

## **London General Transport Services Limited (the “Company”)**

The following Section 172(1) Statement and Corporate Governance Report have been extracted from pages 3 to 12 of the Company’s Annual Report and Financial Statements for the year ended 27 June 2020.

### **Section 172 of the Companies Act 2006**

This report sets out how the directors comply with the requirements of Section 172 of the Companies Act 2006 and how these requirements have impacted the Board’s decision making throughout the year ended 27 June 2020.

#### **The role of the board and how it operates**

The board is responsible for creating and delivering long term sustainable value for the business. The board is accountable for balancing the varying interests of the business, including those of its parent The Go-Ahead Group plc (the Group), colleagues, customers and the communities it serves.

The composition of the board and how it operates is set out under Principle Two (Board Composition) of our Corporate Governance Report on pages 8 to 12 of the Company’s 2020 Annual Report and Financial Statements (pages 5 to 9 of this document).

#### **Board Governance**

The Board has chosen to apply the Wates Corporate Governance Principles for Large Private Companies for the year ended 27 June 2020. These principles provide a code of corporate governance for large private companies to raise awareness of good practice and over time to help to improve standards of corporate governance. They also support directors to meet the requirements of Section 172 of the Companies Act 2006 by providing guidance on the following areas:

- Purpose and leadership;
- Board Composition;
- Director responsibilities;
- Opportunity and risk;
- Remuneration; and
- Stakeholders.

The Corporate Governance Report, which evidences how the Company applies the principles, is included on pages 8 to 12 of the Company’s 2020 Annual Report and Financial Statements (pages 5 to 9 of this document). It is also available on the Company’s website at [goaheadlondon.com](http://goaheadlondon.com).

#### **Compliance with section 172(1) of the Companies Act 2006**

The directors confirm that, during the year, they continued to promote the success of the Company for the benefit of all stakeholders. In doing so, the Board’s desire to act fairly for its parent, maintain a reputation for high standards of business conduct, and consider the long-term consequences of the decisions they take, have underpinned the way it operates at every level of the business. Further details are set out in the following table:

Section 172	Compliance
<p>a. The likely consequence of any decision in the long term;</p> <p>and</p> <p>b. The desirability of the company maintaining a reputation for high standards of business conduct.</p>	<p>At London General Transport Services, actively listening to and engaging effectively with our wide variety of stakeholders is key to ensuring responsible decisions are made. We appreciate the need to ensure that the decisions we take create value for all our stakeholders and support creation of long-term sustainable value so that, ultimately, we can continue to be a vital part of the communities we serve.</p> <p>The Group's devolved management operating model is a key feature of the Board's decision-making process, with the Group executive directors acting as an intermediary and ensuring there is two-way feedback between the Group Board and Company Board. In line with this approach, the viability of a number of principal decisions (for example, acquisitions, disposals and major capital investments) will first be considered at our Company Board meetings. If approved, the Group executive directors will then submit a proposal to the Group Board. This process supports the Board performing its duties in compliance with the matters set out in paragraphs a-f of section 172 of the Companies Act 2006.</p> <p>The directors take the reputation of the Company seriously which is not limited to only operational and financial performance. The strong reputation and positive stakeholder relationships we have developed over many years have never been more important than during the COVID-19 pandemic. We have worked closely and collaboratively with key industry partners, such as Transport for London, Trade Unions and suppliers to find solutions which ensure that service provision remains at the right level, government policy is brought into effect, and transport operators receive funding to enable essential services to be delivered.</p> <p>The directors are committed to the highest standards of ethical conduct, honesty and integrity in our business practices. The Board seeks to have a workforce that more accurately reflects diversity of the communities we serve. 49% of our colleagues are from a Black, Asian, Minority Ethnic (BAME) background. During the year, we have seen the positive impact our inclusion and diversity initiatives can have providing an inclusive environment to our workforce, with our graduate and apprenticeship schemes notably bringing more ethnic and gender diversity into the business.</p> <p>During the year, the Board approved the Company's modern slavery statement (available on our website at <a href="http://goaheadlondon.com">goaheadlondon.com</a>). The Board also considered the data, and narrative, relevant to the Company's Gender Pay Reporting in preparation for external publication, including proposed improvement plans to enhance performance. For example, we have set a target that no less than 20% of all employment applications should be from females in order to further diversify our team.</p> <p>We also published our 14<sup>th</sup> Annual Sustainability Report for 2020, which can be found in the environment section of our website at <a href="http://goaheadlondon.com">goaheadlondon.com</a>.</p>

