Wales and the Light Rail Revenue Grant ("LRRRG") scheme.

Under the CJRS, grant income may be claimed in respect of certain costs to the Group of furloughed employees. The CJRS income included above reflects the costs incurred on or prior to 1 May 2021 that are eligible to be included in CJRS grant claims to the extent the Group considers there to be reasonable certainty that the grant will be received.

Under the CBSSG, CSG and BES schemes, grant income may be claimed by operators of certain bus services to close the shortfall of revenue earned by them during the period affected by COVID–19 and the costs incurred by them in that period. The estimation of the grant income involves significant uncertainty, as explained in note 1(e)(ii) to these consolidated financial statements. The amount of income recognised in the year ended 1 May 2021 reflects the amount in respect of which the Group considers there to be reasonable certainty that: (a) the Group will comply with the conditions attaching to the grant and (b) the grant will be received and retained by the Group, taking account of the potential adjustments to grant payments as a result of any reconciliation process.

In addition to the COVID–19 related grants receivable shown above, some government bodies have agreed to continue certain levels of payments of concessionary revenue, tender revenue and Bus Service Operators Grant ("BSOG") to help support the continuing operation of bus services. The payment rates of these items during the period affected by COVID-19 are higher than they would ordinarily be for the relevant levels of patronage, mileage and fuel consumption. Consistent with previous years, all amounts of concessionary revenue and tender revenue are reported within revenue and an analysis of revenue for the year ended 1 May 2021 is provided in note 2(a) to these consolidated financial statements. Also consistent with previous years, all amounts of BSOG receivable, essentially rebates of fuel duty, are included net within materials and consumables costs shown above.

Had the average rate of concessionary revenue per journey for the year ended 1 May 2021 as a whole been consistent with the rate for the period from 28 April 2019 to 29 February 2020, the concessionary revenue for the year would have been £89.1m, £153.9m lower than £243.0m reported in note 2(a) (2020: £234.3m, £22.3m lower than £256.6m reported in note 2(a)). While not all concessionary revenue is ordinarily determined on a "per journey" basis, that illustrates the extent to which concessionary payments were maintained notwithstanding the COVID-19 related reductions in journey numbers.

Rail franchise premia is the amount of financial premia and profit share payable to the UK's Department for Transport in respect of the operation of UK passenger rail franchises.

Rail revenue share payable is the amount payable to the UK's Department for Transport in certain circumstances where a train operating company's revenue is above target or where defined macroeconomic indices are above target.

The credit of £0.4m in respect of Network Rail charges for the year ended 1 May 2021 reflects adjustments to previous years' estimates of amounts receivable and payable, reflecting progress during the year in resolving open items in relation to the Group's former rail franchises.

Note 3 Operating costs and other operating income (continued)

Fees payable to the Company's auditors were as follows:

	2021 £m	2020 £m
Fees payable to the Company's auditors and its associates for the audit of the Company's financial statements and consolidated financial statements	**0.7**	0.4
Fees payable to the Company's auditors and its associates for the audit of the Company's subsidiaries pursuant to legislation	**0.4**	0.6
Total audit fees	**1.1**	1.0
Other assurance services	**–**	0.1
Total non-audit fees	**–**	0.1
Total fees payable by the Group to its auditors	**1.1**	1.1

A description of the work of the Audit Committee is set out in the Audit Committee Report in section 5 of this Annual Report, and includes an explanation of how auditor independence is safeguarded when non–audit services are provided by the auditors.

Note 4 Separately disclosed items

(a) Summary of separately disclosed items

The Group highlights amounts before certain "separately disclosed items" as well as clearly reporting the results in accordance with IFRS. Separately disclosed items are defined in note 34.

The items shown in the columns headed "separately disclosed items" on the face of the consolidated income statement for the year ended 1 May 2021 and for the prior year comparatives are further analysed in the table below.

	2021			2020		
	Non–software intangible asset amortisation £m	**Other separately disclosed items £m**	**Total separately disclosed items £m**	Non–software intangible asset amortisation £m	Other separately disclosed items £m	Total separately disclosed items £m
Operating costs and other operating income						
Non-software intangible assets amortisation	**(0.3)**	**–**	**(0.3)**	(0.7)	–	(0.7)
Re-organisation costs	**–**	**(2.8)**	**(2.8)**	–	(2.4)	(2.4)
Impairment of assets and onerous contracts	**–**	**–**	**–**	–	(16.5)	(16.5)
Sheffield Supertram profit and release from onerous contract provision	**–**	**2.5**	**2.5**	–	–	–
Discontinuation of fuel hedge accounting	**–**	**10.9**	**10.9**	–	(12.9)	(12.9)
	(0.3)	**10.6**	**10.3**	(0.7)	(31.8)	(32.5)
Finance costs						
Change in fair value of Deferred Payment Instrument	**–**	**(2.6)**	**(2.6)**	–	(17.8)	(17.8)
Separately disclosed items before taxation	**(0.3)**	**8.0**	**7.7**	(0.7)	(49.6)	(50.3)
Taxation effect	**–**	**10.8**	**10.8**	–	12.8	12.8
Separately disclosed items after taxation	**(0.3)**	**18.8**	**18.5**	(0.7)	(36.8)	(37.5)

(b) Re-organisation costs

In light of the COVID-19 situation, the Group took a number of actions to reduce its ongoing costs. Those actions were designed to ensure that the Group remained appropriately efficient and well placed to manage through, and recover from, the effects of the COVID-19 situation on its operations and financial performance. The Group incurred re-organisation costs, net of related grant income, of £2.8m in the year ended 1 May 2021 as a result of the actions taken to reduce its ongoing costs.

In April 2019, there were two significant events relevant to the Group's overall strategy: the sale of the Group's North America Division and the UK Department for Transport's decision to disqualify the bids that the Group was involved in for new UK rail franchises. In light of those, the Group subsequently reshaped its management structure and reduced overheads to reflect the reduced scope of the business. The re-organisation costs associated with those changes amounted to £2.4m in the year ended 2 May 2020.

(c) Sheffield Supertram profit and release from onerous contract provision

In the year ended 2 May 2020, and taking account of the effects of the COVID-19 situation, the Group assessed its assets for impairment and reviewed for onerous contracts. Based on that review, a separately disclosed expense of £16.5m was recorded for the year ended 2 May 2020.

As part of that, an onerous contract provision of £14.1m was recorded as at 2 May 2020 in respect of the Group's Sheffield Supertram concession. In estimating that onerous contract provision as at 2 May 2020, COVID-related payments to the Group's Sheffield Supertram business from the Department for Transport and South Yorkshire Passenger Transport Executive were only taken account of to the extent they were confirmed on or prior to 2 May 2020. Since 2 May 2020, the Department for Transport and South Yorkshire Passenger Transport Executive confirmed their intention to make further COVID-related payments to Sheffield Supertram. We have re-assessed the amount of the onerous contract provision as at 1 May 2021, taking account of the further COVID-related payments and other developments that affect the estimated net cost of fulfilling the contractual obligations. That re-assessment resulted in a £0.8m reduction in the level of the provision, with the reduction, as well as the £1.7m of Sheffield Supertram's other operating profit in the year, credited to the consolidated income statement for the year ended 1 May 2021 and presented as a separately disclosed item.

Notes to the consolidated financial statements (continued)

Note 4 Separately disclosed items (continued)

(c) Sheffield Supertram profit and release from onerous contract provision (continued)

The estimate of the Supertram onerous contract provision involves estimation uncertainty, particularly in relation to forecast passenger revenue. Forecasting the extent to which COVID-19 has a lasting effect on passenger revenue adds to the uncertainty. The forecasts used to estimate the provision as at 1 May 2021 assume that underlying passenger revenue from 2 May 2021, until the end of the Supertram concession in March 2024, is around 85% of the underlying pre-COVID revenue. Underlying passenger revenue has been normalised to take account of changes in the timing of infrastructure work on the tram system. If total forecast revenue from 2 May 2021 was increased by 10%, the onerous contract provision as at 1 May 2021 would be £3.6m lower (2020: £5.4m lower) and if it was decreased by 10%, the provision would be £3.6m higher (2020: £5.4m higher).

No specific assumptions have been made regarding climate change in estimating the Supertram onerous contract provision. Taking account of the remaining term of the Supertram concession being less than three years and that the trams are electrically (rather than diesel) powered, we do not consider that climate change considerations materially affect the estimate of the provision as at 1 May 2021.

(d) Discontinuation of fuel hedge accounting

The Group significantly reduced its vehicle mileage in light of reduced customer demand from March 2020 as the public followed government advice to avoid all but essential travel in light of the COVID–19 pandemic. As a result, the Group significantly reduced its forecast of the level of future fuel consumption that it considered highly probable and it discontinued hedge accounting in mid–March 2020 for certain of the fuel hedges covering the period from mid–March 2020 to April 2021.

Amounts previously recognised in the statement of comprehensive income in respect of those now discontinued hedges were transferred to the income statement with effect from March 2020 to the extent that the forecast fuel consumption was no longer expected to occur. The income statement effect of that, and for subsequent movements in the fair value of fuel derivatives that are no longer accounted for as hedges, has been presented as a separately disclosed item.

In the year ended 1 May 2021, the fair value of those discontinued hedges (net of related offsetting derivatives) moved in favour of the Group and accordingly, a credit of £4.0m (2020: charge of £12.9m) is reported in the consolidated income statement for the year ended 1 May 2021 and presented as a separately disclosed item. As the discontinued hedges cover periods up until April 2021, there should be no amounts to be reported as separately disclosed items in respect of those hedges beyond the year to 1 May 2021.

Grant income recognised in the year ended 1 May 2021 includes amounts intended to compensate the Group for cash payments by the Group pursuant to fuel derivatives. To the extent that grant income relates to the fuel derivatives for which hedge accounting was discontinued and for which the related expenses on those derivatives is reported within separately disclosed items (either in the year ended 2 May 2020 or in the year ended 1 May 2021), the related grant income of £6.9m in the year ended 1 May 2021 has also been reported within separately disclosed items.

Amounts retained in the cash flow hedging reserve for fuel consumption that was still expected to occur are transferred to profit in the usual manner and are not reported as separately disclosed items.

(e) Change in fair value of Deferred Payment Instrument

The Group received a Deferred Payment Instrument as deferred consideration for the sale of the North American business in April 2019. The instrument, which is accounted for as fair value through profit or loss, has a maturity date of October 2024 and due to credit and other recoverability risks associated with the instrument, its carrying value is at a discount to its face value. The Group's exposure to the purchaser of the North American business ranks behind all of the secured lenders. The carrying value of the instrument was £4.5m as at 2 May 2020. At 1 May 2021, the carrying value of the instrument was estimated to be £1.9m, resulting in a loss of £2.6m being recognised as finance costs in the year ended 1 May 2021, compared to a loss of £17.8m recognised as finance costs in the year ended 2 May 2020.

Changes in the fair value of the Deferred Payment Instrument may occur in several consecutive financial years until the issuer of the instrument discharges it in full. The Deferred Payment Instrument is part of the consideration received for the sale of a business and it does not relate to the ongoing operating activities of the Group. The Directors therefore consider that it is helpful for understanding the Group's financial performance to disclose separately changes in the fair value of the Deferred Payment Instrument.

(f) Taxation effect

The separately disclosed tax credit for the year ended 1 May 2021 comprises of the three following items:

- The release of a tax liability of £7.3m (2020: £Nil) following developments during the year in resolving an uncertain tax position. In years up to April 2018, and with the advance knowledge of the UK HMRC, the Group had benefitted from the Finance Company Exemption contained in UK's Controlled Foreign Company ("CFC") legislation. Whilst the Group considered it had complied with all the requirements of UK tax law, the European Commission had decided that the UK exemptions could be partly contrary to EU State Aid rules. On 13 June 2019, HMRC applied to annul the decision of the European Commission and, in November 2019, the Group, in line with a number of UK corporates, made a similar appeal. HMRC has now completed its review of the Group's tax arrangements for the periods in question and confirmed that they complied with the requirements of the UK CFC legislation and that it considers that the Group's arrangements did not result in unlawful State Aid. Accordingly, HMRC has accepted the Group's submitted tax returns resulting in the Group releasing the tax liability included in the closing tax liability at 2 May 2020.
- A tax credit of £5.0m (2020: £3.4m) in respect of tax deductions claimed on previously unrecognised tax losses, which are now certain, relating to an expired rail franchise;
- A charge of £1.5m (2020: a credit of £9.4m) for the tax effect of the pre-tax separately disclosed items.

Note 5 Discontinued operations

The sale of the North American business was concluded in April 2019 and the loss on disposal of the business reflected in the 2019 consolidated financial statements. The loss on disposal of £Nil (2020: £1.3m) of the North American business represents the settlement of outstanding claims and liabilities in relation to the sale of the business.

Notes to the consolidated financial statements (continued)

Note 6 Finance costs and income

Net finance costs and items of income, expense, gains and losses in respect of financial instruments (excluding commodity hedges, trade and other payables, and trade and other receivables) have been recognised in the income statement as set out in the following table.

	2021 £m	2020 £m
Interest expense on financial liabilities at fair value through profit or loss		
– Separately disclosed finance costs (note 4)	**(2.6)**	(17.8)
Interest expense on financial liabilities not at fair value through profit or loss		
– Interest payable and other facility costs on bank loans, loan notes, overdrafts and trade finance	**(2.7)**	(3.3)
– Interest payable on leases	**(2.5)**	(2.8)
– Interest payable and other finance costs on bonds	**(16.7)**	(17.2)
– Interest payable on Covid Corporate Financing Facility	**(1.8)**	–
– Interest payable on interest rate swaps qualifying as fair value hedges	**(0.1)**	–
Other finance costs		
– Unwinding of discounts on provisions	**(1.0)**	(1.3)
– Interest charge on defined benefit pension schemes	**(6.8)**	(5.1)
Finance costs	**(34.2)**	(47.5)
Interest income on financial assets not at fair value through profit or loss		
– Interest receivable on cash and cash equivalents	**0.5**	0.9
Net finance costs	**(33.7)**	(46.6)

Note 7 Staff costs

Total staff costs were as follows:

	2021 £m	2020 £m
Staff costs		
Wages and salaries	**640.9**	690.3
Social security costs	**58.2**	65.3
Pension costs excluding interest on net liability (note 24)		
– Defined benefit pension costs	**7.8**	10.1
– Defined contribution pension costs	**44.8**	47.4
– Administration costs for pension schemes	**0.8**	0.8
Share based payment costs (excluding social security costs)		
– Equity-settled	**1.6**	0.9
– Cash-settled	**(0.7)**	0.5
Total staff costs	**753.4**	815.3

The total amount shown for staff costs above includes an amount of £0.1m (2020: £0.5m) in respect of share based payment costs for the Directors.

Key management personnel are considered to be the Directors and full information on their remuneration, waivers of remuneration, share based payments, incentive schemes and pensions is contained within the Directors' remuneration report in section 8 of this Annual Report.

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

Average monthly staff numbers	2021 number	2020 number
UK operations	**21,939**	22,572
UK administration and supervisory	**1,823**	2,344
Total	**23,762**	24,916

Notes to the consolidated financial statements (continued)

Note 8 Taxation

(a) Analysis of charge in the year

	2021			2020		
	Performance excluding separately disclosed items £m	**Separately disclosed items (note 4) £m**	**Results for the year £m**	Performance excluding separately disclosed items £m	Separately disclosed items (note 4) £m	Results for the year £m
Current tax:						
UK Corporation tax at 19.0% (2020: 19.0%)	**(2.8)**	**1.5**	**(1.3)**	7.7	(9.4)	(1.7)
Prior year over provision for corporation tax	**(0.5)**	**(12.3)**	**(12.8)**	(2.6)	(3.4)	(6.0)
Total current tax	**(3.3)**	**(10.8)**	**(14.1)**	5.1	(12.8)	(7.7)
Deferred tax:						
Origination and reversal of temporary differences	**6.4**	**–**	**6.4**	6.4	–	6.4
Adjustments in respect of prior years	**(1.1)**	**–**	**(1.1)**	(1.2)	–	(1.2)
Change in tax rates	**–**	**–**	**–**	5.7	–	5.7
Total deferred tax	**5.3**	**–**	**5.3**	10.9	–	10.9
Total tax on profit on continuing operations	**2.0**	**(10.8)**	**(8.8)**	16.0	(12.8)	3.2

(b) Factors affecting tax charge for the year

	2021 £m	2020 £m
Profit before taxation – on continuing operations	**24.7**	40.6
Profit multiplied by standard rate of corporation tax applying to the year in the UK of 19.0% (2020: 19.0%)	**4.7**	7.7
Effects of:		
Impact of initial recognition exemption on property, plant and equipment	**0.6**	0.6
Impact of initial recognition exemption on defined benefit pension schemes	**–**	0.2
Non-deductible element of share based payment expense	**–**	0.1
Other non-deductible expenditure	**0.2**	0.7
Other non-taxable income	**(0.5)**	(1.3)
Tax effect of share of results of joint ventures	**(0.7)**	(3.3)
Deferred tax not recognised	**0.8**	–
Adjustments to tax charge in respect of prior years		
– prior year adjustments	**(1.6)**	(3.8)
– separately disclosed credit arising from resolution of uncertain tax position (note 4(f))	**(7.3)**	–
– separately disclosed credit arising from expired rail franchise losses (notes 4(f) and 8(c))	**(5.0)**	(3.4)
Change in UK corporation tax rate		
– impact on opening deferred tax (from 17% to 19%)	**–**	5.7
Total tax on profit (note 8a)	**(8.8)**	3.2

(c) Factors that may affect future tax charges

The tax amounts recognised as at 1 May 2021 continue to involve a degree of estimation uncertainty. Liabilities of £3.6m (2020: £12.1m) are held in respect of uncertain tax positions of which £2.4m (2020: £10.7m) relates to the financing and transactions with overseas operations. The liabilities held in respect of tax reflect the Group's assessment and measurement of the amounts payable, taking account of correspondence with the tax authorities and advice on the applicable regulations.

Gross deductible temporary differences of £11.8m (2020: £34.2m) relating to tax losses have not been recognised due to restrictions in the availability of their use. In the prior year, this included £26.4m of accumulated tax losses associated with expired rail franchises which were not recognised as an asset in the consolidated financial statements due to significant doubt over the Group's ability to access and utilise these losses. During the year ended 1 May 2021, further progress has been made in winding up the affairs of these rail companies including progressing the companies' tax affairs. A credit of £5.0m has been recognised in the consolidated income statement for the year ended 1 May 2021 in respect of tax deductions claimed on these previously unrecognised losses.

The deferred tax balances have been calculated with reference to the enacted UK corporation tax rate as at the balance sheet date of 1 May 2021 of 19%. On 24 May 2021, an increase in the rate to 25% from 1 April 2023 was substantively enacted. Had the increase in the rate been substantively enacted as at 1 May 2021, the estimated impact of this would be to increase the deferred tax liability by £0.3m, with a charge of £16.1m in the consolidated income statement and a credit of £15.8m in the consolidated statement of comprehensive income. To the extent that the deferred tax balance relates to the net pension liability, any rate change impact will be recognised in the consolidated statement of comprehensive income with the balance being recognised in the consolidated income statement.

Taking account of the recently enacted increase in the rate of UK corporation tax, assuming no changes to tax laws in the UK and assuming that the composition of the Group remains broadly unchanged, we expect the Group's future effective tax rate (excluding separately disclosed items and excluding the one-off effect of the rate change on deferred tax balances) to be 18% to 20% in the next two years, rising to 24% to 26% thereafter.

(d) Tax on other comprehensive income

The components of tax on other comprehensive income are shown in the consolidated statement of comprehensive income.

Notes to the consolidated financial statements (continued)

Note 9 Dividends

Dividends payable in respect of ordinary shares are shown below.

	2021 pence per share	2020 pence per share	**2021 £m**	2020 £m
Amounts recognised as distributions in the year				
Dividends on ordinary shares				
Final dividend in respect of the previous year	**–**	3.9	**–**	21.7
Interim dividend in respect of the current year	**–**	3.8	**–**	20.9
Amounts recognised as distributions to equity holders in the year	**–**	7.7	**–**	42.6

The Board has proposed no dividends in respect of the year ended 1 May 2021.

Note 10 Earnings per share

Basic earnings per share ("EPS") have been calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year, excluding any ordinary shares held in treasury.

The diluted earnings per share was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares in relation to executive share plans and long–term incentive plans.

For the purpose of calculating diluted earnings, International Accounting Standard 33 ("IAS 33"), *Earnings Per Share,* identifies two categories of share based incentive schemes and specifies the treatment for each in calculating diluted earnings per share. In calculating diluted earnings per share, the Group treats awards under its Executive Participation Plan and its Restricted Share Plan as being in the IAS 33 category of "employee share options with fixed or determinable terms and non-vested ordinary shares." As such, the fair value (as determined in accordance with International Financial Reporting Standard 2, *Share-based Payment*) of any goods or services to be supplied to the Group in the future in respect of the outstanding units under those schemes is treated as future proceeds receivable by the Group for the units. For the year ended 1 May 2021, a calculation was undertaken to determine the number of ordinary shares that could have been acquired with those future proceeds (determined based on the average market share price of the Company's ordinary shares during the period of the year that each tranche of awards was outstanding). The number of ordinary shares so calculated is deducted from the weighted average of the outstanding awards under the schemes during the year to determine the number of shares to be added to the weighted average number of shares for the purpose of calculating diluted earnings per share.

More details of share based payments are provided in note 27.

	2021 no. of shares million	2020 no. of shares million
Basic weighted average number of ordinary shares, excluding treasury shares	**550.7**	555.3
Dilutive ordinary shares		
– Executive Participation Plan	**1.3**	3.0
– Long Term Incentive Plan	**–**	1.1
– Restricted Share Plan	**1.5**	–
Diluted weighted average number of ordinary shares	**553.5**	559.4

Adjusted EPS is calculated by adding back separately disclosed items (after taking account of taxation and the non–controlling interest) as shown on the consolidated income statement. This has been presented to allow shareholders to gain a further understanding of the underlying performance. The reconciliation of net profit for the basic EPS calculation to net profit for the adjusted EPS calculation is shown below.

	Continuing & total of all operations 2021 £m	Continuing operations 2020 £m	Discontinued operations 2020 £m	Total of all operations 2020 £m
Profit attributable to equity holders of the parent for basic EPS calculation	**33.4**	37.1	(1.3)	35.8
Non-software intangible asset amortisation (note 4)	**0.3**	0.7	–	0.7
Other separately disclosed items before tax (notes 4 and 5)	**(8.0)**	49.6	1.3	50.9
Tax effect of separately disclosed items (note 4)	**(10.8)**	(12.8)	–	(12.8)
Non-controlling interest in separately disclosed items	**0.1**	0.3	–	0.3
Profit for adjusted EPS calculation	**15.0**	74.9	–	74.9

Notes to the consolidated financial statements (continued)

Note 11 Goodwill

The movements in goodwill were as follows:

	2021 £m	2020 £m
Cost and net book value		
At beginning of year	**51.9**	51.2
Acquired through business combinations	**–**	0.7
At end of year	**51.9**	51.9

Goodwill arose in the year ended 2 May 2020 on a business combination. The business combination and its effect on cash flow was not material.

For the purpose of impairment testing, all goodwill that has been acquired in business combinations has been allocated to two individual cash generating units ("CGUs") on the basis of the Group's operations. The UK Bus (regional operations) and UK Bus (London) cash generating units operate coach and bus services in the United Kingdom. No goodwill has been allocated to the Group's UK rail operations.

The cash generating units are as follows:

	UK Bus (regional operations)		UK Bus (London)	
	2021	2020	**2021**	2020
Carrying amount of goodwill (£m)	**48.3**	48.3	**3.6**	3.6
Basis on which recoverable amount has been determined	**Value in use**	Value in use	**Value in use**	Value in use
Period covered by approved management plans used in value in use calculation	**5 years**	5 years	**5 years**	5 years
Pre–tax discount rate applied to cash flow projections	**9.1%**	9.7%	**9.1%**	9.7%
Growth rate used to extrapolate cash flows beyond period of management plan	**2.3%**	2.2%	**2.3%**	2.2%
Difference between above growth rate and long–term average growth rate for market in which unit operates	**Nil**	Nil	**Nil**	Nil

The calculation of value in use for each cash generating unit shown above is most sensitive to the assumptions on discount rates and growth rates and in the case of UK Bus (London), the number of new contracts won and the commercial terms of such contracts. The assumptions used are considered to be consistent with past experience and external sources of information and to be realistically achievable in light of economic and industry measures and forecasts.

The principal risks and uncertainties facing the Group are set out in section 1.4.5 of the Strategic report.

The cost base of the UK Bus (regional operations) can be flexed in response to changes in revenue and there is scope to reduce capital expenditure in the medium-term if other cash flows deteriorate. The cost base of UK Bus (London) is not as flexible because the business is contractually committed to operate the majority of its services.

The discount rates have been determined with reference to the estimated post–tax Weighted Average Cost of Capital ("WACC") of the Group. In determining the estimated WACC, lease debt has been included in calculating the cost of debt. The WACC has been estimated as at 1 May 2021 at 7.3% (2020: 7.9%).

The pre–tax discount rate for each CGU has been determined by adjusting the Group's WACC for the risk profile and effects of tax on each of the relevant CGUs.

The value in use as at 1 May 2021 has been estimated to exceed the carrying value of the business' non-current assets. However, there are alternative but still reasonably possible assumptions that when applied result in a value in use estimate below carrying value. The most critical estimates relate to the forecast growth in the business' earnings before interest, tax, depreciation and amortisation over the next few years, the discount rate and the rate of long-term growth in the business' net cash flows. The financial performance of the UK Bus (regional operations) business is influenced by various different factors, including changes in local economies, local competition, fuel prices, working patterns, shopping patterns, traffic conditions, cost pressures including the availability of sufficient staff, and regulatory change. The key areas of forecasting uncertainty include:
- The extent and duration of COVID-19 restrictions in the UK;
- Duration and scale of government support measures to the bus sector;
- Recovery in passenger demand; and
- Size of network (mileage) to support that level of passenger demand.

The carrying value of UK Bus (regional operations) non-current assets as at 1 May 2021 was £803.7m (2020: £857.4m) and the estimated value in use was £1,008.1m (2020: £1,201.1m) but alternative assumptions could result in an impairment loss. As at 1 May 2021, the value in use of the UK Bus (regional operations) business exceeds its carrying amount by £204.4m (2020: £343.7m). Our sensitivity analysis indicates that this headroom would be eliminated if the assumed long-term growth rate fell by more than 210 basis points (2020: 410 basis points), or if the discount rate were to increase by more than 140 basis points (2020: 260 basis points). The assumptions described in section 3.11 of this Annual Report in respect of our base case forecast for assessing going concern and longer term viability are consistent with those applied in assessing goodwill as at 1 May 2021 for impairment. While climate change presents both opportunities and risks to our business, we do not consider that climate change considerations materially impact the assessment of the carrying value of the business' non-current assets, notwithstanding the climate-related estimation uncertainty arising in connection with estimating the useful lives of vehicles for accounting purposes, which we highlight in Note 1.

The Directors believe that there is no impairment to any of the CGUs.

Note 12 Other intangible assets

Intangible assets include customer contracts on favourable terms to market purchased as part of business combinations and software costs.

The movements in other intangible assets, all of which are assumed to have finite useful lives, were as follows:

Year ended 1 May 2021	Customer contracts £m	Software costs £m	Total £m
Cost			
At beginning of year	**1.7**	**32.1**	**33.8**
Additions	**–**	**6.0**	**6.0**
At end of year	**1.7**	**38.1**	**39.8**
Accumulated amortisation			
At beginning of year	**(1.4)**	**(22.9)**	**(24.3)**
Amortisation charged to income statement	**(0.3)**	**(2.9)**	**(3.2)**
At end of year	**(1.7)**	**(25.8)**	**(27.5)**
Net book value at beginning of year	**0.3**	**9.2**	**9.5**
Net book value at end of year	**–**	**12.3**	**12.3**

Year ended 2 May 2020	Customer contracts £m	Software costs £m	Total £m
Cost			
At beginning of year	1.7	32.6	34.3
Additions	–	5.5	5.5
Disposals	–	(6.0)	(6.0)
At end of year	1.7	32.1	33.8
Accumulated amortisation			
At beginning of year	(0.7)	(23.9)	(24.6)
Amortisation charged to income statement	(0.7)	(4.5)	(5.2)
Disposals	–	5.5	5.5
At end of year	(1.4)	(22.9)	(24.3)
Net book value at beginning of year	1.0	8.7	9.7
Net book value at end of year	0.3	9.2	9.5

Notes to the consolidated financial statements (continued)

Note 13 Property, plant and equipment

(a) Owned assets

The movements in owned property, plant and equipment were as follows:

Year ended 1 May 2021	**Land and buildings £m**	**Passenger service vehicles £m**	**Other plant and equipment £m**	**Total £m**
Cost				
At beginning of year	**300.4**	**1,153.4**	**110.4**	**1,564.2**
Additions	**2.7**	**32.8**	**1.1**	**36.6**
Transfer to assets held for sale	**(1.9)**	**–**	**–**	**(1.9)**
Disposals	**(4.6)**	**(26.9)**	**(6.6)**	**(38.1)**
At end of year	**296.6**	**1,159.3**	**104.9**	**1,560.8**
Depreciation				
At beginning of year	**(75.9)**	**(584.5)**	**(84.5)**	**(744.9)**
Depreciation charged to income statement	**(6.0)**	**(70.0)**	**(5.8)**	**(81.8)**
Impairment charged to income statement	**(2.0)**	**(3.9)**	**–**	**(5.9)**
Transfer to assets held for sale	**0.5**	**–**	**–**	**0.5**
Disposals	**0.1**	**25.1**	**6.5**	**31.7**
At end of year	**(83.3)**	**(633.3)**	**(83.8)**	**(800.4)**
Net book value at beginning of year	**224.5**	**568.9**	**25.9**	**819.3**
Net book value at end of year	**213.3**	**526.0**	**21.1**	**760.4**

Year ended 2 May 2020	Land and buildings £m	Passenger service vehicles £m	Other plant and equipment £m	Total £m
Cost				
At beginning of year	298.2	1,105.1	153.3	1,556.6
Additions	3.6	83.7	4.4	91.7
Acquired through business combinations	2.2	0.7	–	2.9
Disposals	(3.6)	(36.1)	(47.3)	(87.0)
At end of year	300.4	1,153.4	110.4	1,564.2
Depreciation				
At beginning of year	(68.9)	(551.0)	(121.5)	(741.4)
Depreciation charged to income statement	(6.6)	(69.4)	(6.6)	(82.6)
Impairment charged to income statement	(0.5)	–	(0.3)	(0.8)
Disposals	0.1	35.9	43.9	79.9
At end of year	(75.9)	(584.5)	(84.5)	(744.9)
Net book value at beginning of year	229.3	554.1	31.8	815.2
Net book value at end of year	224.5	568.9	25.9	819.3

(b) Leases

Included with property, plant and equipment are leased assets where the Group is the lessee. Further information on the Group's accounting policy for leases can be found within note 1(v).

(i) Movements in right-of-use assets

The movements in right-of-use assets were as follows:

Year ended 1 May 2021	**Land and buildings £m**	**Passenger service vehicles £m**	**Other plant and equipment £m**	**Total £m**
Cost				
At beginning of year	**37.5**	**80.5**	**6.1**	**124.1**
Additions	**7.9**	**12.4**	**1.7**	**22.0**
Disposals	**(0.3)**	**(4.7)**	**(1.0)**	**(6.0)**
At end of year	**45.1**	**88.2**	**6.8**	**140.1**
Depreciation				
At beginning of year	**(4.3)**	**(22.3)**	**(1.9)**	**(28.5)**
Depreciation charged to income statement	**(5.0)**	**(19.0)**	**(1.9)**	**(25.9)**
Impairment charged to income statement	**(0.9)**	**–**	**–**	**(0.9)**
Disposals	**0.3**	**4.7**	**0.8**	**5.8**
At end of year	**(9.9)**	**(36.6)**	**(3.0)**	**(49.5)**
Net book value at beginning of year	**33.2**	**58.2**	**4.2**	**95.6**
Net book value at end of year	**35.2**	**51.6**	**3.8**	**90.6**

Note 13 Property, plant and equipment (continued)

(b) Leases (continued)

(i) Movements in right-of-use assets (continued)

Year ended 2 May 2020	Land and buildings £m	Passenger service vehicles £m	Other plant and equipment £m	Total £m
Cost				
At beginning of year	33.6	72.1	4.4	110.1
Additions	4.5	9.3	2.1	15.9
Disposals	(0.6)	(0.9)	(0.4)	(1.9)
At end of year	37.5	80.5	6.1	124.1
Depreciation				
At beginning of year	–	(3.2)	–	(3.2)
Depreciation charged to income statement	(4.4)	(20.0)	(2.2)	(26.6)
Disposals	0.1	0.9	0.3	1.3
At end of year	(4.3)	(22.3)	(1.9)	(28.5)
Net book value at beginning of year	33.6	68.9	4.4	106.9
Net book value at end of year	33.2	58.2	4.2	95.6

(ii) Lease liabilities

The lease liabilities were:

	2021 £m	2020 £m
Current	**22.7**	25.0
Non-current	**59.4**	60.8
	82.1	85.8

(iii) Amounts recognised in the consolidated income statement

The consolidated income statement includes the following depreciation charges and other costs in relation to leases:

	2021 £m	2020 £m
Depreciation charge for right-of-use assets		
Land and buildings	**5.0**	4.4
Passenger service vehicles	**19.0**	20.0
Other plant and equipment	**1.9**	2.2
Total depreciation charge for right-of use assets	**25.9**	26.6
Expenses relating to short-term leases	**2.5**	14.8
Expenses relating to leases of low-value assets	**0.3**	0.2
Lease costs included within operating profit	**28.7**	41.6
Interest expense included within finance costs	**2.5**	2.8
Lease costs included within profit before tax	**31.2**	44.4

The expense relating to short-term leases for the year to 2 May 2020 included £13.0m for short-term leases in respect of trains and rolling stock. This did not occur in the year to 1 May 2021 as the Group's rail franchises all ended prior to the start of that year. The Group has commitments of £0.7m (2020: £0.1m) for short-term leases and £0.4m (2020: £0.5m) for leases of low-value assets as at 1 May 2021.

(iv) Amounts recognised in the consolidated statement of cash flows

The consolidated statement of cash flows includes an outflow of £32.4m (2020: £46.2m) in relation to leases and the related interest expense:

Payment of	**Payment included with cash flow heading**	**2021 £m**	2020 £m
Lease principal	Cash flows from financing activities	**27.1**	28.4
Interest payable on leases	Cash flows from operating activities	**2.5**	2.8
Payments for short-term leases	Cash flows from operating activities	**2.5**	14.8
Payments for low value leases	Cash flows from operating activities	**0.3**	0.2
Total lease payments		**32.4**	46.2

(v) Short-term leases and low-value assets

Due to the short remaining duration of the Group's rail franchises at 28 April 2019, all of the lease contracts of the rail franchise businesses have been accounted as short-term leases on transition. These include leases for rolling stock but exclude contracts with Network Rail for access to the railway infrastructure (track, stations and depots), which do not meet the definition of a lease under IFRS 16, reflecting the fact that Network Rail, rather than the franchise train operator, directs how and for what purposes the assets are used.

Notes to the consolidated financial statements (continued)

Note 13 Property, plant and equipment (continued)

(b) Leases (continued)

(vi) Future possible cashflows not included in lease liabilities

The Group is the lessee of certain properties where the applicable lease agreements provide the Group with the right to end the lease prior to the end of the full contractual term of the lease. Judgement was required in assessing whether and when the Group was likely to end each lease early. The Group expects to end one (2020: three) property lease(s) at the next rent-break dates and the Group has accounted for those leases accordingly. The Group expects all other leases to continue to the end of their contractual terms. If the Group did not end those property lease(s) at their next rent break-dates, the Group would have additional undiscounted property lease liabilities of £0.6m (2020: £0.9m) at 1 May 2021.

Future increases in rental payments linked to an index or rate are not included in the lease liabilities until the change in the cash flows takes effect. Property rental changes linked to inflation or rent reviews typically take place every five years. At 1 May 2021, approximately 10% (2020: 10%) of the Group's lease liabilities were subject to inflation-linked rentals and 24% (2020: 16%) were subject to rent reviews.

(vii) Sale and leaseback of depot

In April 2021, the Group completed the sale and leaseback of a depot in the UK Bus (regional operations) segment. Cash proceeds (net of costs to sell) of £5.9m were received in respect of the transaction and the Group recognised an immaterial loss on disposal. The depot is being leased back to the Group over a 25 year lease term and the lease liability as at 1 May 2021 was £5.1m.

(c) Assets classified as held for sale

During the year to 1 May 2021, the Group decided to sell three of its sites. Two of these sites were sold during the year, for combined proceeds of £0.7m after the direct costs related to the disposal of the properties. These two disposals resulted in a net gain of £0.1m being recognised.

One site remains classified as an asset held for sale as at 1 May 2021 with a carrying value of £0.8m.

Note 14 Interests in joint ventures

The Group has two significant joint ventures and an immaterial joint venture as summarised below. Each joint venture is structured as a distinct legal entity and the Group accounts for its interests in all three joint ventures using the equity method of accounting. There are no quoted market prices for any of the Group's investments in joint ventures.

(a) WCT Group Holdings Limited (formerly Virgin Rail Group Holdings Limited)

The Group holds 49% of the equity and voting rights in WCT Group Holdings Limited ("WCT Group"), formerly Virgin Rail Group Holdings Limited. The principal business of the group headed by WCT Group was the operation of inter-city train services under the West Coast rail franchise. It ceased operating train services in December 2019. WCT Group is incorporated in the UK.

The Group considers that it has joint control of WCT Group even though it controls less than half of the voting rights in WCT Group. That joint control results from contractual arrangements between the shareholders of WCT Group that require the agreement of both shareholders to make decisions on key matters.

Subject to the shareholders' consideration of how much cash to retain in the business for working capital requirements and subject to retaining sufficient cash to meet any obligations under rail franchise agreements, the distributable profits of WCT Group are to be distributed in full to its shareholders. Both shareholders in WCT Group would need to agree to any changes to or deviations from that dividend policy.

(b) Scottish Citylink Coaches Limited

The Group holds 35% of the equity and voting rights in Scottish Citylink Coaches Limited ("Citylink"). The principal business of Citylink is the operation of inter-city coach services to, from and within Scotland. It is incorporated in the UK.

The Group considers that it has joint control of Citylink even although it controls less than half of the voting rights in Citylink but is responsible for the day-to-day management of the business. That joint control results from contractual arrangements between the shareholders of Citylink that require the agreement of both shareholders to make decisions on key matters.

The profit after tax of Citylink is distributed in full to its shareholders subject to retaining sufficient cash to meet the liquidity requirements of the business and subject to there being no outstanding amounts payable by Citylink in respect of loans from its shareholders and accrued interest on such loans. Both shareholders in Citylink need to agree to any changes to or deviations from that dividend policy.

(c) Crown Sightseeing Limited

The Group holds 33.3% of the equity and voting rights in Crown Sightseeing Limited ("Crown Sightseeing"). The principal business of Crown Sightseeing is the operation of open-top hop-on, hop-off bus services providing tours to some of London's major tourist attractions. The company was formed in September 2020 and began trading in May 2021. Crown Sightseeing is incorporated in the UK. Due to the size and nature of Crown Sightseeing, the Group considers this joint venture to be immaterial and as such does not disclose detailed financial information.

The Group considers that it has joint control of Crown Sightseeing even though it controls less than half of the voting rights in Crown Sightseeing. That joint control results from contractual arrangements between the shareholders of Crown Sightseeing that require the agreement of all shareholders to make decisions on key matters.

The profit after tax of Crown Sightseeing is distributed in full to its shareholders subject to retaining sufficient cash to meet the liquidity requirements of the business and subject to there being no outstanding amounts payable by Crown Sightseeing in respect of loans from its shareholders and accrued interest on such loans. All shareholders in Crown Sightseeing need to agree to any changes to, or deviations from, that dividend policy.

Note 14 Interests in joint ventures (continued)

(d) Movements in carrying values

The movements in the carrying values of interests in joint ventures were as follows:

	WCT Group £m	Citylink £m	Total 2021 £m	Total 2020 £m
Net book value				
At beginning of year	**11.3**	**5.0**	**16.3**	19.9
Share of recognised profit/(loss)	**4.1**	**(0.3)**	**3.8**	17.6
Share of actuarial gains on defined benefit pension schemes, net of tax	**–**	**–**	**–**	6.3
Share of other comprehensive expense on joint ventures' cash flow hedges, net of tax	**–**	**–**	**–**	(0.2)
Dividends received in cash	**(2.4)**	**–**	**(2.4)**	(27.3)
Dividends received in specie (see note 29(e))	**(11.0)**	**–**	**(11.0)**	–
At end of year	**2.0**	**4.7**	**6.7**	16.3

A loan payable to Citylink of £1.7m (2020: £1.7m) and a loan payable to WCT Group of £Nil (2020: £11.0m) are included within current liabilities under the caption "Trade and other payables". A loan receivable from Crown Sightseeing of £0.2m (2020: £Nil) and a provision against that receivable of £0.2m (2020: £Nil) are included within current assets under the caption "Trade and other receivables".

(e) Summarised financial information of joint ventures

The summarised financial information shown below is in accordance with IFRS and the Group's accounting policies. Where a joint venture's own accounts are prepared other than in accordance with IFRS and the Group's accounting policies, appropriate adjustments have been made to determine the figures shown below. Adjustments have also been made, as appropriate, to reflect fair value adjustments made at the time of acquisition. Except where stated, the amounts shown are in respect of 100% of each joint venture and not just the Group's share of the joint venture.

Each of the Group's joint ventures has a statutory financial year end that differs from that of the Group's, which is the Saturday nearest to 30 April. In applying the equity method of accounting to its interests in joint ventures, the Group refers to the edition of each joint venture's management accounts that has a balance sheet date closest to the Group's balance sheet date. In some cases, the balance sheet date differs from the Group's but the impact of that on the Group's consolidated financial statements is not material. Further information on the relevant dates in respect of joint ventures is below:

Joint venture	WCT Group	Citylink
Latest statutory balance sheet date closest to 1 May 2021	**31 December 2020**	**31 December 2020**
Balance sheet date of management accounts	**1 May 2021**	**23 April 2021**

The consolidated balance sheets of each of the Group's significant joint ventures are summarised below:

As at 1 May 2021	WCT Group £m	Citylink £m	Total 2021 £m
Non-current assets	**–**	**1.3**	
Cash and cash equivalents	**17.6**	**6.8**	
Other current assets	**0.6**	**8.4**	
Current liabilities	**(14.0)**	**(10.5)**	
Net assets	**4.2**	**6.0**	
Non-controlling interest	**(0.1)**	**–**	
Shareholders' funds	**4.1**	**6.0**	
Group share	**49%**	**35%**	
Group share of net assets	**2.0**	**2.1**	**4.1**
Goodwill	**–**	**2.6**	**2.6**
Group interest in joint ventures	**2.0**	**4.7**	**6.7**

As at 2 May 2020	WCT Group £m	Citylink £m	Total 2020 £m
Non-current assets	–	0.2	
Cash and cash equivalents	38.2	2.6	
Other current assets	31.1	8.5	
Current liabilities	(46.1)	(4.3)	
Net assets	23.2	7.0	
Non-controlling interest	(0.1)	–	
Shareholders' funds	23.1	7.0	
Group share	49%	35%	
Group share of net assets	11.3	2.4	13.7
Goodwill	–	2.6	2.6
Group interest in joint ventures	11.3	5.0	16.3

Notes to the consolidated financial statements (continued)

Note 14 Interests in joint ventures (continued)

(e) Summarised financial information of joint ventures (continued)

The assets and liabilities shown above include the following financial assets and financial liabilities (excluding cash, cash equivalents, trade receivables, other receivables, trade payables and other payables):

	2021 £m	2020 £m
WCT Group		
Current assets – loan to related parties	–	22.4
Citylink		
Current assets – loan to Stagecoach Group	1.7	1.7

The financial performance of each of the Group's joint ventures is summarised below:

	2021		2020	
Years ended 1 May 2021 and 2 May 2020	**WCT Group £m**	**Citylink £m**	WCT Group £m	Citylink £m
Revenue	10.1	25.9	791.8	41.3
Operating costs and other operating income	0.9	(27.1)	(753.3)	(34.8)
Operating profit/(loss)	11.0	(1.2)	38.5	6.5
Finance income	0.3	–	0.8	–
Taxation (charge)/credit	(2.8)	0.2	(7.1)	(1.3)
Profit/(loss) after tax	8.5	(1.0)	32.2	5.2
Other comprehensive income	–	–	12.4	–
Total comprehensive income/(expense)	8.5	(1.0)	44.6	5.2

Note 15 Subsidiary and related undertakings

Inter City Railways Limited

Inter City Railways Limited is the one subsidiary in which a third party has a material non-controlling interest. The Group holds 90% of the equity and voting rights in Inter City Railways Limited, which in turn holds 100% of the equity and voting rights in East Coast Main Line Company Limited, which traded as Virgin Trains East Coast. Both Inter City Railways Limited and East Coast Main Line Company Limited are incorporated in the UK. The Virgin Group of companies holds the other 10% of the equity and voting rights of Inter City Railways Limited. The Group has contractual arrangements with the Virgin Group in respect of the business. However, the Group may appoint a majority of the directors of Inter City Railways Limited and appoint the executive management of East Coast Main Line Company Limited. Also, the Group is responsible for the day-to-day management of the company, and has the power to direct its activities. The Group therefore accounts for Inter City Railways Limited and East Coast Main Line Company Limited as subsidiaries.

The profit for the year ended 1 May 2021 allocated to the non-controlling interest is shown on the consolidated income statement. The movement in the non-controlling interest is shown in the consolidated statement of changes in equity.

At least 75% of the distributable profit of Inter City Railways Limited should be distributed to its shareholders within four months of each financial year end subject to retaining sufficient cash to meet any obligations under rail franchise agreements. Both shareholders in Inter City Railways Limited need to agree to any changes to or deviations from that dividend policy. No dividends or other distributions were paid or declared by Inter City Railways Limited in the year ended 1 May 2021 (2020: £Nil).

The consolidated balance sheet of Inter City Railways Limited as at 1 May 2021 and its financial performance for the year ended 1 May 2021 are summarised below. The amounts shown below are determined in accordance with the Group's accounting policies before inter-company eliminations.

	2021 £m	2020 £m
Current assets	37.5	37.6
Current liabilities	(37.5)	(37.6)
Net assets	–	–
Revenue	0.1	0.1
Expenses	(0.2)	(0.2)
Operating loss	(0.1)	(0.1)
Finance income, (net)	0.1	0.1
Profit before and after tax	–	–

Note 16 Inventories

Inventories were as follows:

	2021 £m	2020 £m
Parts and consumables	**9.5**	8.8

All inventories are carried at cost less a provision to take account of slow moving and obsolete items. Changes in the provision for slow moving and obsolete inventories were as follows:

	2021 £m	2020 £m
At beginning of year	**(0.6)**	(1.6)
(Charged)/ released to income statement	**(0.1)**	1.0
At end of year	**(0.7)**	(0.6)

Note 17 Trade and other receivables

Trade and other receivables were as follows:

	2021 £m	2020 £m
Non-current:		
Deferred Payment Instrument	**1.9**	4.5
Insurance claim receivables	**16.0**	20.2
Other receivables	**0.2**	0.1
	18.1	24.8
Current:		
Trade receivables	**25.7**	23.9
Less: provision for impairment	**(2.8)**	(2.5)
Trade receivables – net	**22.9**	21.4
Receivables from disposals of property, plant and equipment	**–**	0.6
Embedded derivative	**–**	5.8
Other receivables	**4.6**	3.3
Prepayments for purchase of property, plant and equipment	**7.0**	–
Other prepayments	**12.0**	8.7
Accrued income	**22.6**	22.5
VAT and other government receivables	**48.2**	44.1
	117.3	106.4

Further information about the Deferred Payment Instrument, which formed part of the consideration for the sale of the North America business in April 2019 is included in notes 4 and 25.