<p>c. The interest of the company's employees.</p>	<p>The directors understand the importance of the Company's employees to the long-term success of the business.</p> <p>Safeguarding the health and wellbeing of the Company's employees (and other stakeholders) remains the main priority for the Board with additional precautions having been taken over the past six months in response to the COVID-19 pandemic. Such actions have included adherence to government policies and guidelines and advice from WHO and other relevant advisory bodies; enhanced cleaning regimes and social distancing measures; isolation of the drivers' cab; measures taken to minimise contact; provision of protective equipment for customer facing colleagues; working from home; increased levels of engagement with colleagues from front-line work to those furloughed; and access to enhanced mental health programmes.</p> <p>The Company regularly communicates to its employees through internal media, newsletters and business updates. The Company's magazine "Bus Talk" is published bi-monthly and ensures all London General Transport Services employees receive accurate and timely information from the business. The employee portal, toolbox talks, garage open forums, weekly trade union meetings and visits to bus stands are examples of some of the other channels the Company uses to engage with its employees. An annual employee survey is undertaken to allow colleagues to provide honest feedback about their experience working at London General Transport Services, the results of which provide a measure of colleague engagement and help us identify areas of improvement. This year's survey was postponed due to COVID-19. More recently we have been using apps in each garage to improve the conversation with a mainly remote workforce.</p> <p>Being an employer of choice is important to maintaining a high level of employee retention. The Company provides market competitive remuneration and comprehensive benefit packages. Colleagues are recognised and rewarded for their contribution and commitment.</p> <p>The Company's workforce is represented by trade unions and employee representatives and the Board strive to foster positive working relationships with them. This has never been more vital than in recent months. The Company has been working alongside trade unions to keep colleagues informed and up to date on all government changes and safe working practices during the COVID-19 pandemic.</p> <p>The Company places a premium on an inclusive and diverse workforce, enabling all colleagues to reach their full potential, to be empowered and engaged with a strong commitment to personal development. Key focus areas during the year have been active bystander training and fatigue training. During the year, the Company continued to participate in the 'Women in Bus' programme which is designed to support and empower female colleagues across the business.</p>
<p>d. The need to foster the company's business relationships with suppliers, customers and others.</p>	<p>The Board regularly reviews how the Company maintains positive relationships with all of its stakeholders, including suppliers, customers and others.</p>