The movements in the provision for impairment of current trade receivables were as follows:

	2021 £m	2020 £m
At beginning of year	**(2.5)**	(2.0)
Impairment losses in year charged to income statement	**(0.6)**	(1.5)
Reversal of impairment losses credited to income	**0.3**	0.5
Amounts utilised	**–**	0.5
At end of year	**(2.8)**	(2.5)

Of the above provision for impairment, £2.8m (2020: £2.5m) relate to receivables arising from contracts with customers. Further information on credit risk is provided in note 25.

Notes to the consolidated financial statements (continued)

Note 18 Contract balances

	2021 £m	2020 £m
Trade receivables (note 17)	**22.9**	21.4
Contract liabilities (note 20)	**16.3**	20.6

Trade receivables are non-interest bearing and are on terms of 30 to 90 days.

Contract liabilities represents amounts advanced by customers in respect of which the Group has not yet met the performance obligations to allow the recognition of the balance as revenue. These mainly relate to the season tickets held by passengers which cross over the year end date and concessionary payments received by the Group in respect of services that had yet to be performed.

The contract liabilities as at 1 May 2021 are expected to be recognised as revenue in the year to 30 April 2022. The contract liabilities at the previous balance sheet date were predominately recognised within revenue in the subsequent year.

Changes in the contract liabilities relating to customer contracts at each year end principally reflect changes in the volume of season tickets purchased in advance of the respective year-end dates. The reduction in the liabilities from 2 May 2020 to 1 May 2021 reflects the impact of COVID-19 on ticket purchasing. At 2 May 2020, there were still a number of purchased season tickets outstanding despite the UK having entered the pandemic. The purchase of season tickets decreased during the pandemic and the Group is now starting to see an increase in the level of ticket purchases but not to a level seen at the end of last year. This has led to a decrease in the contract liabilities balance at 1 May 2021.

Note 19 Cash and cash equivalents

	2021 £m	2020 (restated – see note 1(b)) £m
Cash at bank and in hand	**600.0**	580.3
Cash in transit	**2.3**	0.4
Cash and cash equivalents shown in the consolidated balance sheet	**602.3**	580.7
Bank overdrafts included in other borrowings	**(119.1)**	(232.4)
Cash and cash equivalents shown in the consolidated statement of cash flows	**483.2**	348.3

Cash includes a balance of £17.4m (2020: £17.5m) that has been pledged by the Group as collateral in respect of loan notes of £17.4m (2020: £17.5m).

The cash amounts as at 1 May 2021 include:
- £17.0m on 6 month deposit maturing by June 2021
- £20.0m on 3 month deposit maturing by June 2021
- £100.0m on 3 month deposit maturing by July 2021
- £70.0m on 2 month deposit maturing by May 2021
- £50.0m on 1 month deposit maturing by May 2021
- £30.0m on 2 week deposit maturing by May 2021

The cash amounts as at 2 May 2020 include:
- £17.0m on 12 month deposit maturing by December 2020
- £15.0m on 3 month deposit maturing by May 2020
- £200.0m on 1 month deposit maturing by May 2020
- £30.0m on 1 month deposit maturing by June 2020
- £30.0m on 2 week deposit maturing by May 2020
- £10.0m on 10 day deposit maturing by May 2020

The deposits above can be accessed prior to the end of the deposit period without incurring material break costs. The remaining cash and cash equivalent amounts are accessible to the Group within one day (2020: one day).

The Group has a bank offset arrangement whereby the Company and several of its subsidiaries each have bank accounts with the same bank, which are subject to rights of offset. Cash and cash equivalents of £483.2m (2020: £348.3m) shown in the consolidated statement of cash flows, and in this note 29, include the cash and cash equivalents of £602.3m (2020 restated: £580.7m) shown on the consolidated balance sheet, less bank overdrafts of £119.1m (2020 restated: £232.4m) included in other borrowings within current liabilities in the consolidated balance sheet.

Cash in transit represents outstanding cash receipts in respect of on-bus debit card and credit card payments made by customers. These are normally received into the Group's bank accounts within three days of the payment being made by the customer.

Note 20 Trade and other payables

Trade and other payables were as follows:

	2021 £m	2020 £m
Current		
Trade payables	**28.3**	25.4
Payables for purchase of property, plant and equipment	**3.4**	16.4
Interest payable	**0.3**	0.5
Accruals	**180.4**	161.5
Contract liabilities	**16.3**	20.6
Cash-settled share based payment liability	**0.1**	0.4
PAYE and NIC payable	**17.8**	32.9
Deferred capital grant income	**1.4**	2.8
Deferred revenue grant income	**0.5**	0.6
Other deferred income	**8.4**	28.6
Loans from joint ventures	**1.7**	12.7
VAT and other government payables	**12.9**	1.3
	271.5	303.7
Non-current		
Cash-settled share based payment liability	**0.1**	0.5
PAYE and NIC payable	**0.2**	0.3
Deferred capital grant income	**15.2**	9.2
	15.5	10.0

The Group agreed to accept delivery prior to 1 May 2021 of certain vehicles for which the supplier put in place supplier financing arrangements for these vehicles and the due date for payment by the Group fell after 1 May 2021. As at 1 May 2021, £3.0m (2020: £14.3m) in respect of vehicles acquired subject to supplier financing arrangements is included in payables for purchase of property, plant and equipment.

Notes to the consolidated financial statements (continued)

Note 21 Borrowings

(a) Repayment profile

Borrowings are repayable as follows:

As at 1 May 2021	Bank overdrafts £m	Loan notes £m	Covid Corporate Financing Facility £m	Sterling 4.00% Notes £m	Borrowings excluding leases £m	Leases £m	Total borrowings £m
On demand or within 1 year	**119.1**	**17.4**	**298.4**	**–**	**434.9**	**22.7**	**457.6**
Within 1-2 years	**–**	**–**	**–**	**–**	**–**	**15.8**	**15.8**
Within 2-5 years	**–**	**–**	**–**	**406.6**	**406.6**	**21.8**	**428.4**
Over 5 years	**–**	**–**	**–**	**–**	**–**	**21.8**	**21.8**
Total borrowings	**119.1**	**17.4**	**298.4**	**406.6**	**841.5**	**82.1**	**923.6**
Less current maturities	**(119.1)**	**(17.4)**	**(298.4)**	**–**	**(434.9)**	**(22.7)**	**(457.6)**
Non-current portion of borrowings	**–**	**–**	**–**	**406.6**	**406.6**	**59.4**	**466.0**

As at 2 May 2020 (restated – see note 1(b))	Bank overdrafts £m	Loan notes £m	Bank Loans £m	Sterling 4.00% Notes £m	Borrowings excluding leases £m	Leases £m	Total borrowings £m
On demand or within 1 year	232.4	17.5	–	–	249.9	25.0	274.9
Within 1-2 years	–	–	–	–	–	18.1	18.1
Within 2-5 years	–	–	200.0	–	200.0	24.7	224.7
Over 5 years	–	–	–	406.7	406.7	18.0	424.7
Total borrowings	232.4	17.5	200.0	406.7	856.6	85.8	942.4
Less current maturities	(232.4)	(17.5)	–	–	(249.9)	(25.0)	(274.9)
Non-current portion of borrowings	–	–	200.0	406.7	606.7	60.8	667.5

Interest is payable on hire purchase obligations at an annual rate of 0.89% over equivalent LIBOR rates (2020: 0.89% over bank base rate or equivalent LIBOR rates), subject to certain minimum rates.

Interest on bank loans is payable at LIBOR plus margins ranging from 0.40% to 1.50% (2020: 0.40% to 1.50%). The Group is well advanced in agreeing amendments to bank facility agreements to transition from LIBOR and non-UK equivalents to risk free rates. The economic effect of the bank facilities on the Group is not expected to change materially as a result of that transition.

The average effective interest rate on the outstanding commercial paper issued under the Covid Corporate Financing Facility is 0.64%.

Interest on loan notes is payable at three months LIBOR (2020: three months LIBOR). Loan notes amounting to £17.4m (2020: £17.5m) are backed by guarantees provided under Group banking facilities. The loan notes have been classified by reference to the earliest date on which the loan note holders can request redemptions.

The Sterling 4.00% Notes, the Covid Corporate Financing Facility and the bank loans are unsecured.

(b) Sterling 4.00% notes

On 29 September 2015, the Group issued £400m of 4.00% Notes. Interest is paid annually in arrears and the Notes are due to be redeemed at their principal amount on 29 September 2025.

The Notes were issued at 98.979% of their principal amount. The consolidated carrying value of the Notes at 1 May 2021 was £406.6m (2020: £406.7m) after taking account of accrued interest, the discount on issue, issue costs and the effect of fair value hedges.

Notes to the consolidated financial statements (continued)

Note 22 Deferred tax

The movement in deferred tax during the year was as follows:

	2021 £m	2020 £m
At beginning of year	**33.3**	(13.9)
Charged to income statement	**(5.3)**	(10.9)
(Charged)/credited to equity	**(28.8)**	58.1
At end of year (all non-current)	**(0.8)**	33.3

Deferred taxation is analysed as follows:

	2021			2020		
	Assets £m	**Liabilities £m**	**Net £m**	Assets £m	Liabilities £m	Net £m
Accelerated capital allowances	**–**	**(54.5)**	**(54.5)**	–	(57.4)	(57.4)
Pension temporary difference	**50.1**	**–**	**50.1**	78.5	–	78.5
Other temporary differences:						
– Employee remuneration and share based payments	**4.6**	**–**	**4.6**	4.8	–	4.8
– Accrued expenses deductible when paid	**0.2**	**–**	**0.2**	0.2	–	0.2
– Losses carried forward	**–**	**–**	**–**	7.9	–	7.9
– Other timing differences	**–**	**(1.2)**	**(1.2)**	–	(0.7)	(0.7)
	54.9	**(55.7)**	**(0.8)**	91.4	(58.1)	33.3

The amount of deferred tax recognised in the income statement by type of temporary difference was as follows:

	2021 £m	2020 £m
Accelerated capital allowances	**2.9**	(7.1)
Pension temporary differences	**0.4**	(1.2)
Losses carried forward	**(7.9)**	7.9
Other temporary differences	**(0.7)**	(10.5)
	(5.3)	(10.9)

Notes to the consolidated financial statements (continued)

Note 23 Provisions

The movements in provisions were as follows:

	Litigation provisions £m	Claims provisions £m	Environmental provisions £m	Dilapidations provision £m	Restructuring provision £m	Onerous contracts £m	Total £m
Year ended 1 May 2021							
At beginning of year	7.8	106.8	1.1	2.8	–	15.8	134.3
Provided during year (after discounting)	0.9	39.5	–	0.7	0.1	–	41.2
Unused amounts credited to income statement	(3.5)	(10.5)	–	(0.1)	–	(1.0)	(15.1)
Unwinding of discount	–	1.0	–	–	–	–	1.0
Utilised in the year	(4.3)	(30.1)	(0.3)	–	(0.1)	(1.2)	(36.0)
At end of year	0.9	106.7	0.8	3.4	–	13.6	125.4
As at 1 May 2021							
Current	**0.9**	**31.5**	**0.8**	**2.2**	**–**	**5.6**	**41.0**
Non-current	**–**	**75.2**	**–**	**1.2**	**–**	**8.0**	**84.4**
	0.9	**106.7**	**0.8**	**3.4**	**–**	**13.6**	**125.4**
As at 2 May 2020							
Current	7.8	31.5	1.1	2.8	–	8.7	51.9
Non-current	–	75.3	–	–	–	7.1	82.4
	7.8	106.8	1.1	2.8	–	15.8	134.3

The litigation provisions reflect the best estimate of the expenditure required to settle ongoing litigation, to the extent not covered by other liabilities such as the claims provision. Any payments are expected to be made within one year (2020: one year). The amount and timing of payments may be affected by negotiations between the relevant parties and/or court decisions. The amount provided is based on legal advice.

The claims provisions relate to estimated liabilities on incurred incidents up to the year-end in each year. These are based on legal advice, actuarial reviews and prior claims history. Claims are typically settled within five years (2020: five years) of origination. Information on estimation uncertainty regarding claims provisions is included in note 1(e)(ii). Related receivables from insurance companies of £16.0m (2020: £20.2m) are included within receivables.

The environmental provisions relate to legal or constructive obligations to undertake environmental work, such as an obligation to rectify land which has been contaminated by fuel or to eliminate the presence of asbestos. The provision is based on the estimated cost of undertaking the work required, and is expected to be utilised as the work is undertaken over the next one to four years (2020: one to five years).

The dilapidations provision is based on the future expected repair costs to restore certain of the Group's leased assets to their contractually required condition at the end of their respective lease terms. The provision is the Group's best estimate on a lease by lease basis of the likely committed cash flow.

The restructuring provision related to planned redundancies and was utilised within one year.

Provisions for onerous contracts relate to contracts where the anticipated costs of fulfilling the contract outweigh the economic benefits to be received. The onerous contract provision as at 1 May 2021 and as at 2 May 2020 principally relates to the Sheffield Supertram concession agreement and is expected to be utilised over around three years (2020: four years) to 2024. See note 1(e)(ii) for details of estimation uncertainty in respect of the Sheffield Supertram onerous contract provision and note 4(c) for more details of the re-assessment of the provision.

Notes to the consolidated financial statements (continued)

Note 24 Retirement benefits

(a) Description of retirement benefit arrangements

Funded schemes

The Group participates in a number of pension schemes. The principal defined benefit schemes are as follows:

	Date as at which last relevant scheme valuation was prepared
• The Stagecoach Group Pension Scheme ("SPS");	30 April 2020
• The East Midlands Trains section of the Railways Pension Scheme ("RPS") – until 18 August 2019;	31 December 2016
• A number of UK Local Government Pension Schemes ("LGPS").	31 March 2019

The Stagecoach Group Pension Scheme is comprised of two sections, the main section and a separate London section.

The Stagecoach Group Pension Scheme and the Local Government Pension Schemes are generally closed to new members from the Group. The main section of the Stagecoach Group Pension Scheme closed to future accrual in April 2017. The London section is closed to new entrants but is open to future accrual for the existing remaining members. On 16 March 2021, a small number of former members of the Tyne & Wear Local Government Pension Scheme ceased active participation in the Local Government Pension Scheme and commenced accrual in the main section of the Stagecoach Group Pension Scheme, as a limited exception to the no ongoing accrual in that section.

For the defined benefit schemes, benefits are related to length of service and pensionable salary. The weighted average duration as at 1 May 2021 of the discounted, expected benefit payments across all UK defined benefit schemes is estimated at 16 years (2020: 16 years).

The Directors believe that separate consideration should be given to the RPS as the Group has no rights or obligations in respect of the relevant sections of the scheme following expiry of the related rail franchises. Any deficit or surplus in the relevant section of the scheme at the end of a franchise passes to the subsequent franchisee with no payments made by or to the outgoing operator. In addition, under the terms of the RPS, any fund deficit or surplus is shared by the employer (60%) and the employees (40%) in accordance with the shared cost nature of the RPS. The employees' share of the deficit (or surplus) is reflected as an adjustment to the RPS liabilities (or assets) in the balance sheet and contributions due from employees reduce the annual service cost in the income statement, as they are linked to service.

Therefore, the liability (or asset) recognised for the relevant sections of the RPS reflects that part of the net deficit (or surplus) of each section that the employer is expected to fund (or expected to recover) over the life of the franchise to which the section relates. The adjusting entry, referred to as the "franchise adjustment", represents that proportion of the deficit (or surplus) that was expected to exist at the end of the franchise and which the Group would not be obliged to fund (or entitled to recover). This deficit (or surplus) will be settled (or recovered) by future operators of the franchise. The financial effect of movements in expected contributions by future operators of the franchise is recognised in other comprehensive income, since these future contributions have been determined not to be linked to service.

The Group is a participant in the Omnibus section of the RPS and this section is not open to new members. The Group's obligations to the Omnibus section are not time limited in the way explained above for other sections of the RPS. In the tables in this note 24, the Omnibus section is included within the figures for "Other" schemes.

The Group is a participating employer in a number of UK Local Government Pension Schemes, and has limited influence over the operations of these schemes. Active membership of these schemes is small and represents 1.2% (2020: 1.6%) of the pensions charge in the consolidated income statement, but historic liabilities mean that these schemes represent around 11.8% (2020: 15.5%) of the gross present value of pension obligations as at 1 May 2021 shown in the consolidated balance sheet. The Group liaises with the administering authorities to seek to set contributions at appropriate levels to fund the benefits and deficit recovery payments over a reasonable period of time. When the participating Group employer has no remaining active participating employees in a LGPS scheme, the applicable regulations provide that the employer ceases to have an active participation in that scheme. In such cases, the scheme produces an exit valuation resulting in an exit payment by, or to, the employer. There is otherwise no right for the Group to receive any surplus in the schemes. To reflect this, the Group would only recognise existing surpluses relating to these schemes, to the extent that it estimated that these surpluses could be recouped on exit from the schemes. The contributions schedules for the LGPS include deficit contributions and the present value of these contributions are reflected in the net deficit shown on the balance sheet for the Group's participation in the LGPS.

The Group also contributes to a number of defined contribution schemes covering UK employees, for which the Group has no further payment obligation once the contributions are paid other than lump sum death in service benefits that are provided for certain UK employees.

Unfunded schemes

The Group provides benefits under an unapproved employer financed retirement benefit scheme ("EFURBS") in the UK. The liability of this scheme is unfunded, as no contributions are made to the scheme, but the Group has set aside assets to meet its obligations under the scheme. The scheme holds a guarantee over assets which the Group has set aside. The Group considers that the assets set aside are in substance pensions assets and so the amounts of those assets are included within the net pension amounts reported in the consolidated balance sheet. The carrying value of those assets as at 1 May 2021 was £14.8m (2020: £10.4m). The EFURBS scheme is included within the figures for "other" schemes in this note 24.

Other unfunded benefits are provided to a small number of former employees with the liabilities included within the "Unfunded schemes" reported in the tables that follow.

Notes to the consolidated financial statements (continued)

Note 24 Retirement benefits (continued)

(b) Principal actuarial assumptions

The principal actuarial assumptions used in determining the pensions amounts as at 1 May 2021 and 2 May 2020 are shown below on a weighted average basis across the relevant schemes:

	2021	2020
Discount rate	**2.0%**	1.6%
Retail Prices inflation assumption	**3.2%**	2.7%
Consumer Prices inflation assumption	**2.4%**	1.7%
Rate of increase in pensionable salaries*	**2.9%**	2.2%
Rate of increase of pensions in payment	**2.7%**	2.4%
Life expectancies in years		
Current pensioners at 65 – male	**19.5**	19.4
Current pensioners at 65 – female	**22.6**	22.3
Future pensioners at 65 aged 45 now – male	**20.9**	20.8
Future pensioners at 65 aged 45 now – female	**24.2**	23.9

* Future accrual is limited to: (a) participation in the London section of SPS, where annual increases in pensionable salaries have been capped at 0.5% in any year until 5 April 2019. Whilst the cap will be retained for past service, basic pay at 6 April each year is used to define pensionable pay for all future service. (b) participation by former members of the Tyne & Wear Local Government Pension Scheme.

The Directors consider pension assumptions, such as those summarised above, to be a key source of estimation uncertainty as explained in note 1(e)(ii).

The assumptions shown above are chosen from a range of possible actuarial assumptions which, due to the long-term nature of the schemes, may not be borne out in practice. The discount rate assumption is not determined using a cash-weighted method and is based on market yields on high quality corporate bonds at the balance sheet date, adjusted to reflect the duration of the schemes' liabilities. The life expectancy assumptions have been chosen with regard to the latest available published tables adjusted to reflect scheme specific experience, taking into account the Group and its sector, and allowing for expected increases in life expectancies.

(c) Pension amounts recognised in the balance sheet

The consolidated balance sheet shows retirement benefit assets of £1.1m (2020: £Nil) and retirement benefit obligations of £264.9m (2020: £413.1m), resulting in the net liability of £263.8m (2020: £413.1m) analysed below. The amounts recognised in the balance sheet were as follows:

	Funded schemes				
As at 1 May 2021	**SPS £m**	**LGPS £m**	**Other £m**	**Unfunded schemes £m**	**Total £m**
Equities – quoted	**1,049.6**	**95.5**	**18.8**	**–**	**1,163.9**
Bonds – quoted	**257.3**	**144.5**	**3.5**	**–**	**405.3**
Total quoted investments	**1,306.9**	**240.0**	**22.3**	**–**	**1,569.2**
Private Equity – unquoted	**22.6**	**–**	**–**	**–**	**22.6**
Cash – unquoted	**53.2**	**10.9**	**0.4**	**–**	**64.5**
Property – unquoted	**79.6**	**12.0**	**0.1**	**–**	**91.7**
Total unquoted investments	**155.4**	**22.9**	**0.5**	**–**	**178.8**
Fair value of scheme assets	**1,462.3**	**262.9**	**22.8**	**–**	**1,748.0**
Present value of obligations	**(1,721.2)**	**(233.2)**	**(22.2)**	**(4.5)**	**(1,981.1)**
(Deficit)/surplus in the schemes	**(258.9)**	**29.7**	**0.6**	**(4.5)**	**(233.1)**
Asset ceiling	**–**	**(30.4)**	**(0.3)**	**–**	**(30.7)**
Net (liability)/asset before tax	**(258.9)**	**(0.7)**	**0.3**	**(4.5)**	**(263.8)**

Note 24 Retirement benefits (continued)

(c) Pension amounts recognised in the balance sheet (continued)

As at 2 May 2020	Funded schemes SPS £m	LGPS £m	Other £m	Unfunded schemes £m	Total £m
Equities – quoted	882.9	204.8	14.2	–	1,101.9
Bonds – quoted	247.3	26.1	3.2	–	276.6
Total quoted investments	1,130.2	230.9	17.4	–	1,378.5
Private Equity – unquoted	26.9	34.3	–	–	61.2
Bonds – unquoted	–	33.2	–	–	33.2
Cash – unquoted	51.5	16.6	0.3	–	68.4
Property – unquoted	75.8	30.3	0.1	–	106.2
Total unquoted investments	154.2	114.4	0.4	–	269.0
Fair value of scheme assets	1,284.4	345.3	17.8	–	1,647.5
Present value of obligations	(1,688.5)	(313.3)	(21.5)	(2.8)	(2,026.1)
(Deficit)/surplus in the schemes	(404.1)	32.0	(3.7)	(2.8)	(378.6)
Asset ceiling	–	(34.3)	(0.2)	–	(34.5)
Net liability before tax	(404.1)	(2.3)	(3.9)	(2.8)	(413.1)

At 1 May 2021, 93% (2020: 88%) of scheme assets were quoted on a recognised stock exchange or held in cash or assets readily convertible to cash and are therefore considered to be liquid.

The LGPS assets are not sectionalised and so assets are effectively comingled with other participating employers. Therefore, the Group's asset value is a notional value based on a share of fund calculation which is undertaken by the LGPS Fund Actuary.

The vast majority of assets held by the LGPS arrangements are invested in pooled funds with a quoted market price. In the above tables, the Group's holdings are allocated between the various asset categories in proportion to that of the overall LGPS funds in which the Group participates.

(d) Funding arrangements and schemes

The schemes' investment approach, which aims to meet their liabilities as they fall due, is to invest the majority of the schemes' assets in a mix of equities and other return-seeking assets in order to strike a balance between:

- maximising the returns on the schemes' assets, and
- minimising the risks associated with lower than expected returns on the schemes' assets.

Trustees are required to regularly review investment strategy in light of the term and nature of the schemes' liabilities.

The regulatory framework in the UK requires the Trustees of the Stagecoach Group Pension Scheme and the Group to agree upon the assumptions underlying the funding target, and then to agree upon the contributions necessary to fund the benefits, including any deficit recovery amounts, over a reasonable period of time. The Board participates in major decisions on the funding and design of pension schemes.

There is a risk to the Group that adverse experience could lead to a requirement for the Group to make additional contributions to fund deficits.

The defined benefit pension schemes typically expose the Group to actuarial funding risks such as investment risk, interest rate risk, and life expectancy risk.

There are particular funding risks with the Local Government Pension Schemes to which the Group contributes. The Group has limited ability to influence the funding strategy of these schemes. Furthermore, the contributions that the Group is required to make to the schemes are determined by the schemes, which tend to take a cautious approach in setting contribution rates for non-government employers. This can result in the Group being required to make higher levels of contributions than it believes is necessary or desirable. Known future contribution levels are taken account of in determining the reported deficit or surplus in each scheme in these consolidated financial statements.

As explained in section 1.6.11.3 of this Annual Report, the Directors are focused on maintaining an investment grade credit rating and the credit rating agencies continue to assign investment grade credit ratings to the Group. Each of the credit rating agencies consider pensions funding risks as part of their wider risk assessment.

Pension contributions are determined with the advice of independent qualified actuaries on the basis of regular valuations using the projected unit method. The latest actuarial valuations of the two sections of SPS were completed as at 30 April 2020. The combined deficit across the two sections on the Trustees' technical provisions basis was £95.3m, comprising scheme assets of £1,280.7m less benefit obligations of £1,376.0m. The weighted average discount rate applied in determining the value of those benefit obligations was 4.0%. The discount rate reflects the asset allocation of SPS and its strong track record of investment returns.

The latest actuarial valuations of the relevant LGPS schemes were completed as at 31 March 2019. The combined deficit across those schemes on the funding basis agreed by each of the Administering Authorities was £1.5m, comprising scheme assets of £360.8m less benefit obligations of £362.3m. The weighted average discount rate applied in determining the value of those benefit obligations was 2.0%.

Neither the valuations on the Trustees' technical provisions basis nor the net retirement benefits liabilities reflected in the financial statements reflect the amounts at which the Group could "buy out" its pension obligations. A "buy out" of the obligations would cost the Group substantially more than the figures reflected in the financial statements.

Notes to the consolidated financial statements (continued)

Note 24 Retirement benefits (continued)

(d) Funding arrangements and schemes (continued)

The Group forecasts to contribute £13.2m (forecast at 2 May 2020 for year ended 1 May 2021: £13.9m) to its defined benefit schemes in the financial year ending 30 April 2022.

(e) Changes in net retirement benefit obligations

The change in net liabilities recognised in the balance sheet in respect of defined benefit schemes is comprised as follows:

	Funded schemes				
Year ended 1 May 2021	**SPS £m**	**LGPS £m**	**Other £m**	**Unfunded schemes £m**	**Total £m**
At beginning of year – liability	**(404.1)**	**(2.3)**	**(3.9)**	**(2.8)**	**(413.1)**
Expense charged to consolidated income statement	**(12.8)**	**(0.7)**	**(1.5)**	**(0.4)**	**(15.4)**
Recognised in the consolidated statement of comprehensive income	**151.9**	**4.4**	**0.2**	**(1.6)**	**154.9**
Employers' contributions	**6.1**	**1.4**	**5.5**	**0.3**	**13.3**
Settlement	**–**	**(3.5)**	**–**	**–**	**(3.5)**
At end of year – (liability)/asset	**(258.9)**	**(0.7)**	**0.3**	**(4.5)**	**(263.8)**

	Funded schemes					
Year ended 2 May 2020	SPS £m	RPS £m	LGPS £m	Other £m	Unfunded schemes £m	Total £m
At beginning of year – (liability)/asset	(187.7)	1.8	(6.6)	(1.0)	(4.2)	(197.7)
Expense charged to consolidated income statement	(10.1)	(4.3)	(1.0)	(1.6)	1.0	(16.0)
Recognised in the consolidated statement of comprehensive income	(213.0)	(0.5)	(3.4)	(3.2)	–	(220.1)
Employers' contributions and settlements	6.7	3.0	7.2	1.9	1.9	20.7
Transfer	–	–	1.5	–	(1.5)	–
At end of year – liability	(404.1)	–	(2.3)	(3.9)	(2.8)	(413.1)

The transfer shown in the table above relates to the reclassification of certain unfunded LGPS benefit obligations from the LGPS column to the Unfunded schemes column.

(f) Sensitivity of retirement benefit obligations to changes in assumptions

The measurement of the defined benefit obligations is particularly sensitive to changes in key assumptions as summarised below:

As at 1 May 2021	**Change in assumption**	**Impact on overall net pensions liabilities**
Discount rate	Increase by 10 basis points/Decrease by 10 basis points	Decrease by £24.7m/Increase by £25.1m.
Rate of inflation	Increase by 10 basis points/Decrease by 10 basis points	Increase by £26.6m/Decrease by £26.2m.
Rate of increase in pensionable salaries	Increase by 10 basis points/Decrease by 10 basis points	Increase by £1.0m/Decrease by £1.0m.
Rate of increase in pension payments	Increase by 10 basis points/Decrease by 10 basis points	Increase by £18.7m/Decrease by £18.5m.
Life expectancy	Increase by 1 year/Decrease by 1 year	Increase by £71.5m/Decrease by £71.4m.
As at 2 May 2020		
Discount rate	Increase by 10 basis points/Decrease by 10 basis points	Decrease by £24.6m/Increase by £25.0m.
Rate of inflation	Increase by 10 basis points/Decrease by 10 basis points	Increase by £25.2m/Decrease by £24.8m.
Rate of increase in pensionable salaries	Increase by 10 basis points/Decrease by 10 basis points	Not material.
Rate of increase in pension payments	Increase by 10 basis points/Decrease by 10 basis points	Increase by £15.4m/Decrease by £15.4m.
Life expectancy	Increase by 1 year/Decrease by 1 year	Increase by £70.4m/Decrease by £70.3m.

These sensitivities have been calculated to show the movement in the net liability in isolation, and assuming no other changes in market conditions at the balance sheet date. In practice, a change in discount rate is unlikely to occur without any movement in the value of the invested assets held by the schemes.

Note 24 Retirement benefits (continued)

(g) Pension amounts recognised in income statement

The amounts recognised in the consolidated income statement are analysed as follows:

Year ended 1 May 2021	Funded schemes SPS £m	LGPS £m	Other £m	Unfunded schemes £m	Total £m
Current service cost	**(4.8)**	**(0.8)**	**(1.5)**	**–**	**(7.1)**
Past service (cost)/credit	**(0.6)**	**0.1**	**0.2**	**(0.4)**	**(0.7)**
Administration costs	**(0.8)**	**–**	**–**	**–**	**(0.8)**
Defined contribution costs	**–**	**–**	**–**	**(44.8)**	**(44.8)**
Included in operating profit	**(6.2)**	**(0.7)**	**(1.3)**	**(45.2)**	**(53.4)**
Net interest (expense)/income	**(6.6)**	**0.5**	**(0.2)**	**–**	**(6.3)**
Interest expense on asset ceiling	**–**	**(0.5)**	**–**	**–**	**(0.5)**
	(12.8)	**(0.7)**	**(1.5)**	**(45.2)**	**(60.2)**

Year ended 2 May 2020	Funded schemes SPS £m	RPS £m	LGPS £m	Other £m	Unfunded schemes £m	Total £m
Current service cost	(4.5)	(4.3)	(0.9)	(1.5)	–	(11.2)
Past service credit	–	–	–	–	1.1	1.1
Administration costs	(0.8)	–	–	–	–	(0.8)
Defined contribution costs	–	–	–	–	(47.4)	(47.4)
Included in operating profit	(5.3)	(4.3)	(0.9)	(1.5)	(46.3)	(58.3)
Net interest (expense)/income	(4.8)	(0.6)	1.3	(0.1)	(0.1)	(4.3)
Interest expense on asset ceiling	–	–	(1.4)	–	–	(1.4)
Unwinding of franchise adjustment	–	0.6	–	–	–	0.6
	(10.1)	(4.3)	(1.0)	(1.6)	(46.4)	(63.4)

Service costs, administration costs and defined contribution costs are recognised in operating costs and net interest (expense)/income, interest expense on asset ceiling and unwinding of franchise adjustment are recognised in net finance costs.

(h) Pension amounts recognised in statement of comprehensive income

The amounts recognised in the consolidated statement of comprehensive income are analysed as follows:

Year ended 1 May 2021	Funded schemes SPS £m	LGPS £m	Other £m	Unfunded schemes £m	Total £m
Actual return on scheme assets higher than the discount rate	**214.7**	**44.8**	**1.9**	**–**	**261.4**
Changes in financial assumptions	**(3.1)**	**(14.6)**	**(1.5)**	**–**	**(19.2)**
Changes in demographic assumptions	**(8.8)**	**1.6**	**–**	**–**	**(7.2)**
Experience on benefit obligations	**(50.9)**	**(1.6)**	**(0.1)**	**(1.6)**	**(54.2)**
Changes in asset ceiling (net of interest)	**–**	**(25.8)**	**(0.1)**	**–**	**(25.9)**
	151.9	**4.4**	**0.2**	**(1.6)**	**154.9**

Year ended 2 May 2020	Funded schemes SPS £m	RPS £m	LGPS £m	Other £m	Total £m
Actual return on scheme assets (lower)/higher than the discount rate	(109.8)	5.1	(16.1)	(0.5)	(121.3)
Changes in financial assumptions	(116.3)	(62.7)	(16.9)	(1.5)	(197.4)
Changes in demographic assumptions	(3.8)	–	(0.9)	(1.9)	(6.6)
Experience on benefit obligations	16.9	23.5	10.2	0.5	51.1
Changes in asset ceiling (net of interest)	–	–	20.3	0.2	20.5
Change in franchise adjustment	–	33.6	–	–	33.6
	(213.0)	(0.5)	(3.4)	(3.2)	(220.1)

Notes to the consolidated financial statements (continued)

Note 24 Retirement benefits (continued)

(i) Benefit obligations

Changes in the present value of the defined benefit obligations (net of franchise adjustments and members' share of RPS deficit) are analysed as follows:

	Funded schemes				
Year ended 1 May 2021	**SPS £m**	**LGPS £m**	**Other £m**	**Unfunded schemes £m**	**Total £m**
At beginning of year	**1,688.5**	**313.3**	**21.5**	**2.8**	**2,026.1**
Current service cost	**4.8**	**0.8**	**1.5**	**–**	**7.1**
Past service cost/(credit)	**0.6**	**(0.1)**	**(0.2)**	**0.4**	**0.7**
Interest on benefit obligations	**26.6**	**4.7**	**0.3**	**–**	**31.6**
Benefits paid	**(62.5)**	**(16.6)**	**(2.6)**	**(0.3)**	**(82.0)**
Contributions by employees	**0.4**	**0.1**	**0.1**	**–**	**0.6**
Actuarial losses/(gains) due to:					
– Changes in demographic assumptions	**8.8**	**(1.6)**	**–**	**–**	**7.2**
– Changes in financial assumptions	**3.1**	**14.6**	**1.5**	**–**	**19.2**
– Experience on benefit obligations	**50.9**	**1.6**	**0.1**	**1.6**	**54.2**
Settlement	**–**	**(83.6)**	**–**	**–**	**(83.6)**
At end of year	**1,721.2**	**233.2**	**22.2**	**4.5**	**1,981.1**

	Funded schemes					
Year ended 2 May 2020	SPS £m	RPS £m	LGPS £m	Other £m	Unfunded schemes £m	Total £m
At beginning of year	1,599.1	382.7	315.5	16.7	4.2	2,318.2
Rail franchise changes	–	(390.6)	–	–	–	(390.6)
Current service cost	4.5	4.3	0.9	1.5	–	11.2
Past service credit	–	–	–	–	(1.1)	(1.1)
Interest on benefit obligations	40.0	2.4	7.8	0.4	0.1	50.7
Unwinding of franchise adjustment	–	(0.6)	–	–	–	(0.6)
Benefits paid	(58.7)	(4.2)	(17.2)	(0.1)	(1.9)	(82.1)
Contributions by employees	0.4	0.4	0.2	0.1	–	1.1
Actuarial losses/(gains) due to:						
– Changes in demographic assumptions	3.8	–	0.9	1.9	–	6.6
– Changes in financial assumptions	116.3	62.7	16.9	1.5	–	197.4
– Experience on benefit obligations	(16.9)	(23.5)	(10.2)	(0.5)	–	(51.1)
– Change in franchise adjustment	–	(33.6)	–	–	–	(33.6)
Transfer	–	–	(1.5)	–	1.5	–
At end of year	1,688.5	–	313.3	21.5	2.8	2,026.1

Note 24 Retirement benefits (continued)

(j) Scheme assets

The movement in the fair value of scheme assets was as follows:

Year ended 1 May 2021	Funded schemes SPS £m	Funded schemes LGPS £m	Funded schemes Other £m	Unfunded schemes £m	Total £m
At beginning of year	**1,284.4**	**345.3**	**17.8**	**–**	**1,647.5**
Administration costs	**(0.8)**	**–**	**–**	**–**	**(0.8)**
Interest income	**20.0**	**5.2**	**0.1**	**–**	**25.3**
Employer contributions	**6.1**	**1.4**	**5.5**	**0.3**	**13.3**
Contributions by employees	**0.4**	**0.1**	**0.1**	**–**	**0.6**
Benefits paid	**(62.5)**	**(16.6)**	**(2.6)**	**(0.3)**	**(82.0)**
Remeasurements					
– Return on assets excluding amounts included in net interest	**214.7**	**44.8**	**1.9**	**–**	**261.4**
Settlement	**–**	**(117.3)**	**–**	**–**	**(117.3)**
At end of year	**1,462.3**	**262.9**	**22.8**	**–**	**1,748.0**

Year ended 2 May 2020	Funded schemes SPS £m	Funded schemes RPS £m	Funded schemes LGPS £m	Funded schemes Other £m	Unfunded schemes £m	Total £m
At beginning of year	1,411.4	384.5	362.1	16.1	–	2,174.1
Rail franchise changes	–	(390.6)	–	–	–	(390.6)
Administration costs	(0.8)	–	–	–	–	(0.8)
Interest income	35.2	1.8	9.1	0.3	–	46.4
Employer contributions	6.7	3.0	7.2	1.9	1.9	20.7
Contributions by employees	0.4	0.4	0.2	0.1	–	1.1
Benefits paid	(58.7)	(4.2)	(17.2)	(0.1)	(1.9)	(82.1)
Remeasurements						
– Return on assets excluding amounts included in net interest	(109.8)	5.1	(16.1)	(0.5)	–	(121.3)
At end of year	1,284.4	–	345.3	17.8	–	1,647.5

(k) Asset ceiling

The movement in the asset ceiling is shown below:

	2021 £m	2020 £m
At beginning of year	**(34.5)**	(53.6)
Interest expense	**(0.5)**	(1.4)
Remeasurements	**(25.9)**	20.5
Settlement	**30.2**	–
At end of year	**(30.7)**	(34.5)

(l) Franchise adjustment

The movement in the franchise adjustment in the year ended 2 May 2020 is shown below:

	2020 £m
At beginning of year	73.9
Rail franchise changes	(108.1)
Amounts recognised in income statement:	
– Unwinding of franchise adjustment	0.6
Remeasurements:	
– Change in franchise adjustment	33.6
At end of year	–

Notes to the consolidated financial statements (continued)

Note 25 Financial instruments

(a) Overview

This note provides details of the Group's financial instruments. Except where otherwise stated, the disclosures provided in this note exclude:

- Interests in subsidiaries and joint ventures accounted for in accordance with International Financial Reporting Standard 10 ("IFRS 10"), Consolidated Financial Statements and International Financial Reporting Standard 11 ("IFRS 11"), Joint Arrangements.
- Retirement benefit assets and obligations.
- Financial instruments, contracts and obligations under share based payment transactions.

Liabilities or assets that are not contractual (such as income taxes that are created as a result of statutory requirements imposed by governments, prepayments, provisions and deferred income) are not financial liabilities or financial assets. Accordingly, prepayments, provisions, deferred income and amounts payable or receivable in respect of corporation tax, sales tax (including UK Value Added Tax), payroll tax and other taxes are excluded from the disclosures provided in this note.

(b) Carrying values of financial assets and financial liabilities

The carrying amounts of financial assets and financial liabilities and their respective fair values were:

		Carrying value		Fair value	
	Note	**2021 £m**	2020 (restated – see note 1(b)) £m	**2021 £m**	2020 (restated – see note 1(b)) £m
Financial assets					
Financial assets measured at fair value through profit or loss					
– Non-current assets					
– Deferred Payment Instrument	17	**1.9**	4.5	**1.9**	4.5
– Current assets					
– Embedded derivative	17	**–**	5.8	**–**	5.8
Financial assets measured at amortised cost					
– Non-current assets					
– Insurance claim receivables	17	**16.0**	20.2	**16.0**	20.2
– Other receivables	17	**0.2**	0.1	**0.2**	0.1
– Current assets					
– Accrued income	17	**22.6**	22.5	**22.6**	22.5
– Trade receivables, net of impairment	17	**22.9**	21.4	**22.9**	21.4
– Other receivables	17	**1.1**	3.9	**1.1**	3.9
– Cash and cash equivalents	19	**602.3**	580.7	**602.3**	580.7
Total financial assets		**667.0**	659.1	**667.0**	659.1
Financial liabilities					
Financial assets measured at amortised cost					
– Non-current liabilities					
– Borrowings	21	**(466.0)**	(667.5)	**(461.7)**	(663.1)
– Current liabilities					
– Trade payables	20	**(28.3)**	(25.4)	**(28.3)**	(25.4)
– Payables for purchase of property, plant and equipment	20	**(3.4)**	(16.4)	**(3.4)**	(16.4)
– Interest payable	20	**(0.3)**	(0.5)	**(0.3)**	(0.5)
– Accruals	20	**(180.4)**	(161.5)	**(180.4)**	(161.5)
– Loans from joint ventures	20	**(1.7)**	(12.7)	**(1.7)**	(12.7)
– Borrowings	21	**(457.6)**	(274.9)	**(457.6)**	(274.9)
Total financial liabilities		**(1,137.7)**	(1,158.9)	**(1,133.4)**	(1,154.5)
Net financial liabilities		**(470.7)**	(499.8)	**(466.4)**	(495.4)

Financial derivatives with bank counterparties are not shown in the above table. Information on the carrying value of such derivatives is provided in note 25(g).

The consideration for the sale of the North American business in April 2019 included a Deferred Payment Instrument of US$65m. The Deferred Payment Instrument carries a term of 66 months and a compounding payment in kind interest rate of 6% per annum. It falls due for payment only on (a) 16 October 2024 or (b) in part, after distributions of US$30m have been made to the purchaser and is secured by a pledge of shares held in the underlying investment vehicle. Early repayment provisions apply in the event that the purchaser sells all of its shareholding, albeit still subject to the US$30m shareholder distribution priority and in such circumstances, all or part of the Deferred Payment Instrument may never be repaid. If the purchaser sells down below 50% but retains some shares, the whole outstanding amount becomes immediately payable. The instrument is accounted for as fair value through profit or loss and due to credit and other recoverability risks associated with the instrument, its carrying value is at a discount to its face value. The Group's exposure to the purchaser of the North American business ranks behind all of the secured lenders. As a result, the discount rate applied to the Group's exposure on this instrument is higher than the cost of the Group's secured funding. The cost of second lien/mezzanine debt has been considered a more approximate estimate for the credit risk of the instrument. This has led to the carrying value of the instrument being estimated to be £1.9m as at 1 May 2021 (2020: £4.5m).

The North America business continues to operate a variety of different types of transportation services over a wide area of North America. The Group has no control or significant influence over the North America business following its disposal on 16 April 2019.

Note 25 Financial instruments (continued)

(b) Carrying values of financial assets and financial liabilities (continued)

The financial performance of the North America business is influenced by various different factors, many of which are specific to the individual markets and locations in which it operates. Factors that can affect financial performance include the extent and duration of COVID-19 related restrictions; the extent and timing of how demand recovers from the COVID-19 situation; changes in local economies, local competition, fuel prices, working patterns, shopping patterns, traffic conditions; cost pressures including the availability of sufficient staff; and regulatory change. The performance of the North America business has a direct impact on the purchaser's ability to settle the instrument. The initial contractual value of the instrument was US$65m and the range of values that the Group could recover over the 66 months of its term varies from US$Nil up to US$65m plus interest.

No specific assumptions have been made regarding climate change in valuing the Deferred Payment Instrument. While climate change does present both opportunities and risks to the North America business, we do not consider that climate change considerations materially affect the fair value of the instrument as at 1 May 2021, taking account of the approximate remaining 3.5-year term of the instrument.

The fair values of the other financial assets and financial liabilities shown above are determined as follows:

- The carrying value of the embedded derivative is its fair value determined with reference to the fair value of off-setting financial derivatives as confirmed by the applicable counterparty banks.
- The carrying value of cash and cash equivalents, accrued income, trade receivables, insurance claims receivables, and other receivables is considered to be a reasonable approximation of fair value. Given the short average time to maturity, no specific assumptions on discount rates have been made. The effect of credit losses not already reflected in the carrying value as impairment losses is assumed to be immaterial.
- The carrying value of trade payables, payables for purchase of property, plant and equipment, interest payable, accruals and loans to/from joint ventures is considered to be a reasonable approximation of fair value. Given the relatively short average time to maturity, no specific assumptions on discount rates have been made.
- The fair value of fixed-rate notes (included in borrowings) that are quoted on a recognised stock exchange is determined with reference to the "bid" price as at the balance sheet date.
- The fair value of commercial paper that is issued under the Covid Corporate Financing Facility is not considered to be materially different from the carrying value, given the maximum duration of one year.
- The fair value of leases is presented above as being equal to its carrying value as International Financial Reporting Standard 7 ("IFRS 7"), Financial Instruments: Disclosures, does not require the disclosure of fair values for leases.
- The fair value of other borrowings on which interest is payable at floating rates is not considered to be materially different from the carrying value.

We do not consider that the fair value of financial instruments, other than the Deferred Payment Instrument, would change materially from that shown above as a result of any reasonable change to the assumptions made in determining the fair values shown above. The fair value of financial instruments, and in particular the fixed rate notes, would be affected by changes in market interest rates. We estimate that a 100 basis points reduction in market interest rates would increase the fair value of the fixed rate notes liability by around £6.5m (2020: £10.2m).

Fair value estimation

Financial instruments that are measured in the balance sheet at fair value are disclosed by level of the following fair value measurement hierarchy:
Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3 – Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 1 May 2021.

	Note	Level 2 £m	Level 3 £m	Total £m
Assets				
Deferred Payment Instrument from disposal of subsidiaries		–	1.9	1.9
Financial derivatives	25(g)	4.9	–	4.9
Total assets		4.9	1.9	6.8
Liabilities				
Financial derivatives	25(g)	(12.1)	–	(12.1)

There were no transfers between levels during the year ended 1 May 2021.

The following table presents the Group's financial assets and liabilities that are measured at fair value within the hierarchy at 2 May 2020.

	Note	Level 2 £m	Level 3 £m	Total £m
Assets				
Deferred Payment Instrument from disposal of subsidiaries		–	4.5	4.5
Financial derivatives	25(g)	2.9	–	2.9
Embedded derivative		5.8	–	5.8
Total assets		8.7	4.5	13.2
Liabilities				
Financial derivatives	25(g)	(65.2)	–	(65.2)

Notes to the consolidated financial statements (continued)

Note 25 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments

The Group's use of financial instruments exposes it to a variety of financial risks, principally:
- Market risk – including currency risk, interest rate risk and price risk;
- Credit risk; and
- Liquidity risk.

This note (c) presents qualitative information about the Group's exposure to each of the above risks, including the Group's objectives, policies and processes for measuring and managing risk: there have been no significant changes to these matters during the year ended 1 May 2021. This note (c) also provides summary quantitative data about the Group's exposure to each risk. In addition, information on the Group's management of capital is provided in section 1.6.11.3 of the Strategic report and forms part of these financial statements.

The Group's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to reduce the likelihood and/or magnitude of adverse effects on the financial performance and financial position of the Group. The Group uses derivative financial instruments from time to time to reduce exposure to foreign exchange risk, commodity price risk and interest rate movements. The Group does not generally hold or issue derivative financial instruments for speculative purposes.

A Group Treasury Committee and central treasury department ("Group Treasury") oversee financial risk management in the context of policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in co-operation with the Group's operating units. Group Treasury is responsible for the execution of derivative financial instruments to manage financial risks. Certain financial risk management activities (for example, the management of credit risk arising from trade and other receivables) are devolved to the management of individual business units. The Board provides written principles for overall treasury risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

(i) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, equity prices and commodity prices will affect the Group's financial performance and/or financial position. The objective of the Group's management of market risk is to manage and control market risk exposures within acceptable parameters.

The Group enters into derivative financial instruments in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board. Generally, the Group seeks to apply hedge accounting in order to reduce volatility in the consolidated income statement.

Foreign currency translation risk

Foreign currency translation risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's consolidated income statement is principally exposed to movements in foreign exchange rates in relation to the translation of the Deferred Payment Instrument from the disposal of the North America business.

The Group's consolidated balance sheet exposures to foreign currency translation risk (excluding immaterial exposure to Euros) were as follows:

	2021 £m	2020 £m
US dollars		
– Cash	**–**	0.4
– Deferred Payment Instrument from disposal of subsidiaries	**1.9**	4.5
Net exposure	**1.9**	4.9

The amounts shown above are the carrying values of all US dollar items in the consolidated balance sheet that would have differed at the balance sheet date had a different foreign currency exchange rate been applied, except that financial derivatives and embedded derivatives are excluded.

The Directors do not consider the sensitivity of the above amounts to reasonably probable movements in foreign exchange rates to be material to the Group (2020: immaterial).

Notes to the consolidated financial statements (continued)

Note 25 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

The Group's consolidated income statement exposures to foreign currency translation risk is not material in respect of reasonably probable changes in foreign exchange rates. That is based on the assumption that only those income statement items directly affected by changes in foreign exchange rates are included in the calculation. For example, changes in the sterling value of commodity prices that indirectly occur due to changes in foreign exchange rates are not included in the sensitivity calculation.

Foreign currency transactional risk

Foreign currency transactional risk is the risk that future cash flows (such as from sales and purchases of goods and services) will fluctuate because of changes in foreign exchange rates.

The Group is exposed to limited foreign currency transactional risk due to the low value of transactions entered into by subsidiaries in currencies other than their functional currency. Group Treasury carries out forward buying of currencies where appropriate.

The Group reviews and considers hedging of actual and forecast foreign exchange transactional exposures up to one year forward. At 1 May 2021, there were no material net transactional foreign currency exposures (2020: none).

The Group's exposure to commodity price risk includes a foreign currency element due to the impact of foreign exchange rate movements on the sterling cost of fuel for the Group's UK operations. The effect of foreign exchange rate movements on sterling-denominated fuel prices is managed through the use of fuel derivative financial instruments denominated in the functional currency in which the fuel is purchased. Further information on fuel hedging is given under the heading "Price risk" later in this note 25(c)(i).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk principally through its borrowings and interest rate derivatives. It has a mixture of fixed-rate borrowings (where the fair value is exposed to changes in market interest rates), cash, cash equivalents and floating-rate borrowings (where the future cash flows are exposed to changes in market interest rates).

The Group's objective with regards to interest rate risk is to reduce the risk of changes in interest rates significantly affecting future cash flows and/or profit. To provide some certainty as to the level of interest cost, it is the Group's policy to manage interest rate exposure through the use of fixed and floating rate debt. Derivative financial instruments are also used where appropriate to generate the desired interest rate profile.

The Group measures interest rate risk by quantifying the relative proportions of each of gross debt and net debt that are effectively subject to fixed interest rates and considers the duration for which the relevant interest rates are fixed.

At 1 May 2021, the interest rate profile of the Group's interest bearing financial liabilities was as follows, including floating rate hire purchase liabilities but excluding other lease liabilities:

Currency	**Floating rate £m**	**Fixed rate £m**	**Total £m**	**Weighted average fixed interest rate %**	**Weighted average period for which rate is fixed Years**
Sterling	258.5	585.0	843.5	2.3	2.6

The above figures take account of the effect of interest rate derivatives which swap £120m of the £400m Notes maturing September 2025 for the period from September 2020 to September 2023.

At 2 May 2020, the interest rate profile of the Group's interest bearing financial liabilities was as follows:

(Restated – see note 1(b)) **Currency**	Floating rate £m	Fixed rate £m	Total £m	Weighted average fixed interest rate %	Weighted average period for which rate is fixed Years
Sterling	466.4	406.7	873.1	4.0	5.4

The floating rate financial liabilities bear interest at rates fixed in advance for periods ranging from one to six months based on market rates. The maturity profile of the Group's borrowings is shown in note 21(a).

Notes to the consolidated financial statements (continued)

Note 25 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

The Group's financial assets on which floating interest is receivable include cash deposits, cash in hand and cash equivalents of £602.3m (2020 restated: £580.7m) and a loan to a joint venture of £0.2m (2020: £Nil). The Group's financial asset on which fixed interest is receivable is a Deferred Payment Instrument receivable of £1.9m (2020: £4.5m) arising from the sale of the North America business in April 2019. As at 1 May 2021, the Group had no other financial assets on which fixed interest is receivable (2020: £Nil).

With the exception of the Deferred Payment Instrument, the Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss.

The net impact of a change of 100 basis points on all relevant floating interest rates on annualised net interest payable on cash and borrowings balances outstanding at the balance sheet date was not material (2020: not material).

Price risk

The Group is exposed to commodity price risk. The Group's operations as at 1 May 2021 consume approximately 198m litres of diesel fuel per annum assuming normal, pre-COVID service levels. As a result, the Group's future profit and cash flows are exposed to movements in the underlying price of fuel.

The Group's objective in managing commodity price risk is to reduce the risk that movements in fuel prices result in adverse movements in its profit and cash flow. The Group has a policy of managing the volatility in its fuel costs by maintaining an ongoing fuel hedging programme whereby derivatives are used to fix the variable unit cost of a percentage of anticipated fuel consumption. The Group's exposure to commodity price risk is measured by quantifying the element of projected future fuel costs, after taking account of derivatives in place, which varies due to movements in fuel prices. Group Treasury is responsible for the processes for measuring and managing commodity price risk.

The Group's overall fuel costs include the impact of delivery margins, fuel taxes and fuel tax rebates. These elements of fuel costs are not managed as part of Group Treasury's commodity price risk management and are managed directly by business unit management.

The Group uses a number of fuel derivatives to hedge against movements in the price of the fuel used. The fuel derivatives hedge the underlying commodity price risk (denominated in US$). They also hedge the currency risk due to the commodity being priced in US$ and the functional currency of the businesses being pounds sterling.

As at 1 May 2021, we had financial derivatives in place covering a net 140.4m litres of fuel consumption by our UK bus business in the year ending 30 April 2022. We are forecasting to consume 198.4m litres of fuel in the year ending 30 April 2022. The price of the underlying product as at 1 May 2021 was 32.8 pence per litre. Taking account of the financial derivatives in place, the table below shows the sensitivity of our fuel costs (amounts payable/receivable on derivatives and purchase cost of the underlying product, excluding taxes, delivery margins and Bus Service Operators Grant) to different levels of consumption and fuel prices.

Year ending 30 April 2022

Volume of diesel consumed (millions of litres)		178.6	198.4	218.2
Fuel costs	**pence/litre**	**£m**	**£m**	**£m**
At 1 May 2021 price	32.8	(65.6)	(72.1)	(78.6)
At 10% higher than 1 May 2021 price	36.1	(66.9)	(74.0)	(81.2)
– increase versus 1 May price		(1.3)	(1.9)	(2.6)
At 10% lower than 1 May 2021 price	29.5	(64.4)	(70.2)	(76.1)
– decrease versus 1 May price		1.2	1.9	2.5

In respect of the year ended 1 May 2021, and since, the Group has been eligible to claim COVID-19 related grants for the majority of the services operated by its UK Bus (regional operations) segment. The grant income may be claimed by operators of certain bus services to close the shortfall of revenue earned by them during the period affected by COVID-19 and the costs incurred by them in that period. To the extent fuel costs in respect of eligible operations were higher or lower due to changes in fuel prices, then the related grant income would be correspondingly higher or lower. The sensitivity of the Group's profit to changes in fuel prices is therefore further reduced as a result of those grants to the extent they continue to apply.

Demand for the Group's services can also be affected by movements in fuel prices due to the impact on the cost of competing transport services, including private cars.

Note 25 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk is managed by a combination of Group Treasury and business unit management, and arises from cash and cash equivalents, derivative financial instruments and credit exposures to amounts due from outstanding receivables and committed transactions.

The Group's objective is to minimise credit risk to an acceptable level whilst not overly restricting the Group's ability to generate revenue and profit. It is the Group's policy to invest cash assets safely and profitably. To control credit risk, counterparty credit limits are set by reference to published credit ratings and the counterparty's geographical location. The Group considers the risk of material loss in the event of non-performance by a financial counterparty to be low.

In determining whether a financial asset is impaired, the Group takes account of:
- The fair value of the asset at the balance sheet date and where applicable, the historic fair value of the asset;
- In the case of receivables, the counterparty's typical payment patterns;
- In the case of receivables, the latest available information on the counterparty's creditworthiness such as available financial statements, credit ratings etc.

The movement in the provision for impairment of trade receivables is shown in note 17. In addition, a £0.2m (2020: £Nil) provision for impairment of a loan to a joint venture was held as at 1 May 2021. There was no opening or closing loss allowance for any of the other financial assets measured at amortised cost.

The table below shows the financial assets that are exposed to credit risk at the balance sheet date:

	Gross 2021 £m	**Impairment 2021 £m**	**Net Exposure 2021 £m**	Gross 2020 (restated – see note 1(b)) £m	Impairment 2020 £m	Net Exposure 2020 (restated – see note 1(b)) £m
Deferred Payment Instrument	**1.9**	**–**	**1.9**	4.5	–	4.5
Embedded Derivative	**–**	**–**	**–**	5.8	–	5.8
Trade receivables	**25.7**	**(2.8)**	**22.9**	23.9	(2.5)	21.4
Loans, other receivables and accrued income	**40.1**	**(0.2)**	**39.9**	46.7	–	46.7
Cash and cash equivalents – pledged as collateral	**17.4**	**–**	**17.4**	17.5	–	17.5
Cash and cash equivalents – other	**584.9**	**–**	**584.9**	563.2	–	563.2
Excluding derivative financial instruments	**670.0**	**(3.0)**	**667.0**	661.6	(2.5)	659.1
Financial derivatives	**4.9**	**–**	**4.9**	2.9	–	2.9
Total exposure to credit risk	**674.9**	**(3.0)**	**671.9**	664.5	(2.5)	662.0

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty. The Group's largest credit exposures are generally to the UK's Department for Transport, Transport for London, and other government bodies and financial institutions with short-term credit ratings of A2 (or equivalent) or better, all of which the Group considers unlikely to default on their respective liabilities to the Group.

The Group's total net exposure to credit risk by geographic region is analysed below:

	2021 £m	2020 (restated – see note 1(b)) £m
United Kingdom & Europe	**670.0**	651.7
North America	**1.9**	10.3
	671.9	662.0

The Group's financial assets by currency are analysed below:

	2021 £m	2020 (restated – see note 1(b)) £m
Sterling & Euros	**670.0**	651.3
US dollars	**1.9**	10.7
	671.9	662.0

The Group does not hold any collateral in respect of its credit risk exposures set out above (2020: £Nil) and has not taken possession of any collateral it holds or called for other credit enhancements during the year ended 1 May 2021 (2020: £Nil).

Notes to the consolidated financial statements (continued)

Note 25 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

Trade receivables, other receivables and accrued income

To measure the expected credit losses, trade receivables, other receivables measured at amortised cost and accrued income have been grouped based on shared credit risk characteristics and the days past due. The accrued income relates to unbilled work in progress and has substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for other receivables measured at amortised cost and accrued income.

The expected loss rates are based on the payment profiles of sales over a period of 36 months to the balance sheet dates and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified that UK GDP, the impact of COVID-19 and unemployment rates are the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The loss allowance as at 1 May 2021 and 2 May 2020 was determined for trade receivables, other receivables measured at amortised cost and accrued income as set out in the following tables:

As at 1 May 2021	**Trade receivables £m**	**Other receivables £m**	**Accrued Income £m**	**Loss allowance £m**
Amounts not yet due	**21.1**	**17.5**	**22.6**	**(0.2)**
Amounts 1 to 90 days overdue	**2.4**	**–**	**–**	**(0.6)**
Amounts 91 to 180 days overdue	**0.2**	**–**	**–**	**(0.2)**
Amounts 181 to 365 days overdue	**0.3**	**–**	**–**	**(0.3)**
Amounts greater than 365 days overdue	**1.7**	**–**	**–**	**(1.7)**
Total	**25.7**	**17.5**	**22.6**	**(3.0)**

As at 2 May 2020	Trade receivables £m	Other receivables £m	Accrued Income £m	Loss allowance £m
Amounts not yet due	18.7	24.2	22.5	–
Amounts 1 to 90 days overdue	3.5	–	–	(0.8)
Amounts 91 to 180 days overdue	0.2	–	–	(0.2)
Amounts 181 to 365 days overdue	1.5	–	–	(1.5)
Total	23.9	24.2	22.5	(2.5)

(iii) Liquidity risk

The funding policy is to finance the Group through a mixture of bank, lease debt, capital markets issues and cash generated by the business.

In May 2020, the Group issued £300m of commercial paper as an eligible issuer under the UK Government and Bank of England's Covid Corporate Financing Facility. £300m was contractually payable by the Group during February and March 2021. This was repaid in February 2021 and March 2021 and the Group issued a further £300m under the facility for a duration of one year. This is contractually payable by the Group during February and March 2022.

As at 1 May 2021, the Group's credit facilities were £723.3m (2020: £858.1m), £155.9m (2020: £383.7m) of which were utilised, including utilisation for the issuance of bank guarantees, and letters of credit.

The Group had the following undrawn committed banking and uncommitted asset finance facilities:

	2021 £m	2020 £m
Expiring within one year	**291.0**	268.0
Expiring between one and two years	**–**	140.0
Expiring beyond two years	**276.4**	66.4
	567.4	474.4

Although there is an element of seasonality in the Group's operations, the overall impact of seasonality on working capital and liquidity is not considered significant.

The Board expects the Group to be able to meet current and future funding requirements through free cash flow and available committed facilities. In addition, the Group has investment grade credit ratings which should allow it access at short notice to additional bank and capital markets debt funding. The Group has bank lines of credit arranged on a bi-lateral basis with a group of relationship banks which provide bank facilities for general corporate purposes. These arranged lines of credit allow cash drawdowns to finance the Group and also include facilities which are dedicated to issuing performance bonds, guarantees and letters of credit.

Notes to the consolidated financial statements (continued)

Note 25 Financial instruments (continued)

(c) Nature and extent of risks arising from financial instruments (continued)

The committed bank facilities and their utilisation, as at 1 May 2021, was:

As at 1 May 2021, facilities expiring in:	Facility £m	Performance bonds, guarantees etc. drawn £m	Available for non-cash utilisation only £m	Available for cash drawings £m
MAIN GROUP FACILITIES				
– 2021	258.3	(64.3)	(54.0)	140.0
– 2025	325.0	(48.6)	–	276.4
	583.3	(112.9)	(54.0)	416.4
SHORT-TERM FACILITIES				
– Various	2.3	–	–	2.3
	585.6	(112.9)	(54.0)	418.7

The Group manages its liquidity risk based on contracted cash flows. The following are the contractual maturities of financial liabilities, excluding lease liabilities, including interest payments.

As at 1 May 2021	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m
Non derivative financial liabilities:					
Bank overdrafts	(119.1)	(119.1)	(119.1)	–	–
Unsecured bond issues	(406.6)	(480.0)	(16.0)	(16.0)	(448.0)
Loan notes payable	(17.4)	(17.4)	(17.4)	–	–
Covid Corporate Financing Facility	(298.4)	(300.0)	(300.0)	–	–
Trade and other payables	(214.1)	(214.1)	(214.1)	–	–
	(1,055.6)	(1,130.6)	(666.6)	(16.0)	(448.0)
Derivative financial liabilities:					
Financial derivatives	(12.1)	(12.1)	(7.8)	(3.8)	(0.5)
	(1,067.6)	(1,142.7)	(674.4)	(19.8)	(448.5)

As at 2 May 2020 (restated – see note 1(b))	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Non derivative financial liabilities:						
Bank overdrafts	(232.4)	(232.4)	(232.4)	–	–	–
Unsecured bond issues	(406.7)	(496.0)	(16.0)	(16.0)	(48.0)	(416.0)
Loan notes payable	(17.5)	(17.5)	(17.5)	–	–	–
Bank loans payable	(200.0)	(201.6)	(1.6)	–	(200.0)	–
Trade and other payables	(216.5)	(216.5)	(216.5)	–	–	–
	(1,073.1)	(1,164.0)	(484.0)	(16.0)	(248.0)	(416.0)
Derivative financial liabilities:						
Financial derivatives	(65.2)	(65.2)	(38.6)	(13.6)	(13.0)	–
	(1,138.3)	(1,229.2)	(522.6)	(29.6)	(261.0)	(416.0)

The "contractual cash flows" shown in the above tables are the contractual undiscounted cash flows under the relevant financial instruments. Where the contractual cash flows are variable based on an interest rate or credit rating in the future, the contractual cash flows in the above table have been determined with reference to the interest rate or credit rating as at the balance sheet date. In determining the interest element of contractual cash flows in cases where the Group has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cash flows have been calculated assuming the Group selects the shortest available interest calculation periods. Where the holder of an instrument has a choice of when to redeem, the amounts in the above tables are on the assumption the holder redeems at the earliest opportunity. In the case of bank loans, which are drawn under revolving facilities, the contracted cash flows in respect of interest up to and including the next rollover date are shown and the principal is shown as repayable at the expiry date of the relevant facility.

The following are contractual maturities of lease liabilities:

As at 1 May 2021	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Lease liabilities	(82.1)	(104.5)	(24.9)	(17.6)	(25.1)	(36.9)

As at 2 May 2020	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Lease liabilities	(85.8)	(104.3)	(27.0)	(19.7)	(27.4)	(30.2)

Notes to the consolidated financial statements (continued)

Note 25 Financial instruments (continued)

(d) Accounting policies

The Group's significant accounting policies and measurement bases in respect of financial instruments are disclosed in note 1.

(e) Collateral and restricted cash

Included within the cash and cash equivalents balance of £602.3m (2020 restated: £580.7m) are £17.4m (2020: £17.5m) of cash balances that have been pledged by the Group as collateral for £17.4m (2020: £17.5m) of loan notes that are classified within current liabilities: borrowings. The cash is held on deposit and a bank has guaranteed the Group's obligations to the holders of the loan notes. To the extent that the Group fails to satisfy its obligations under the loan notes, the bank shall use the cash collateral to satisfy such obligations.

The fair value of the financial assets pledged as collateral is the same as their carrying value as at 1 May 2021 and 2 May 2020.

(f) Defaults and breaches

The Group has not defaulted on any loans payable during the years ended 1 May 2021 and 2 May 2020 and no loans payable were in default as at 1 May 2021 and 2 May 2020. The Group was in compliance with all bank loan covenants as at 1 May 2021 and 2 May 2020.

(g) Financial derivatives and hedge accounting

A summary of the Group's hedging arrangements that applied during the years ended 1 May 2021 and 2 May 2020 is provided in the table below.

Type of hedge	Risks hedged by the Group	Hedging instruments used
Cash flow hedges	– Commodity price risk	– Derivatives (commodity swaps)
Fair value hedges	– Interest rate risk	– Derivatives (interest rate swaps)

Carrying value and fair value of derivative financial instruments

Derivative financial instruments are classified on the balance sheet as follows:

	2021			2020
	Interest derivatives £m	Fuel derivatives £m	Total £m	Fuel derivatives £m
Non-current assets	–	4.1	4.1	–
Current assets	–	0.8	0.8	2.9
Current liabilities	(0.3)	(7.5)	(7.8)	(38.6)
Non-current liabilities	(0.6)	(3.7)	(4.3)	(26.6)
Total	(0.9)	(6.3)	(7.2)	(62.3)

The fair value of derivative financial instruments is equal to their carrying value, as shown in the above table.

Embedded derivative

The Group previously held derivative financial instruments with bank counterparties that were accounted for as cash flow hedges in respect of anticipated fuel consumption by its North America business. When that business was sold on 16 April 2019, hedge accounting was discontinued. Following the sale, the Group continued to hold the derivative financial instruments covering periods to 31 January 2021 that were in place at the date of sale in respect of the North American business. As part of the sale, the Group entered into a contractual agreement with its now former North American business that contained an embedded derivative intended to offset the derivative financial instruments held with the bank counterparties. With effect from 16 April 2019 until their expiry in February 2021, both the derivative financial instruments held with bank counterparties and the embedded derivative were accounted for at fair value through profit or loss – no net gain or loss arose from that arrangement. The fair value of the relevant derivative financial instruments held with bank counterparties was a liability of £5.8m at 2 May 2020 and the embedded derivative was an asset of £5.8m included in other receivables within trade and other receivables.

In accordance with IFRS 9, all significant contracts to which the Group is a party have been reviewed for embedded derivatives. Except for those explained above, there were no embedded derivatives as at 1 May 2021 (2020: None) which were separately accounted for.

Cash flow hedges – fuel

The movements in the fair value of fuel derivatives in the year were as follows:

	2021 £m	2020 £m
Fuel derivatives		
Fair value at start of year	(62.3)	25.7
Changes in fair value during year taken to cash flow hedging reserve	25.8	(71.0)
Changes in fair value during year taken immediately to income statement	5.2	(10.2)
Cash paid/(received) during the year	25.0	(6.8)
Fair value at end of year	(6.3)	(62.3)

Note 25 Financial instruments (continued)

(g) Financial derivatives and hedge accounting (continued)

Commodity price risk

The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the fuel forward contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

The fair value of the fuel derivatives, split by maturity, was as follows:

	Assets £m	Liabilities £m
As at 1 May 2021		
Within one year	**0.8**	**(7.5)**
1 to 2 years	**2.7**	**(3.4)**
2 to 3 years	**1.4**	**(0.1)**
More than 3 years	**–**	**(0.2)**
	4.9	**(11.2)**
As at 2 May 2020		
Within one year	2.9	(38.6)
1 to 2 years	–	(13.6)
2 to 3 years	–	(10.0)
More than 3 years	–	(3.0)
	2.9	(65.2)

The fair value of fuel derivatives is further analysed by currency and segment as follows:

	Fair value £m	Notional quantity of fuel covered by derivatives Millions of litres
As at 1 May 2021		
Sterling denominated – UK Bus (regional operations)	**(6.8)**	**323.0**
Sterling denominated – UK Bus (London)	**0.5**	**73.2**
	(6.3)	**396.2**
As at 2 May 2020		
Sterling denominated – UK Bus (regional operations)	(49.1)	301.5
Sterling denominated – UK Bus (London)	(7.4)	47.6
US dollar denominated – North America	(5.8)	23.3
	(62.3)	372.4

The maturity profile of the above fuel derivative contracts is as follows:

	Up to 1 year	1 to 2 years	2+ years	Total
As at 1 May 2021				
Notional amount (in millions of litres)	**145.4**	**141.4**	**109.4**	**396.2**
Notional amount (in £m)	**54.7**	**48.1**	**34.7**	**137.5**
Average hedge rate (in £/litre)	**0.38**	**0.34**	**0.32**	**0.35**
As at 2 May 2020				
Notional amount (in millions of litres)	160.4	122.5	89.5	372.4
Notional amount (in £m)	67.3	47.2	33.8	148.3
Average hedge rate (in £/litre)	0.42	0.39	0.38	0.40

Notes to the consolidated financial statements (continued)

Note 25 Financial instruments (continued)

(g) Financial derivatives and hedge accounting (continued)

Fair value hedges – interest

The Group entered into £120m (notional value) of interest rate derivatives as fair value hedges of the Group's exposure to fixed interest rates from September 2020 to September 2023. The movements in the fair value of these derivatives were as follows:

	Fair value hedges 2021 £m
Interest rate derivatives	
Changes in fair value reflected in carrying value of hedged item	**(0.8)**
Interest expense on fair value hedges	**(0.1)**
Fair value at end of year	**(0.9)**

All of the interest rate derivatives were managed and held centrally.

The fair value of the interest rate derivatives split by maturity as at 1 May 2021 was as follows:

	2021 £m
Within one year	**(0.3)**
1 to 2 years	**(0.4)**
2 to 3 years	**(0.2)**
	(0.9)

Cash flow hedging reserve

The movements in the cash flow hedging reserve were as follows:

	2021 £m	2020 £m
Cash flow hedging reserve at start of year	**(34.9)**	18.8
Changes in fair value during the year taken to cash flow hedging reserve	**25.8**	(71.0)
Cash flow hedges reclassified and reported in profit for year	**11.4**	4.9
Tax effect of cash flow hedges	**(7.1)**	12.4
Cash flow hedging reserve at end of year	**(4.8)**	(34.9)
Cash flow hedging reserve before tax	**(5.8)**	(43.0)
Tax to be credited to income statement in future periods	**1.0**	8.1
Cash flow hedging reserve after tax	**(4.8)**	(34.9)

As a consequence of the COVID-related reduction in vehicle mileage, certain previously hedged cash flows for fuel consumption were no longer expected to occur. In relation to that, of the £11.4m (2020: £4.9m) reclassified to the income statement above, £Nil (2020: £10.2m) was as a result of reclassifying amounts relating to previously forecast fuel consumption that is no longer expected to occur. The derivatives where the Group discontinued hedge accounting were subsequently accounted at fair value through profit or loss. The Group applies relevant hedge accounting to other financial derivatives outstanding at 1 May 2021. All designated hedge relationships were effective under IFRS 9.

Notes to the consolidated financial statements (continued)

Note 26 Share capital

The allotted, called-up and fully paid ordinary share capital was:

	2021		2020	
	No. of shares	**£m**	No. of shares	£m
Allotted, called-up and fully-paid ordinary shares of 125/228 pence each				
At beginning and end of year	**576,099,960**	**3.2**	576,099,960	3.2

The balance on the share capital account shown above represents the aggregate nominal value of all ordinary shares in issue. This figure includes 25,221,213 (2020: 25,912,949) ordinary shares held in treasury, which are treated as a deduction from equity in the Group's financial statements.

In April 2019, the Group announced a share buyback programme to buy back shares with an aggregate market value of up to £60m. In line with the Company's strong capital discipline, the Board decided in October 2019 to conclude the programme when around £30m of shares had been bought back. The Board was by then satisfied that the programme had largely achieved its objective of making appropriate use of the Group's cash, whilst retaining a good financial position and maintaining an investment grade credit rating. During the year ended 2 May 2020, the Group purchased 22,920,256 ordinary shares pursuant to that programme, at a total cost of £30.2m.

Note 27 Share based payments

The Group operates a Buy as You Earn Scheme ("BAYE"), a Long Term Incentive Plan ("LTIP"), a Restricted Share Plan ("RSP") and an Executive Participation Plan ("EPP"). The Directors' remuneration report in section 8 of this Annual Report gives further details of each of these arrangements.

As disclosed in note 7, share based payment charges of £0.9m (2020: £1.4m) have been recognised in the income statement during the year in relation to the above schemes.

Long Term Incentive Plan

The following assumptions were applied in accounting for awards under the LTIP scheme:

Grant date	**June 2016**	**December 2016**	**August 2017**	**December 2017**	**December 2018**	**June 2019**	**December 2019**
Share price at time of grant/award (£)	2.265	2.110	1.745	1.780	1.636	1.210	1.368
Vesting period (years)	3	3	3	3	3	3	3
Option/award life (years)	3	3	3	3	3	3	3
Expected life (years)	3	3	3	3	3	3	3
Expected dividends expressed as an average annual dividend yield	5.44%	5.84%	7.37%	7.22%	5.08%	6.87%	6.08%
Option pricing model	**Bespoke simulation**	**Bespoke simulation**	**Bespoke simulation**	**Bespoke simulation**	**Bespoke simulation**	**Bespoke simulation**	**Bespoke simulation**

LTIP awards are based on Incentive Units. One Incentive Unit has a value equal to one of the Company's ordinary shares but subject to the performance conditions explained in the Directors' remuneration report. LTIP awards are not share options and are valued using a separate simulation model and disclosures in respect of exercise prices, expected volatility and risk free rates are not applicable. Expectations of meeting market based performance criteria are reflected in the fair value of the LTIP awards.

The movements in the LTIP Incentive Units during the year to 1 May 2021 were as follows:

Award date	Outstanding at start of year (Incentive Units)	Lapsed in year (Incentive Units)	Outstanding at end of year (Incentive Units)	Fair value per LTIP unit at grant* £	Fair value per LTIP unit at 1 May 2021* £	TSR ranking at 1 May 2021**	Vesting date
25 Aug 2017	1,238,619	(1,238,619)	–	1.1939	n/a	n/a	25 Aug 2020
7 Dec 2017	1,158,481	(1,158,481)	–	1.2179	n/a	n/a	7 Dec 2020
7 Dec 2018	2,599,351	(592,766)	2,006,585	1.1194	£0.0664	190	7 Dec 2021
27 June 2019	1,854,602	(398,835)	1,455,767	0.8279	£0.0620	194	27 June 2022
12 Dec 2019	1,672,432	(342,624)	1,329,808	0.9360	£0.0460	211	12 Dec 2022
	8,523,485	(3,731,325)	4,792,160				

* The fair values of the LTIP Incentive Units shown above take account of both market based vesting conditions (total shareholder return performance versus a benchmark) and non-market based vesting conditions (earnings per share related targets for certain awards). The fair values have not been adjusted for service conditions and assume all holders of LTIP Incentive Units remain employed by the Group throughout the relevant vesting periods.

** TSR ranking is based on the Group's ranking of total shareholder return in the FTSE 250 whereby 1 is top of the comparator group. The TSR ranking is calculated by independent advisors.

Notes to the consolidated financial statements (continued)

Note 27 Share based payments (continued)

Restricted Share Plan

A Restricted Share Plan commenced during the year ended 1 May 2021, as a successor to the Long Term Incentive Plan. All Restricted Share Awards under the plan are subject to performance underpins under which the Remuneration Committee may reduce an award in whole or in part if it is not satisfied with the management of the business. No adjustment has been made to the fair values of Restricted Share Awards shown below to take account of those performance underpins. Accordingly, the value of each Restricted Share is equivalent to the value of an ordinary share in the Company.

The movements in Restricted Share Awards in the year ended 1 May 2021 were as follows:

Award date	Awards granted in year and outstanding at end of year (Restricted Shares)	Vesting dates	Expected total value of award at time of grant £	Closing share price prior to date of grant £
12 Oct 2020	171,316	12 Oct 2024	70,000	0.4086
12 Oct 2020	171,317	12 Oct 2025	70,000	0.4086
12 Oct 2020	171,317	12 Oct 2026	70,000	0.4086
10 Dec 2020	933,257	10 Dec 2024	734,007	0.7865
10 Dec 2020	933,257	10 Dec 2025	734,007	0.7865
10 Dec 2020	933,258	10 Dec 2026	734,007	0.7865
	3,313,722			

Executive Participation Plan

Under the EPP, executives and senior managers sacrifice part of their actual annual cash bonus and are awarded Deferred Bonus Shares with an initial market value approximately equal to the amount of bonus foregone. The movements in EPP Deferred Bonus Shares in the year ended 1 May 2021 were as follows:

Award date	Outstanding at start of year (Deferred Bonus Shares)	Awards granted in year (Deferred Bonus Shares)	Vested in year (Deferred Bonus Shares)	Lapsed in year (Deferred Bonus Shares)	Outstanding at end of year (Deferred Bonus Shares)	Vesting date	Expected total value of award at time of grant £	Closing share price on date of grant £
29 June 2017	381,123	–	(381,123)	–	–	22 Jul 20	1,188,198	1.9110
29 June 2017	312,380	–	(312,380)	–	–	2 Sep 20	973,883	1.9110
6 Dec 2018	652,516	–	(2,845)	(9,827)	639,844	6 Dec 2021	2,164,076	1.7700
27 June 2019	1,832,351	–	(8,343)	(71,140)	1,752,868	27 June 2022	2,148,818	1.2100
10 Dec 2020	–	3,081,276	–	(77,660)	3,003,616	10 Dec 2023	2,423,424	0.7865
	3,178,370	3,081,276	(704,691)	(158,627)	5,396,328			

Buy As You Earn Scheme

BAYE enables eligible employees to purchase shares ("partnership shares") from their gross income. The Company provides two matching shares for every share bought from the first £10 of each employee's monthly investment, subject to a maximum Company contribution of shares to the value of £20 per employee per month. If the shares are held in trust for five years or more, no income tax and national insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award. In light of the COVID-19 situation, share investments under the BAYE Plan have been suspended since 6 April 2020.

At 1 May 2021, there were 3,541 (2020: 4,010) participants in the BAYE scheme to which were attributed 5,583,438 (2020: 6,360,662) shares that they purchased, 2,004,738 (2020: 2,294,678) matching shares that the Company contributed and 1,404,925 shares (2020: 1,588,507) in respect of notional dividends. These amounts exclude unattributed shares and any shares to be withdrawn because the employee has left the Group or requested a withdrawal.

Note 28 Reserves

A reconciliation of the movements in each reserve is shown in the consolidated statement of changes in equity on page 103.

The balance of the share premium account represents the amounts received in excess of the nominal value of the ordinary shares offset by issue costs, bonus issues of shares and any transfer between reserves.

The balance held in the retained earnings reserve is the accumulated retained profits and losses of the Group.

The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled.

Details of own shares held are given in note 26. The own shares reserve represents the cumulative cost of shares in Stagecoach Group plc purchased in the market and held in treasury and/or by the Group's two Employee Share Ownership Trusts, offset by cumulative sales proceeds.

The cash flow hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. The cumulative gain or loss is recycled to the income statement to match the recognition of the hedged item through the income statement.

Notes to the consolidated financial statements (continued)

Note 29 Consolidated cash flows

Cash and cash equivalents of £483.2m (2020: £348.3m) shown in the consolidated statement of cash flows, and in this note 29, include the cash and cash equivalents of £602.3m (2020 restated: £580.7m) shown on the consolidated balance sheet, less bank overdrafts of £119.1m (2020 restated: £232.4m) included in other borrowings within current liabilities in the consolidated balance sheet.

(a) Reconciliation of operating profit to cash generated by operations

The operating profit of Group companies reconciles to cash generated by operations as follows:

	2021 £m	2020 (restated – see note 1(b)) £m
Operating profit of Group companies	**54.6**	69.6
Separately disclosed items	**(10.3)**	32.5
Depreciation	**107.7**	109.2
Software amortisation	**2.9**	4.5
Impairment of property, plant and equipment, excluding separately disclosed items	**6.8**	0.3
EBITDA of Group companies before separately disclosed items ("Adjusted EBITDA from Group Companies")	**161.7**	216.1
Cash effect of current year separately disclosed items	**(7.3)**	(2.4)
Loss/(gain) on disposal of property, plant and equipment	**1.5**	(0.9)
Capital grant amortisation	**(0.9)**	(0.8)
Share based payment movements	**1.6**	0.9
Operating cashflows before working capital movements	**156.6**	212.9
(Increase)/decrease in inventories	**(0.7)**	5.5
Decrease in receivables	**1.3**	24.7
Decrease in payables	**(8.9)**	(99.3)
(Decrease)/increase in provisions	**(7.4)**	15.5
Differences between employer contributions and pension expense in adjusted operating profit	**(4.7)**	(9.8)
Cash generated by operations	**136.2**	149.5

(b) Reconciliation of net cash flow to movement in net debt

The increase in cash and cash equivalents reconciles to the movement in net debt as follows:

	2021 £m	2020 £m
Increase in cash and cash equivalents	**134.9**	177.9
Cash flow from movement in borrowings (excluding bank overdrafts)	**(69.4)**	(170.9)
	65.5	7.0
Recognition of lease liabilities on adoption of IFRS 16	**–**	(89.0)
New leases in year		
– Sale and leaseback of property	**(5.1)**	–
– Other new leases	**(18.3)**	(15.9)
Other movements	**(2.6)**	(0.9)
Decrease/(increase) in net debt	**39.5**	(98.8)
Opening net debt (as defined in note 34)	**(352.1)**	(253.3)
Closing net debt (as defined in note 34)	**(312.6)**	(352.1)

(c) Changes in net debt

Changes in net debt are summarised below:

Year to 1 May 2021	**Opening £m**	**Cashflows £m**	**New leases £m**	**Charged to income statement £m**	**Closing £m**
Cash and cash equivalents – pledged as collateral	**17.5**	**(0.1)**	**–**	**–**	**17.4**
Cash and cash equivalents – other	**330.8**	**135.0**	**–**	**–**	**465.8**
Total cash and cash equivalents	**348.3**	**134.9**	**–**	**–**	**483.2**
Gross debt – see split in note 29(d) below	**(700.4)**	**(69.4)**	**(23.4)**	**(2.6)**	**(795.8)**
Net debt	**(352.1)**	**65.5**	**(23.4)**	**(2.6)**	**(312.6)**

Year to 2 May 2020	Opening £m	Impact of adoption of IFRS 16 £m	Cashflows £m	New leases £m	Charged to income statement £m	Closing £m
Cash and cash equivalents – pledged as collateral	18.1	–	(0.6)	–	–	17.5
Cash and cash equivalents – other	152.3	–	178.5	–	–	330.8
Total cash and cash equivalents	170.4	–	177.9	–	–	348.3
Gross debt – see split in note 29(d) below	(423.7)	(89.0)	(170.9)	(15.9)	(0.9)	(700.4)
Net debt	(253.3)	(89.0)	7.0	(15.9)	(0.9)	(352.1)

Notes to the consolidated financial statements (continued)

Note 29 Consolidated cash flows (continued)

(d) Liabilities arising from financing activities

Liabilities arising from financing activities include all liabilities that give rise to cash flows that are classified as financing activities in the consolidated statement of cash flows. They include borrowings (except bank overdrafts) and loans from joint ventures. They also include certain interest rate derivatives that are hedging instruments of liabilities that give rise to financing cash flows.

The liabilities arising from financing activities are presented in the consolidated balance sheet are as follows.

	2021 £m	2020 (restated – see note 1(b)) £m
Current liabilities: borrowings	**(457.6)**	(274.9)
– Less bank overdrafts shown in cash and cash equivalents in this note 29	**119.1**	232.4
Non-current liabilities: borrowings	**(466.0)**	(667.5)
Current liabilities: interest rate derivatives included in financial derivatives	**(0.3)**	–
Non-current liabilities: interest rate derivatives included in financial derivatives	**(0.6)**	–
Basis of liabilities arising from financing activities reported in 2020 financial statements	**(805.4)**	(710.0)
Current liabilities: loans from joint ventures	**(1.7)**	(12.7)
Total liabilities arising from financing activities	**(807.1)**	(722.7)

The total liabilities arising from financing activities reported in prior years have been re-stated to include loans from joint ventures. The effect of loans from joint ventures on the total liabilities arising from financing activities are shown in the tables above and below.

Changes in liabilities from financing activities are presented in the tables below.

Year to 1 May 2021	**Opening £m**	**Dividend in specie (note 29(e)) £m**	**Cashflows £m**	**New leases £m**	**Fair value movements on hedge £m**	**Charged to income statement £m**	**Closing £m**
Lease liabilities	(85.8)	–	27.1	(23.4)	–	–	(82.1)
Bank loans	(200.0)	–	200.0	–	–	–	–
Loan notes	(17.5)	–	0.1	–	–	–	(17.4)
Covid Corporate Financing Facility	–	–	(296.6)	–	–	(1.8)	(298.4)
Bonds							
– Principal	(400.0)	–	–	–	–	–	(400.0)
– Unamortised costs & discounts on issue	2.9	–	–	–	–	(0.8)	2.1
Gross debt	(700.4)	–	(69.4)	(23.4)	–	(2.6)	(795.8)
Loans from joint ventures	(12.7)	11.0	–	–	–	–	(1.7)
Accrued interest on bonds	(9.6)	–	16.0	–	–	(15.9)	(9.5)
Effect of fair value hedges on carrying value of borrowings	–	–	–	–	0.8	–	0.8
Interest rate derivatives that hedge liabilities from financing activities	–	–	–	–	(0.8)	(0.1)	(0.9)
Total liabilities arising from financing activities	(722.7)	11.0	(53.4)	(23.4)	–	(18.6)	(807.1)

Year to 2 May 2020	**Opening £m**	**Impact of adoption of IFRS 16 £m**	**Cashflows £m**	**New leases £m**	**Charged to income statement £m**	**Closing £m**
Lease liabilities	(9.3)	(89.0)	28.4	(15.9)	–	(85.8)
Bank loans	–	–	(200.0)	–	–	(200.0)
Loan notes	(18.2)	–	0.7	–	–	(17.5)
Bonds						
– Principal	(400.0)	–	–	–	–	(400.0)
– Unamortised costs & discounts on issue	3.8	–	–	–	(0.9)	2.9
Gross debt	(423.7)	(89.0)	(170.9)	(15.9)	(0.9)	(700.4)
Loans from joint ventures	(1.7)	–	(11.0)	–	–	(12.7)
Accrued interest on bonds	(9.3)	–	16.0	–	(16.3)	(9.6)
Total liabilities arising from financing activities	(434.7)	(89.0)	(165.9)	(15.9)	(17.2)	(722.7)

(e) Non-cash transactions

The effect of new leases on net debt are shown in note 29(b) to the consolidated financial statements. Note 13(b)(vii) provides details of a depot sale and leaseback in the year ended 1 May 2021.

During the year ended 1 May 2021, the Group's joint venture, WCT Group (formerly Virgin Rail Group), made a dividend in specie by contributing loan receivables to its shareholders. As a result, the Group recognised a dividend of £11.0m from WCT Group and an associated reduction in the Group's loans from joint ventures of £11.0m.

Note 30 Contingencies

Contingent liabilities

(i) Under UK rail franchise agreements, the Group and its joint venture, WCT Group Holdings Limited (formerly, Virgin Rail Group Holdings Limited), agreed with the Department for Transport annual amounts receivable or payable in respect of the operation of rail franchises. The franchises have now expired. The UK Department for Transport has notified the Company's subsidiary, East Coast Main Line Company Limited (which traded as Virgin Trains East Coast), that it considers that subsidiary defaulted on the Virgin Trains East Coast franchise agreement. That could, in certain circumstances, give the Department for Transport the right to claim against East Coast Main Line Company Limited (and its immediate parent company, Inter City Railways Limited) including in respect of future premia payments foregone. As at 1 May 2021, liabilities have been recorded for amounts payable to the Department for Transport relating to any residual net assets of Virgin Trains East Coast. No further liability has been recorded in the consolidated financial statements as at 1 May 2021 (2020: £Nil) in relation to potential claims by the Department for Transport in respect of default of the franchise agreement, because the Directors currently do not expect further amounts to be payable.

(ii) On 27 February 2019, class action proceedings were filed with the UK Competition Appeal Tribunal ("CAT") against Stagecoach South Western Trains Limited ("SSWT"), a subsidiary of the Company that formerly operated train services under franchise. The prospective claimant representative has applied to the CAT for a collective proceedings order, which, if it were granted, would allow his claim to proceed to a full trial. Equivalent claims have been brought against First MTR South Western Trains Limited, which succeeded SSWT as the operator of the South Western franchised train services, and London & South Eastern Railway. It is alleged that SSWT and the other defendants breached their obligations under competition law, by (i) failing to make available, or (ii) restricting the practical availability of, boundary fares for Transport for London ("TfL") Travelcard holders wishing to travel outside TfL fare zones. The proposed claim seeks compensation for all those who have allegedly been affected by the train operating companies' allegedly anti-competitive behaviour. The total sought from SSWT is estimated at around £38m. SSWT is arguing against the granting of a collective proceedings order ("CPO"). The CPO hearing was held in March 2021 and a decision by the CAT is awaited. The claim is disputed in respect of its technical merits and the basis of the claim appears to be an initial estimate with assumptions that cannot initially be substantiated. The claim includes novel elements and it is not clear how existing precedent will be applied to it. Finally, determining how such a claim would be allocated amongst the various parties, and other stakeholders including the Department for Transport, is uncertain. Accordingly, the Group cannot make a reliable estimate of any contingent liability in respect of this matter. No provision is held as at 1 May 2021 (2020: £Nil) for any damages or settlement payable in respect of this matter.

(iii) The Group and the Company are from time to time party to other legal actions arising in the ordinary course of business. Liabilities have been recognised in the financial statements for the best estimate of the expenditure required to settle obligations arising under such legal actions. As at 1 May 2021, the liabilities in the consolidated financial statements for such matters total £0.9m (2020: £7.8m) in addition to those covered by the claims provisions.

(iv) The Group sold its North American business in April 2019. The North American business receives claims in respect of traffic incidents and employee incidents. It protects against the cost of such claims through third party insurance policies. An element of the claims is not insured as a result of the "excess" or "deductible" on insurance policies (the "Uninsured Element"). The North America business is liable for costs of settling the Uninsured Element of claims. In the event that the business was unable to meet its liabilities for claims then the insurers would be responsible for meeting those liabilities for the Uninsured Element of claims. To protect themselves against that risk (being, essentially the credit risk of the North America business), the insurers demand collateral typically in the form of letters of credit and guarantees. In connection with the sale of the North America business, the Group agreed to continue to provide the guarantees and arrange the letters of credit required by the insurers in respect of claims relating to periods ending on or before July 2019. The Group indemnifies the banks that issue those letters of credit against any losses suffered by the banks. The Group has also provided continuing guarantees to the insurers in respect of claims relating to those periods. As at 1 May 2021, the North America business had provided for £44.5m (2020: £59.2m) in respect of claims to which the letters of credit and Stagecoach Group guarantees would apply and for which no liability is reflected in the Group's consolidated balance sheet (2020: £Nil).

Notes to the consolidated financial statements (continued)

Note 31 Financial commitments

(a) Capital commitments

Contractual commitments for the acquisition of property, plant and equipment were as follows:

	2021 £m	2020 £m
Contracted for but not provided:		
For delivery within one year	**27.8**	35.6

(b) Joint ventures

Our share of commitments and contingent liabilities in joint ventures shown below is based on the latest statutory financial statements of the relevant companies:

	2021 £m	2020 £m
Franchise performance bonds	**–**	5.1
Season ticket bonds	**–**	3.3

Notes to the consolidated financial statements (continued)

Note 32 Related party transactions

Details of major related party transactions during the year ended 1 May 2021 are provided below, except for those relating to the remuneration of the Directors and management.

(i) WCT Group Holdings Limited (formerly Virgin Rail Group Holdings Limited)

Two of the Group's directors are non-executive directors of the Group's joint venture, WCT Group Holdings Limited (formerly Virgin Rail Group Holdings Limited). During the year ended 1 May 2021, the Group earned fees of £0.2m (2020: £0.2m) from WCT Group Holdings Limited in this regard. In addition, the Group purchased £Nil in the year ended 1 May 2021 (2020: £1.7m) from the group headed by WCT Group Holdings Limited and sales were £1.1m (2020: immaterial).

Additionally, the Group had a loan outstanding of £Nil (2020: £11.0m) from the group headed by WCT Group Holdings Limited at 1 May 2021. The loan accrued interest at commercial rates and during the year ended 1 May 2021, the interest paid was £0.1m (2020: immaterial).

(ii) Alexander Dennis Limited

Until May 2019, when they sold their holdings, Sir Brian Souter (Non-Executive Director) and Dame Ann Gloag (Non-Executive Director until 31 December 2019) collectively held, via companies that they control, 55.1% of the shares and voting rights in Alexander Dennis Limited. Noble Grossart Investments Limited (of which Sir Ewan Brown (Non-Executive Director until 31 December 2019) was a director of its holding company until 3 January 2019) controlled a further 33.2% of the shares and voting rights of Alexander Dennis Limited. None of Sir Brian Souter, Dame Ann Gloag or Sir Ewan Brown was a director of Alexander Dennis Limited nor did they have any involvement in the management of Alexander Dennis Limited. Furthermore, they did not participate in deciding on and negotiating the terms and conditions of transactions between the Group and Alexander Dennis Limited.

For the period from 28 April 2019 to 28 May 2019, the date at which Alexander Dennis ceased to be a related party, the Group purchased £5.0m of vehicles from Alexander Dennis Limited and £1.5m of spare parts and other services.

(iii) Pension schemes

Details of contributions made to pension schemes are contained in note 24.

(iv) Scottish Citylink Coaches Limited

A non-interest bearing loan of £1.7m (2020: £1.7m) was due to the Group's joint venture, Scottish Citylink Coaches Limited, as at 1 May 2021. The Group earned £13.7m in the year ended 1 May 2021 in respect of the operation of services subcontracted by Scottish Citylink Coaches Limited (2020: £21.2m). The Group also collected revenue of £5.5m on behalf of Scottish Citylink Coaches Limited in the year ended 1 May 2021 (2020: £18.3m). As at 1 May 2021, the Group had a net £1.9m receivable (2020: £Nil) from Scottish Citylink Coaches Limited, excluding the loan referred to above.

(v) East Coast Main Line Company Limited

The Group owns 90% and Virgin Holdings Limited owns 10% of the ordinary shares in Inter City Railways Limited. East Coast Main Line Company Limited is 100% owned by Inter City Railways Limited and entered into various arm's length transactions with other Group companies.

In the year ended 1 May 2021, other Group companies earned £0.3m (2020: £0.6m) from East Coast Main Line Company Limited in respect of the provision of certain services. In addition, East Coast Main Line Company Limited has advanced the Company a loan of which £30.0m was outstanding as at 1 May 2021 (2020: £30m). During the year ended 1 May 2021, the interest paid on the loan was £0.1m (2020: £0.1m).

Stagecoach Group plc paid £0.2m (2020: £0.5m) to Virgin Holdings Limited in the year ended 1 May 2021 in relation to East Coast Main Line Company Limited and the end of its franchise and had a payable of £Nil as at 1 May 2021 (2020: £0.2m) in respect of that.

(vi) Crown Sightseeing Limited

The Group owns 33% of the ordinary shares of Crown Sightseeing Limited, a joint venture formed in the year ended 1 May 2021. A interest bearing loan of £0.2m (2020: £Nil) was advanced by the Group to Crown Sightseeing Limited and as at 1 May 2021, £0.2m was outstanding. This loan accrues interest at the Bank of England base rate plus 3%.

Note 33 Post balance sheet events

Since 1 May 2021, the Department for Transport and South Yorkshire Passenger Transport Executive confirmed their intention to make further COVID-related payments to the Group's Sheffield Supertram business that were not taken account of in estimating the Supertram onerous contract provision recorded in the consolidated balance sheet as at 1 May 2021. The amount of such payments is subject to uncertainty but we currently estimate them at £0.8m. The Group expects to recognise these payments as income in the year ending 30 April 2022. Further COVID-related payments might also be confirmed.

Notes to the consolidated financial statements (continued)

Note 34 Definitions

(a) Alternative performance measures

The Group uses a number of alternative performance measures in this document to help explain the financial performance and financial position of the Group. More information on the definition of these alternative performance measures and how they are calculated is provided below. All of the alternative performance measures explained below have been calculated consistently for the year ended 1 May 2021 and for comparative amounts shown in this document for prior years.

Adjusted earnings per share

Adjusted earnings per share is calculated by dividing profit attributable to equity holders of the parent, excluding separately disclosed items, by the basic weighted average number of shares in issue in the year.

For the year ended 1 May 2021 and the comparative prior year, the numerators for the calculations (i.e. the adjusted profit) are shown clearly on the face of the consolidated income statement in the columns headed "performance excluding separately disclosed items". The denominators for the calculations (i.e. the weighted average number of shares in issue) and further details of the calculations are shown in note 10 to the consolidated financial statements.

Basic earnings per share and adjusted earnings per share are also separately reported for each of the continuing operations and the discontinued operations. Details of how these are calculated are also provided in note 10.

Like-for-like amounts

Like-for-like amounts are derived by comparing the relevant year-to-date amount with the equivalent prior year amount for those businesses and individual operating units that have been part of the Group throughout both years.

Like-for-like revenue growth for the year ended 1 May 2021 is calculated by comparing the revenue for the current and comparative years, each adjusted as described above. The revenue of each segment is shown in note 2(a) to the financial statements. The reconciliation to the adjusted revenue figures for the purposes of calculating like-for-like revenue growth is shown below:

Year ended 1 May 2021		Reported revenue	Exclude effect of acquisitions	Exclude expired rail franchises	Like-for-like revenue
UK Bus (regional operations)	£m	662.0	(0.5)	–	661.5
UK Bus (London)	£m	261.7	–	–	261.7
UK Rail	£m	4.7	–	1.2	5.9

The £1.2m shown above in respect of expired rail franchises relates to an increase in the liability for customer refunds recorded in the year ended 1 May 2021.

Year ended 2 May 2020		Reported revenue	Exclude effect of acquisitions	Exclude expired rail franchises	Exclude week 53	Like-for-like revenue
UK Bus (regional operations)	£m	1,011.9	(0.5)	–	(8.8)	1,002.6
UK Bus (London)	£m	246.2	–	–	(4.5)	241.7
UK Rail	£m	161.1	–	(148.0)	(0.1)	13.0

Liquidity

References to liquidity mean the aggregate amount of cash and cash equivalents (net of bank overdrafts in bank offset arrangements), money market deposits and undrawn committed headroom under bank facilities, adjusted to exclude: (i) foreign currency bank and cash balances, (ii) petty cash balances, (iii) cash in transit and (iv) cash pledged as collateral in respect of liabilities for loan notes.

Operating profit

Operating profit for the Group as a whole is profit before non-operating separately disclosed items, finance costs, finance income, taxation and non-controlling interests. Operating profit of Group companies is operating profit on that basis, excluding the Group's share of joint ventures' profit/loss after taxation. Both total operating profit and operating profit of Group companies are shown on the face of the consolidated income statement.

Operating profit (or loss) for a particular business unit or segment within the Group refers to profit (or loss) before net finance income/costs, taxation, non-controlling interests, separately disclosed items and restructuring costs. The operating profit (or loss) for each segment is directly identifiable from note 2(b).

Adjusted operating profit

Adjusted operating profit for the Group as a whole is operating profit before all separately disclosed items as shown on the face of the consolidated income statement.

Note 34 Definitions (continued)

(a) Alternative performance measures (continued)

Operating margin

Operating margin for a particular business unit or segment within the Group means operating profit (or loss) as a percentage of revenue. The revenue and operating profit (or loss) for each segment is directly identifiable from notes 2(a) and 2(b). Where relevant, the revenue, operating profit (or loss) and operating margin for each segment are also shown on page 5 of this Annual Report.

Adjusted EBITDA

Adjusted EBITDA is earnings before interest, taxation, depreciation, software amortisation and separately disclosed items.

A reconciliation of adjusted EBITDA for the year ended 1 May 2021, and the comparative prior year, to the financial statements is shown in section 1.6.5 of this Annual Report.

Adjusted EBITDA from Group companies

Adjusted EBITDA from Group companies is earnings before interest, taxation, depreciation, software amortisation and separately disclosed items from Group companies (i.e. the parent company and all of its subsidiaries consolidated but excluding share of profit from joint ventures).

Adjusted EBITDA from Group companies is directly identifiable from note 29(a) to the financial statements.

Net finance costs

Net finance costs are finance costs less finance income, each as shown on the face of the consolidated income statement.

Adjusted net finance costs

Adjusted net finance costs are net finance costs (see above) excluding separately disclosed items.

Gross debt

Gross debt is borrowings as reported on the consolidated balance sheet, adjusted to exclude bank overdrafts, accrued interest on bonds and the effect of fair value hedges on the carrying value of borrowings.

The components of gross debt are shown in note 29(d) to the financial statements.

Net debt

Net debt (or net funds) is the net of cash/cash equivalents, bank overdrafts and gross debt (see above).

The components of net debt are shown in note 29(c) to the financial statements.

Net capital expenditure

Net capital expenditure is the impact of purchases, new leases, and sales of property, plant and equipment on net debt. Its reconciliation to the consolidated financial statements is explained in section 1.6.9 of this Annual Report.

(b) Other definition

The following other definition is also used in this document:

Separately disclosed items

Separately disclosed items means:
- Non-software intangible asset amortisation;
- Items which individually or, if of a similar type, in aggregate need to be separately disclosed by virtue of their nature, size or incidence in order to allow a proper understanding of the underlying financial performance of the Group; and
- Changes in the fair value of the Deferred Payment Instrument received in relation to the sale of the North America Division in April 2019.

Changes in the fair value of the Deferred Payment Instrument may occur in several consecutive financial years until the issuer of the instrument discharges it in full. The Deferred Payment Instrument is part of the consideration received for the sale of a business and it does not relate to the ongoing operating activities of the Group. The Directors therefore consider that it is helpful for understanding the Group's financial performance to disclose separately changes in the fair value of the Deferred Payment Instrument.

12. Separate financial statements of the parent company, Stagecoach Group plc

Company balance sheet

As at 1 May 2021

	Notes	2021 £m	2020 £m
ASSETS			
Non-current assets			
Property, plant and equipment			
– Owned assets	*3(a)*	**3.2**	3.3
– Right-of-use assets	*3(b)*	**3.8**	4.2
Investments	*4*	**1,042.0**	1,040.4
Deferred tax asset	*7*	**2.8**	3.1
Other receivables	*5*	**19.1**	–
Retirement benefit assets	*9*	**0.6**	–
Derivative instruments at fair value	*8*	**4.1**	–
		1,075.6	1,051.0
Current assets			
Other receivables	*5*	**18.0**	333.8
Current tax assets		**1.5**	–
Derivative instruments at fair value	*8*	**0.8**	2.9
Cash and cash equivalents		**427.2**	303.1
		447.5	639.8
Total assets		**1,523.1**	1,690.8
LIABILITIES			
Current liabilities			
Trade and other payables	*6*	**480.3**	409.2
Current tax liabilities		**–**	2.1
Derivative instruments at fair value	*8*	**7.8**	38.6
		488.1	449.9
Non-current liabilities			
Other payables	*6*	**408.7**	609.0
Derivative instruments at fair value	*8*	**4.3**	26.6
Retirement benefit obligations	*9*	**2.2**	6.1
		415.2	641.7
Total liabilities		**903.3**	1,091.6
Net assets		**619.8**	599.2
EQUITY			
Ordinary share capital	*10*	**3.2**	3.2
Share premium account	*11*	**8.4**	8.4
Retained earnings	*11*	**255.0**	234.4
Capital redemption reserve	*11*	**422.8**	422.8
Own shares	*11*	**(69.6)**	(69.6)
Total equity		**619.8**	599.2

In accordance with the concession granted under section 408 of the Companies Act 2006, the income statement and statement of comprehensive income of the Company have not been separately presented in these financial statements. The profit of the Company was £19.0m (2020: loss of £72.4m).

These financial statements were approved for issue by the Board of Directors on 30 June 2021. The accompanying notes form an integral part of this balance sheet.

Martin A Griffiths
Chief Executive

Ross Paterson
Finance Director

12. Separate financial statements of the parent company, Stagecoach Group plc (continued)

Company statement of changes in equity

	Ordinary share capital £m	Share premium account £m	Retained earnings £m	Capital redemption reserve £m	Own shares £m	Total equity £m
Balance at 27 April 2019	3.2	8.4	349.0	422.8	(39.4)	744.0
Loss for the year and total comprehensive expense	–	–	(72.4)	–	–	(72.4)
Own ordinary shares purchased	–	–	–	–	(30.2)	(30.2)
Cash paid to settle share based payments originally intended to be equity-settled	–	–	(0.5)	–	–	(0.5)
Credit in relation to equity-settled share based payments	–	–	0.9	–	–	0.9
Dividends paid on ordinary shares	–	–	(42.6)	–	–	(42.6)
Balance at 2 May 2020	3.2	8.4	234.4	422.8	(69.6)	599.2
Profit for the year and total comprehensive income	–	–	19.0	–	–	19.0
Credit in relation to equity-settled share based payments	–	–	1.6	–	–	1.6
Balance at 1 May 2021	**3.2**	**8.4**	**255.0**	**422.8**	**(69.6)**	**619.8**

Notes to the Company financial statements

Note 1 Parent company accounting policies

These financial statements are presented in respect of Stagecoach Group plc. Stagecoach Group plc is a public limited liability company limited by shares. It is incorporated, domiciled and has its registered office in Scotland. Its registered number is SC100764 and its registered address is 10 Dunkeld Road, Perth PH1 5TW.

The Company financial statements are prepared in accordance with Financial Reporting Standard 101, *Reduced Disclosure Framework* ("FRS 101").

(a) Basis of preparation

These financial statements have been prepared on a going concern basis and under the historical cost accounting convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) at fair value, in accordance with the Companies Act 2006.

In applying the going concern basis, the Directors recognised that the uncertainty caused by the COVID-19 pandemic for the Company and its subsidiaries required a higher level of judgement in assessing whether the Company is a going concern. Taking account of the COVID-19 situation, and other relevant factors, the Directors concluded that it remained appropriate to adopt the going concern basis of accounting in preparing the Company financial statements. The Directors have a reasonable expectation that the Company will continue to operate as a going concern for the duration of the going concern period, being the period to 29 October 2022.

The Strategic report in section 1 of this Annual Report includes information on the actions taken in response to the COVID-19 pandemic (including in section 1.3), the outlook for the Group (including in sections 1.3 and 1.7) and the Group's financial position and liquidity (including in section 1.6.10). Section 3.11 of this Annual Report provides additional information on the Directors' assessment of the Group's ability to continue as a going concern, and of its longer term viability. Section 5.4.1 of this Annual Report includes information on the Audit Committee's consideration of going concern, and the work and conclusionsof the Audit Committee in respect of that.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 ("FRS 100") issued by the Financial Reporting Council. The parent company financial statements have therefore been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 as issued by the Financial Reporting Council. The Company has taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate income statement and related notes. The Company has also taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate statement of other comprehensive income. The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46-52 of IFRS 2, *Share-based payments*
- IFRS 7, *Financial Instruments: Disclosures*
- Paragraphs 10(d), 10(f) and 134-136 of IAS 1, *Presentation of financial statements*
- IAS 7, *Statement of cash flows*
- Paragraphs 30 and 31 of IAS 8, *Accounting policies, changes in accounting estimates and errors*
- Paragraph 17 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 party to the transaction is wholly owned by such a member
- Paragraphs 91-99 of IFRS 13, *Fair Value Measurements*

(b) New accounting standards adopted during the year

No new accounting standards were adopted during the year.

(c) Critical accounting judgements and key source of estimation uncertainty

Preparation of the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101, requires directors to make judgements and estimates that affect the reported amounts in the Company financial statements and accompanying notes. The Directors believe that the key source of estimation uncertainty discussed below represent that requiring the greatest exercise of judgement.

The discussion below should be read in conjunction with the full statement of accounting policies.

(i) Judgements

Apart from those involving estimations (see (ii) below), the Directors do not consider there to be significant judgements involved in the process of applying the Company's accounting policies.

(ii) Key source of estimation uncertainty

The Directors consider the following to be the most significant source of estimation uncertainty. The Directors have used their best judgement in determining the estimates and assumptions used in this area but a different set of judgements could result in material changes to the Company's reported financial performance and/or financial position.

Carrying value of investments in subsidiary undertaking

The carrying value of the Company's investment in Stagecoach Transport Holdings Limited, a wholly owned subsidiary, was £1,042.0m as at 1 May 2021 (2020: £1,040.4m). Stagecoach Transport Holdings Limited holds investments in a number of businesses within the Group, including the UK regional bus business. The estimated value in use of the investment was £1,075.9m as at 1 May 2021 (2020: £1,056.2m) but alternative assumptions could result in an impairment loss.

The value in use of the Company's investment in Stagecoach Transport Holdings Limited is most sensitive to assumptions regarding the future financial performance of the Group's regional bus business, particularly given the forecasting uncertainty arising from the COVID-19 situation.

Further information on the estimation uncertainty, including sensitivity analyses, is provided in note 4 to the Company financial statements.

Note 1 IFRS accounting policies (continued)

(d) Intangible assets

Intangible assets, consisting of software, are shown at their original historic cost net of amortisation and any provision for impairment. Cost includes the original purchase price of the assets and costs attributable to bringing the asset to its working condition for its intended use.

Amortisation is charged on a straight-line basis over the estimated useful economic life of each asset, typically between 2 to 5 years.

The need for any impairment write-down is assessed by comparing the carrying value of the asset against the higher of net realisable value and value in use.

(e) Property, plant and equipment

Property, plant and equipment are shown at their original historic cost net of depreciation and any provision for impairment. Cost includes the original purchase price of the asset and 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 less estimated residual value of each asset on a straight-line basis over its estimated useful life (or lease term, if shorter), as follows:

Freehold buildings	50 years
IT and other equipment, furniture and fittings	3 to 10 years
Motor cars and other vehicles	3 to 5 years

The need for any impairment is assessed by comparing the carrying value of the asset against the higher of net realisable value and value in use.

(f) Leases

The Company leases company cars, vans and other vehicles not for passenger service.

For contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration, the Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying asset.

Contracts can contain lease and non-lease components. For all current motor vehicle leases, the Company has elected not to separate lease and non-lease components but instead accounts for these as a single lease component.

Lease terms are negotiated lease by lease resulting in a wide range of terms and conditions. The lease agreements do not generally impose any financial covenants. The principal restriction on assets held under lease or hire purchase agreements is a restriction on the right to dispose of the assets during the period of the agreement.

Measurement of lease liabilities

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed lease payments, less any lease incentives receivable.

There are no leases with any form of variable payment.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:
- uses recent third party financing received by it as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- makes adjustments to the rate to reflect the terms and conditions specific to the lease. These will include adjustment for items such as the lease term and the right-of-use asset being leased.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability.

Right-of-use assets are generally depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term.

(g) Investments

Investments in subsidiary undertakings are stated at cost, less provision for impairment.

(h) Taxation

Tax, current and deferred, is calculated using tax rates and laws enacted or substantively enacted at the balance sheet date.

Corporation tax is provided on taxable profit at the current rate applicable. Tax charges and credits are accounted for through the same primary statement as the related pre-tax item.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is measured at tax rates that are expected to apply in periods in which the temporary differences reverse based on tax rates and law enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Notes to the Company financial statements (continued)

Note 1 IFRS accounting policies (continued)

(h) Taxation (continued)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Management estimates amounts relating to uncertain tax treatments based on the applicable law and regulations, historic outcomes of similar matters, independent specialist advice and consideration of the progress on, and nature of, current discussions with the tax authorities. Where management determines that a greater than 50% probability exists that the tax authorities would accept the position taken in the tax return, amounts are recognised in the financial statements on that basis. Where the amount of tax payable or recoverable is uncertain, the Group recognises a liability or asset based on either: management's judgement of the most likely outcome; or, when there is a wide range of possible outcomes, a probability weighted average approach.

(i) Foreign currencies

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. Foreign currency monetary assets and liabilities are retranslated into sterling at the rates of exchange ruling at the year end. Any exchange differences so arising are dealt with through the income statement.

For the principal rates of exchange used, see note 1(p) to the consolidated financial statements.

(j) Share based payments

The Company issues equity-settled and cash-settled share based payments to certain employees of its subsidiary companies.

Share based payment awards made by the Company to employees of its subsidiary companies are recognised in the Company's financial statements as an increase in its investments in subsidiary undertakings rather than as an expense in the income statement to the extent that the amount is not recharged to each subsidiary company.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense (or as an increase in investments in subsidiary undertakings) over the vesting period. In valuing equity-settled transactions, no account is taken of any non-market based vesting conditions and no expense or investment is recognised for awards that do not ultimately vest as a result of a failure to satisfy a non-market based vesting condition. None of the Company's equity-settled transactions have any market based performance conditions.

Fair value for equity-settled share based payments is determinable from the Company's quoted share price at the time of the award.

At each balance sheet date, before vesting, the cumulative expense or investment is calculated based on management's best estimate of the number of equity instruments that will ultimately vest taking into consideration the likelihood of achieving non-market based vesting conditions.

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market based performance conditions are taken into account when determining fair value. At each balance sheet date, the liability recognised is based on the fair value of outstanding awards (ignoring non-market based vesting conditions) at the balance sheet date, the period that fell prior to the balance sheet date and management's estimate of the likelihood and extent of non-market based vesting conditions being achieved.

Changes in the carrying amount of the liability are recognised in the income statement for the period. Fair value for cash-settled share based payments relating to the Long Term Incentive Plan is estimated by use of a simulation model.

Choice of settlement

The Company can choose to settle awards under the Executive Participation Plan in either cash or equity, although it currently expects to settle all such outstanding awards in equity. The awards under the Plan can also be structured as deferred shares or share options with a zero exercise price. The Company intends the awards to operate in substance as deferred shares such that, subject to fulfilling the service condition, each participant receives actual shares on the applicable vesting date.

Awards under the Executive Participation Plan are accounted for as equity-settled transactions (see above).

(k) Dividends

Dividends on ordinary shares are recorded in the financial statements in the period in which they are approved by the Company's shareholders, or in the case of interim dividends, in the period in which they are paid.

(l) Financial instruments

Financial instruments are accounted for in accordance with IFRS 9 "Financial Instruments", and IFRS 7 "Financial instruments: Disclosures" which is the same as the accounting policy for the Group. Therefore, for details of the Company's accounting policy for financial instruments, refer to note 1(ab) to the consolidated financial statements.

The Company holds derivative financial instruments that hedge financial risks of the Group as a whole and to which hedge accounting is applied in the consolidated financial statements. Interest rate derivatives that are accounted as fair value hedges in the consolidated financial statements are accounted for in the same manner in the Company financial statements. However, all fuel derivatives are accounted for in the Company financial statements at fair value through profit or loss.

(m) Investment in own shares

Own shares held in treasury by the Company are classified as deductions from equity.

Notes to the Company financial statements (continued)

Note 1 IFRS accounting policies (continued)

(n) Retirement benefit obligations

The Company is the "principal employer" of the main section of the Stagecoach Group Pension Scheme ("SPS"). Where other participating employers are unable to meet their liabilities to the SPS, the Company is liable for the remaining liabilities. No liability has been recognised in the Company's financial statements for that as the participating employers are expected to meet their liabilities to SPS. The Company provides benefits to certain employees of subsidiary undertakings under an unapproved employer financed retirement benefit scheme in the UK. The liability of this scheme is unfunded, as no contributions are made to the scheme, but the Company has set aside assets to meet its obligations under the scheme. The scheme holds a guarantee over assets which the Company has set aside. The Company considers that the assets set aside are in substance pension assets and so the amounts of those assets are included within the net pension amounts reported in the Company balance sheet.

The Company is not liable for a share in any of the other funded Group defined benefit schemes that are disclosed in note 24 to the consolidated financial statements. It does have unfunded liabilities in respect of former employees and these are reflected in the balance sheet.

Note 2 Intangible assets

The movements in intangible assets were as follows:

	2021 £m	2020 £m
Cost		
At beginning of year	**–**	0.7
Disposals	**–**	(0.7)
At end of year	**–**	–
Accumulated amortisation		
At beginning of year	**–**	(0.7)
Disposals	**–**	0.7
At end of year	**–**	–
Net book value at beginning and end of year	**–**	–

Note 3 Property, plant and equipment

(a) Owned assets

The movements in owned property, plant and equipment were as follows:

	Land & Buildings 2021 £m	**Other plant & equipment 2021 £m**	**Total 2021 £m**
Cost			
At beginning and end of year	**3.2**	**1.4**	**4.6**
Depreciation			
At beginning of year	**–**	**(1.3)**	**(1.3)**
Depreciation charged to income statement	**–**	**(0.1)**	**(0.1)**
At end of year	**–**	**(1.4)**	**(1.4)**
Net book value at beginning of year	**3.2**	**0.1**	**3.3**
Net book value at end of year	**3.2**	**–**	**3.2**

Notes to the Company financial statements (continued)

Note 3 Property, plant and equipment (continued)

(b) Leases

(i) Movements in right-of-use assets

The movements in right-of-use assets were as follows:

	Other plant & equipment 2021 £m
Cost	
At beginning of year	**6.0**
Additions	**1.7**
Disposals	**(1.0)**
At end of year	**6.7**
Depreciation	
At beginning of year	**(1.8)**
Depreciation charged to income statement	**(1.9)**
Disposals	**0.8**
At end of year	**(2.9)**
Net book value at beginning of year	**4.2**
Net book value at end of year	**3.8**

(ii) Lease liabilities

	2021 £m	2020 £m
Current	**1.7**	1.8
Non-current	**2.1**	2.3
	3.8	4.1

(iii) Amounts recognised in the income statement

The income statement includes the following depreciation charges and other costs relating to leases:

	2021 £m	2020 £m
Depreciation on right-of-use assets	**1.9**	2.1
Expenses relating to short-term leases	**–**	0.1
Expenses relating to leases of low-value assets	**–**	0.1
Lease costs included within operating profit	**1.9**	2.3
Interest expense included in finance costs	**0.1**	0.1
Lease costs included within profit before tax	**2.0**	2.4

(iv) Amounts recognised in statement of cash flows

Cash flows for leases were:

	2021 £m	2020 £m
Total cash outflow for leases	**1.8**	2.5

Note 4 Investments

The movements in investments were as follows:

	Subsidiary undertakings	
	2021 £m	2020 £m
Cost and net book value		
At beginning of year	**1,040.4**	1,039.5
Additions	**1.6**	0.9
At end of year	**1,042.0**	1,040.4

The carrying value of the Company's investment in Stagecoach Transport Holdings Limited, a wholly owned subsidiary, was £1,042.0m as at 1 May 2021 (2020: £1,040.4m). Stagecoach Transport Holdings Limited holds investments in a number of businesses within the Group, including the UK regional bus business. The estimated value in use of the investment was £1,075.9m (2020: £1,056.2m) as at 1 May 2021 but alternative assumptions could result in an impairment loss.

The value in use of the Company's investment in Stagecoach Transport Holdings Limited is most sensitive to assumptions regarding the future financial performance of the Group's regional bus business, particularly given the forecasting uncertainty arising from the COVID-19 situation.

Note 4 Investments (continued)

Our base case forecast for the regional bus business assumes that vehicle mileage, a key driver of operating costs, is 95% of pre-COVID levels for the year ending 30 April 2022. It also assumes that regional bus commercial revenue returns to 80% of pre-COVID levels in the year ending 30 April 2022, reflecting the assumed return in patronage as the country emerges from the COVID-19 pandemic. Concessionary revenue for the year ending 30 April 2022 is forecast at 90% of pre-COVID levels. We have discounted our cash flow projections using a pre-tax discount rate of 9.1%, and a growth rate of 2.3% per annum is used to extrapolate cash flows beyond management's base forecasting period.

As at 1 May 2021, the value in use of the investment exceeded its carrying amount by £33.9m (2020: £15.8m). Our sensitivity analysis indicates that this headroom would be eliminated if the assumed regional bus revenue over the forecasting period was 1.1% (2020: 0.4%) lower, the assumed regional bus costs over the forecasting period were 1.2% (2020: 0.4%) higher, the assumed regional bus long-term growth rate fell by more than 35 basis points (2020: 14 basis points), or if the discount rate applied to the regional bus forecast was to increase by more than 25 basis points (2020: 10 basis points).

Note 5 Other receivables

Other receivables were as follows:

	2021 £m	2020 £m
Non-current:		
Amounts owed by Group undertakings	**70.9**	–
Less: provision for impairment	**(51.8)**	–
Amounts owed by Group undertakings – net	**19.1**	–
Current:		
Amounts owed by Group undertakings	**10.8**	375.4
Less: provision for impairment	**–**	(53.8)
Amounts owed by Group undertakings – net	**10.8**	321.6
Other receivables	**6.8**	12.1
Prepayments and accrued income	**0.4**	0.1
	18.0	333.8

Of amounts owed by Group undertakings, £61.7m (2020: £109.3m) accrue no interest and are repayable on demand. The remaining £20.0m (2020: £266.1m) owed by Group undertakings accrue interest at 2.5% per annum (2020: 6 month LIBOR plus a margin of 3.5%). These are all repayable on demand.

Note 6 Payables

Trade and other payables were as follows:

	2021 £m	2020 £m
Current:		
Bank overdraft	**–**	123.0
Loan notes	**17.4**	17.5
Covid Corporate Financing Facility	**298.4**	–
Amounts owed to Group undertakings	**160.0**	252.5
Accruals and deferred income	**2.8**	3.4
Lease liabilities	**1.7**	1.8
Loan from joint venture	**–**	11.0
	480.3	409.2
Non-current:		
Sterling 4.00% Notes	**406.6**	406.7
Lease liabilities	**2.1**	2.3
Bank loans	**–**	200.0
	408.7	609.0

Of amounts owed to Group undertakings, £51.7m (2020: £18.3m) accrue no interest and are repayable on demand. The remaining £108.3m owed to Group undertakings (2020: £234.2m) accrue interest at various rates: 3-6 month LIBOR rates plus margins of Nil to 1.5% or two-weekly bank deposit rates (2020: LIBOR rates plus margins of Nil to 1.0%, bank base rate plus a margin of 1.5% or, two-weekly bank deposit rates). These are all repayable on demand.

Notes to the Company financial statements (continued)

Note 6 Payables (continued)

Borrowings are repayable as follows:

	2021 £m	2020 £m
On demand or within 1 year		
Bank overdraft	–	123.0
Lease liabilities	1.7	1.8
Loan notes	17.4	17.5
Covid Corporate Financing Facility	298.4	–
Repayable after 2 years, but within 5 years		
Bank loans	–	200.0
Lease liabilities	2.1	2.3
Sterling 4.00% Notes	406.6	–
Repayable after 5 years		
Sterling 4.00% Notes	–	406.7
Total borrowings	726.2	751.3

Note 7 Deferred tax

The movement in the deferred tax asset during the year was as follows:

	2021 £m	2020 £m
At beginning of year	3.1	2.5
(Charge)/credit to the income statement	(0.3)	0.6
At end of year	2.8	3.1

Deferred taxation is analysed as follows:

	2021 £m	2020 £m
Pension temporary differences	0.3	1.2
Accelerated capital allowances	0.1	0.1
Other temporary differences	2.4	1.8
At end of year	2.8	3.1

Gross deductible temporary differences of £42.6m (2020: £16.1m) have been recognised as it is probable that sufficient taxable profit will be available in the future to utilise these and there is no restriction on their use.

Note 8 Derivative financial instruments

The fair values of derivative financial instruments, none of which are intra-Group, are set out below:

	2021 £m	2020 £m
Non-current assets		
Fuel derivatives	4.1	–
Current assets		
Fuel derivatives	0.8	2.9
Current liabilities		
Interest rate derivatives	(0.3)	–
Fuel derivatives	(7.5)	(38.6)
	(7.8)	(38.6)
Non-current liabilities		
Interest rate derivatives	(0.6)	–
Fuel derivatives	(3.7)	(26.6)
	(4.3)	(26.6)

The Company previously held derivative financial instruments with bank counterparties that were accounted for in the consolidated financial statements as cash flow hedges in respect of anticipated fuel consumption by the Group's North America business. When the Group sold that business on 16 April 2019, hedge accounting was discontinued in the consolidated financial statements. Following the sale, the Company continued to hold the derivative financial instruments that were in place at the date of sale in respect of the North America business. As part of the sale, the Company entered into a contractual agreement with the Group's now former North America business that contained an embedded derivative intended to offset the derivative financial instruments held with the bank counterparties. With effect from 16 April 2019 until their expiry in February 2021, both the derivative financial instruments held with bank counterparties and the embedded derivative were accounted for at fair value through profit or loss – there was no net gain or loss arising from that arrangement. The fair value of the relevant derivative financial instruments held with the bank counterparties was a liability of £5.8m as at 2 May 2020 and is included in the amounts shown in the table above. The fair value of the embedded derivative was an asset of £5.8m as at 2 May 2020 and is included in other receivables.

Notes to the Company financial statements (continued)

Note 9 Retirement benefit obligations

	2021 £m	2020 £m
Retirement benefit asset	**0.6**	–
Retirement benefit obligations	**(2.2)**	(6.1)
	(1.6)	(6.1)

The Company no longer has any employees but has retirement benefit assets and liabilities in respect of former employees and current employees of subsidiary undertakings, which are shown above. See note 1(o) to the Company financial statements and note 24 to the consolidated financial statements for more details on retirement benefits.

Note 10 Share capital

Information on share capital is provided in note 26 to the consolidated financial statements.

Note 11 Equity reserves

The profit of £19.0m (2020: loss of £72.4m) shown in the statement of changes in equity is consolidated in the results of the Group. There were no dividends paid, declared or proposed during the year to 1 May 2021.

The retained earnings are distributable but the amount available for distribution under the Companies Act 2006 by reference to these financial statements is reduced by the own shares reserve of £69.6m (2020: £69.6m). The other components of equity shown in the statement of changes in equity are not distributable.

The remuneration of the Directors is borne by other Group companies and is detailed in section 8 of this Annual Report. The remuneration of the auditors is shown in note 3 to the consolidated financial statements.

Note 12 Share based payments

For details of share based payment awards and fair values, see note 27 to the consolidated financial statements. The Company accounts for the equity-settled share based payment charge for the year of £1.6m (2020: £0.9m) by recording an increase to its investment in subsidiaries for this amount and recording a corresponding entry to retained earnings to reflect the fact that the Company has no employees (2020: none) and all share based payment awards are to employees of subsidiary companies. The Company accounts for the cash-settled share based payment credit for the year of £0.7m (2020: charge of £0.5m) by recording an adjustment to the liability for this amount and recording a corresponding entry as a charge through the income statement. The cash-settled share based payment charge is recharged in full to subsidiary companies and the recharge income and related expense are both included in the income statement.

Note 13 Guarantees, other financial commitments and contingent liabilities

(a) Guarantees

The Company has provided certain guarantees and indemnities to third parties in respect of liabilities and obligations of its subsidiary companies. Not all of those guarantees are subject to a specified monetary limit and they include performance guarantees in respect of subsidiaries' performance under certain contracts, including contracts with Transport for London to provide bus services. In light of that, it is not possible to determine the Company's maximum liability under the guarantees, although the Company currently does not expect to incur any liability in respect of those guarantees. The Company estimates that it could be liable for up to £222.3m (2020: £149.0m) in relation to guarantees of subsidiaries' obligations in respect of insurance/claims, local government pension schemes, payment processing arrangements and leases. Of that, £101.9m (2020: £92.7m) is included as liabilities in the consolidated financial statements.

The Company is also party to cross-guarantees whereby the bank overdrafts and Value Added Tax liabilities of it and certain of its subsidiaries are cross-guaranteed by it and all of the relevant subsidiaries.

None of the above contingent liabilities of the Company are expected to crystallise.

The Company may be found to be liable for some of the legal liabilities referred to in note 30(iii) to the consolidated financial statements.

(b) Capital commitments

Capital commitments (where the Company has contracted to acquire assets on behalf of its subsidiaries) are as follows:

	2021 £m	2020 £m
Contracted for but not provided:		
For delivery in one year	**22.8**	16.5

Note 14 Related party transactions

The Company has taken advantage of the exemption under FRS 101 from disclosing related party transactions entered into between two or more members of a group. Related party disclosures provided by the Group can be found in note 32 to the consolidated financial statements.

Note 15 Employees

The Company has no (2020: none) employees. The Company's directors and some other head office personnel are employed by a subsidiary company, Stagecoach Holdings Limited.

13. Subsidiary and related undertakings

The Company owns the following subsidiary and related undertakings. The Company indirectly owns 100% of each undertaking through its holding of the stated class or classes of share or other interest unless otherwise stated.

Company	Country of registration	Class of shares/other interest	Registered office address
A.1. Service Limited	Scotland	Limited by guarantee	Perth
AA Buses Limited	Scotland	Ordinary shares	Perth
Aberdare Bus Company Limited	England	Ordinary shares	Stockport
Bayline Limited	England	Ordinary shares	Stockport
Bluebird Buses Limited	Scotland	Ordinary shares	Perth
Busways Travel Services (1986) Limited	England	Ordinary shares	Stockport
Busways Travel Services Limited	England	Ordinary shares and Ordinary-A shares	Stockport
Busways Trustee (No.1) Limited	England	Ordinary shares	Stockport
Busways Trustee (No.2) Limited	England	Ordinary shares	Stockport
Cambus Limited	England	Ordinary shares	Stockport
Cheltenham and Gloucester Omnibus Company Limited	England	Ordinary and Preference shares	Stockport
Cheltenham District Traction Company Limited	England	Ordinary shares	Stockport
Chesterfield Transport (1989) Limited	England	Ordinary shares	Stockport
Chesterfield Transport E.B.T. (Number 2) Limited	England	Ordinary shares	Stockport
Chesterfield Transport Limited	England	Ordinary shares	Stockport
Chesterfield Transport PST Limited	England	Ordinary shares	Stockport
Cleveland Transit Limited	England	Ordinary shares	Stockport
Cleveland Transit Trustee (No.1) Ltd	England	Ordinary shares	Stockport
Crown Sightseeing Limited (33.3%)	England	Ordinary shares	London 2
Cumberland Motor Services Limited	England	Ordinary shares	Stockport
Devon General Limited	England	Ordinary shares	Stockport
East Coast Main Line Company Limited (90%)	England	Ordinary shares	Stockport
East Kent Road Car Company Limited	England	Ordinary shares	Stockport
East London Bus and Coach Company Limited	England	Ordinary shares	Stockport
East London Bus Group Property Investments Limited	England	Ordinary shares	Stockport
East London Bus Ltd.	England	Ordinary shares	Stockport
East Midlands Trains Limited	England	Ordinary shares	Stockport
Fife Scottish Omnibuses Limited	Scotland	Ordinary shares	Perth
Formia Limited	England	Ordinary shares	Stockport
Frenchwood Holdings Limited	England	Ordinary shares	Stockport
G&G Travel Limited	England	Ordinary shares	Stockport
Glenvale Transport Limited	England	Ordinary shares	Stockport
Glossopdale Bus Company Limited	England	Ordinary shares	Stockport
GM Buses South (E.B.T.) Limited	England	Ordinary shares	Stockport
Go West Travel Limited	England	Ordinary shares	Stockport
Greater Manchester Buses South Limited	England	Ordinary shares	Stockport
Grimsby Cleethorpes Transport Company Limited	England	Ordinary shares	Stockport
Halliday-Hartle Travel (1988) Limited	England	Ordinary shares	Stockport
Hartlepool Transport (1993) Limited	England	Ordinary B and Preference shares	Stockport
Hartlepool Transport Limited	England	Ordinary shares	Stockport
Hastings and District Transport Limited	England	Ordinary shares	Stockport
Highland Country Buses Limited	Scotland	Ordinary shares	Perth
Inter City Railways Limited (90%)	England	A shares	Stockport
JW Coaches Limited	Scotland	Ordinary shares	Perth
KHCT (ESOP) Limited	England	Ordinary shares	Stockport
KHCT (Holdings) Limited	England	Ordinary shares	Stockport
Kingston Upon Hull City Transport Limited	England	Ordinary shares	Stockport
Lincoln City Transport Limited	England	Ordinary shares	Stockport
Lincolnshire Road Car Company Limited	England	Ordinary shares	Stockport
Megabus.com (UK) Limited	England	Ordinary shares	Stockport
Megabus.com SAS	France	Ordinary shares	Paris
Megacity Limited (35%)	Scotland	Ordinary shares	Glasgow
Midland Red (South) Limited	England	Ordinary shares	Stockport
Nicecon Limited (50%)	Scotland	Ordinary shares	Aberdeen
P. Phythian and Son Limited	England	Ordinary shares	Stockport
Parfitts Motor Services Limited	England	Ordinary shares	Stockport
Planet Coach BVBA	Belgium	Ordinary shares	Brussel
Planet Coach GmbH	Germany	Common stock	Munchen
Precis (1628) Limited	England	Ordinary shares	Stockport
PSV Claims Bureau Limited	England	Ordinary shares	Stockport
Red & White Services Limited	England	Ordinary shares	Stockport
Redstar Ticketing Limited (49%)	England	Ordinary shares	London
Rhondda Buses Limited	England	Ordinary shares	Stockport
Rhondda Valley Buses Limited	England	Ordinary shares	Stockport
Ribble Motor Services Limited	England	Ordinary shares	Stockport
RTI Stagecoach Limited	England	Ordinary A shares, Ordinary B shares and preference shares	Stockport
SCOTO Limited	England	Ordinary shares	Stockport
SCOTO US Subsidiary Limited LLC	United States	LLC Units	Wilmington

13. Subsidiary and related undertakings (continued)

Company	Country of registration	Class of shares/other interest	Registered office address
Scottish Citylink Coaches Limited (35%)	Scotland	Ordinary shares	Glasgow
SCUSI Limited	England	Ordinary A and B shares	Stockport
SCUSI US Subsidiary Limited LLC	United States	LLC Units	Wilmington
Sharpton Limited	England	Ordinary shares	Stockport
South East London & Kent Bus Company Limited	England	Ordinary shares	Stockport
South Yorkshire Supertram Limited	England	Ordinary shares	Stockport
South Yorkshire Supertram Operating Company Limited	England	Ordinary shares	Stockport
Southdown Motor Services Limited	England	Ordinary shares	Stockport
Stagecoach (North West) Limited	England	Ordinary shares	Stockport
Stagecoach (South) Limited	England	Ordinary shares	Stockport
Stagecoach Bus Holdings Limited	Scotland	Ordinary shares	Perth
Stagecoach Devon Limited	England	Ordinary shares	Stockport
Stagecoach Glasgow Limited	Scotland	Ordinary shares	Perth
Stagecoach Holdings Limited	Scotland	Ordinary shares	Perth
Stage-coach International Services Limited	Scotland	Ordinary shares	Perth
Stagecoach East Midlands Trains Limited	England	Ordinary shares	Stockport
Stagecoach QUEST Trustee Limited	Scotland	Ordinary shares	Perth
Stagecoach Rail Holdings Limited	Scotland	Ordinary shares	Perth
Stagecoach Rail Operations Limited	England	Ordinary shares	Stockport
Stagecoach Rail Projects Limited	England	Ordinary shares	Stockport
Stagecoach Rail Replacement (East) Limited	England	Ordinary shares	Stockport
Stagecoach Rail Replacement Limited	England	Ordinary shares	Stockport
Stagecoach (Scotland) Limited	Scotland	Ordinary shares	Perth
Stagecoach Services Limited	England	Ordinary shares	Stockport
Stagecoach South Eastern Trains Limited	England	Ordinary shares	Stockport
Stagecoach South West Limited	England	Ordinary shares	Stockport
Stagecoach South Western Trains Limited	England	Ordinary shares	Stockport
Stagecoach Supertram Maintenance Limited	England	Ordinary shares	Stockport
Stagecoach Sweden AB	Sweden	Ordinary shares	Stockholm
Stagecoach Technology Limited	Scotland	Ordinary shares	Perth
Stagecoach West Coast Trains Ltd	England	Ordinary shares	Stockport
Stagecoach Transport Holdings Limited*	Scotland	Ordinary shares	Perth
SuperCAM Limited	England	A and B shares	Stockport
Swindon and District Bus Company Limited	England	Ordinary shares	Stockport
Tanport Limited	England	Ordinary shares	Stockport
Tees Valley Limited	England	Ordinary and A-Ordinary shares	Stockport
Thames Transit Limited	England	Ordinary shares	Stockport
The Barnsley & District Traction Company Limited	England	Ordinary shares	Stockport
The Mexborough and Swinton Traction Company Limited	England	Ordinary shares	Stockport
The Valleys Bus Company Limited	England	Ordinary shares	Stockport
The Yorkshire Traction Company (Trustee) Limited	England	Ordinary shares	Stockport
The Yorkshire Traction Company Limited	England	Ordinary shares	Stockport
The Yorkshire Traction Group (LLCS) Limited	England	Limited by guarantee	Stockport
Transit Advertising Ltd	England	Ordinary shares	Stockport
Tyne and Wear Omnibus Company Limited	England	Ordinary shares	Stockport
United Counties Omnibus Company Limited	England	Ordinary shares	Stockport
WCT Group Holdings Limited (49%)	England	Common stock B shares	London
WCT Group Limited (49%)	England	Ordinary and Preference shares	London
WCT Sales Limited (49%)	England	Ordinary shares	London
Welcome Passenger Transport Limited	England	Ordinary shares	Stockport
West Coast Partnership Limited (50%)	England	Ordinary shares	Stockport
West Coast Trains Limited (49%)	England	Ordinary shares	London
West Coast Trains Partnership Limited (50%)	England	Ordinary shares	Stockport
West Sussex Buses Limited	England	Ordinary shares	Stockport
Western Buses Limited	England	Ordinary shares	Stockport
Whites World Travel Limited	England	Ordinary shares	Stockport

* Companies are directly held by Stagecoach Group plc

13. Subsidiary and related undertakings (continued)

All subsidiary undertakings are included in the consolidated financial statements.

Registered office	Registered office address
Perth	10 Dunkeld Road, Perth PH1 5TW
Stockport	c/o Stagecoach Services Limited, One Stockport Exchange, 20 Railway Road, Stockport SK1 3SW
Paris	34 Avenue des Champs Elysees, 75008, Paris
Glasgow	Buchanan Bus Station, Killermont Street, Glasgow G2 3NP
Aberdeen	395 King Street, Aberdeen AB24 5RP
Brussel	Koningsstraat 97, 1000 Brussel
Munchen	Prinzregentenstrasse 48, c/o Heuking Kuhn Luer Wojtek, 80538 Munchen
Wilmington	1209 Orange Street, Wilmington, DE 19801
London	The Battleship Building, 179 Harrow Road, London W2 6NB
London 2	120 Southampton Row, London, England, WC1B 5AB
Stockholm	c/o Advokatfirman Vinge KB, PO Box 1703, 111 87 Stockholm

14. Shareholder information

Shareholder enquiries

Link Group
Stagecoach Group Share Register
10th Floor
Central Square
29 Wellington Street
LEEDS
LS1 4DL

Telephone: +44 (0)371 664 0443 (Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. Lines are open 9.00am to 5.30pm, Monday to Friday excluding public holidays in England and Wales.)
Email: StagecoachGroup@linkgroup.co.uk.

Online share administration

You can access your share account online using the Signal Shares share portal service at www.signalshares.com. You will need your Investor Code, which is shown on shareholder correspondence, in order to register to use the portal.

Registering your account is quick and easy and you will immediately be able to benefit from the full range of services available on the share portal, including:

- updating your personal details;
- adding a mandate to receive dividends direct to your bank account;
- reinvesting dividends to buy more shares;
- registering proxy votes online; and
- buying and selling shares.

Using the online share portal reduces the need for paperwork and provides 24 hour access.

Share dealing facilities

Execution only share dealing services are available to enable Stagecoach shareholders to buy and sell shares by phone or online. Phone and online dealing services are provided by Link Share Dealing Services and offer a quick and easy way to buy and sell shares at latest market prices. To use these services register for online share administration as above and choose the option to buy and sell shares. Alternatively, go to www.linksharedeal.com or call +44 (0)371 664 0364 (Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate. Lines are open 8.00am to 4.30pm, Monday to Friday excluding public holidays in England and Wales). Please have your share certificate to hand when you log-in or call.

Dividend re-investment plan

The Company operates a Dividend Re-Investment Plan which allows a shareholder's cash dividend to be used to buy Stagecoach shares. Shareholders can opt to reinvest dividends using the online share administration services referred to above. Shareholders who would like further information should telephone the Company's registrars, Link Asset Services, on +44 (0)371 664 0443 (Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. Lines are open 9.00am to 5.30pm, Monday to Friday excluding public holidays in England and Wales), or email StagecoachGroup@linkgroup.co.uk.

Share fraud warning

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or are offered an inflated price for shares they own.

To find out more about these "boiler room scams", or how to report a potential scam, visit the Financial Conduct Authority website at www.fca.org.uk/consumers/scams/investment-scams/

INVESTMENT SCAMS ARE OFTEN SOPHISTICATED AND DIFFICULT TO SPOT

How to avoid investment and pension scams

1. Reject unexpected offers

Scammers usually cold call, but contact can also come by email, post, word of mouth or at a seminar. If you've been offered an investment out of the blue, chances are it's a high risk investment or a scam.

2. Check the FCA Warning List

Use the FCA Warning List to check the risks of a potential investment – you can also search to see if the firm is known to be operating without Financial Conduct Authority authorisation.

3. Get impartial advice

Get impartial advice before investing – don't use an adviser from the firm that contacted you.

If you're suspicious, report it

You can report a firm or scam to the Financial Conduct Authority on 0800 111 6768 or through www.fca.org.uk/scamsmart. If you've lost money in a scam, contact Action Fraud on 0300 123 2040 or www.actionfraud.police.uk

Corporate information and calendar

Corporate Information

Company Secretary
Mike Vaux

Registered Office
10 Dunkeld Road
Perth PH1 5TW

Telephone +44 (0) 1738 442 111
Facsimile +44 (0) 1738 447 588

Email info@stagecoachgroup.com

Company Number
SC100764

Calendar

Annual General Meeting
3 September 2021

www.stagecoachgroup.com

Registered Office:
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T: 01738 442111 | F: 01738 447588 | E: info@stagecoachgroup.com

Registered in Scotland | Number: SC100764

Notes

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