	<p>The directors understand the importance of the Company's supply chain in delivering the long-term plans of both the Company and the Group. Through our Sustainable Supply Charter, we demonstrate high standards of integrity, responsibility and professional conduct. We endeavour to support our suppliers to improve the sustainability of their business. During the COVID-19 pandemic, we have taken active steps to safeguard our essential supply chain, continuing to pay suppliers in line with the Prompt Payment Code and applying a fair and structured process when the reduction of supplier services has been necessary, in line with the Company's Sustainable Supply Chain Charter.</p> <p>Customers are at the heart of the business and the Board is dedicated to providing them with safe, convenient and reliable services. Customer satisfaction is a strong indicator of how well we are meeting customers' needs and the directors monitor this through monthly surveys conducted by Transport for London (TfL). We build relationships with our customers through regular meetings and consultation with TfL. Our passengers' needs are constantly evolving, and these interactions enable us to better understand the needs of our passengers and where to focus improvements.</p> <p>We also have worked with London Travelwatch this year on a number of projects to improve our customer offering.</p>
<p>e. The impact of the company's operations on the community and environment.</p>	<p>As a public transport operator, the Company has a far reaching impact on the Group (as its ultimate parent company) as well as its customers, employees, regulators and the communities it serves. The Company aims to align its business values, purpose and strategy with the social, economic and environmental needs of its stakeholders, embedding responsible and ethical business policies and practices in everything it does. For further information on the impact of the Company's operations on the community and environment, please see our Corporate Governance Report on pages 8 to 12 of the 2020 Company's Annual Report and Financial Statements (pages 5 to 9 of this document) and our Sustainability Report available in the environment section of our website at <a href="http://goaheadlondon.com">goaheadlondon.com</a>.</p>
<p>f. The need to act fairly as between members of the company.</p>	<p>The Company is owned 100% by Go-Ahead Holding Limited. However, the Company's ultimate parent company and controlling party is the Group.</p> <p>The Group operates a devolved operating model. Whilst day-to-day management of the Group's activities, governance and oversight has been delegated to the Group executive directors, the directors of the Company both individually and collectively support them in this role and the Company is operated as an autonomous business unit. Board meetings are held on a monthly basis with the Group executive directors in attendance who scrutinise and challenge the execution of strategy. These more formal meetings are supported by several cross-business forums (such as health and safety, engineering, HR and diversity and inclusion) that serve to facilitate the sharing of knowledge, ideas and best practice. This approach encourages the right balance between local and Group initiatives and facilitates fair discussion and decision-making. It also ensures that we deliver more operating collectively than we would independently.</p>

## Corporate Governance Report

For the year ended 27 June 2020, under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the **Wates Corporate Governance Principles for Large Private Companies** (published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website).

These new corporate governance reporting requirements apply to company reporting for financial years starting on or after 1 January 2019 and Companies are able to adopt the Wates Principles as an appropriate framework when making a disclosure regarding corporate governance arrangements. We have adopted the disclosure in our 2020 Annual Report and Accounts and set out below is how we have applied the Principles over the past year throughout our work.

### Principle 1 – Purpose and Leadership

Our purpose and vision is to ‘take care of our customers’ changing needs today, tomorrow and always. Today, we strive to provide a reliable service that people can trust. Tomorrow, we will help to create a London where every journey is taken care of. We will always maintain our position of being London’s Bus Operator of choice’.

Our values include ‘respecting each other and taking personal responsibility, being can do people who are open and approachable, building relationships and working as one team and being forward looking and adaptable’.

Our purpose and values were initially communicated to all colleagues through a series of workshops where colleagues were encouraged to contribute ideas as to how our values can live within our everyday lives and how the Company can practically meet the purpose in real life scenarios. Corporate videos, the intranet, emails, posters and, the Company magazine, “Bus Talk” are used to demonstrate our values in action. Purpose and Values are also embedded in our induction and onboarding programmes.

The effectiveness of our purpose and values is measured through customer satisfaction surveys, colleague engagement surveys, public correspondence, stakeholder surveys, absenteeism and turnover key performance indicators.

We operate tendered public transport contracts for Transport for London (TfL). We operate around 160 route contracts from 16 depots in the capital. Our strategy is to maintain our sector leading performance and market position through strong and effective management, providing high quality and cost efficient operations whilst seeking expansion through additional contract wins and value adding acquisitions. A stable contract base, inflationary revenue growth and cost efficiencies contribute towards the Company’s strategy.

We also have a commercial team who undertake planned and emergency rail replacement bus services for Go-Ahead’s train operating companies GTR and Southeastern.

### Principle 2 – Board Composition

The board comprises the Group Chief Executive and the Group Chief Financial Officer (the Group executive directors), the Managing Director, Finance Director, Operations Director and Engineering Director. All directors on the board are full time employees of either. The Go-Ahead Group plc (the Group) or the Company. This size and composition are appropriate for our business and ensures that the board has the appropriate balance of skills, knowledge and experience.

The Group Chief Executive chairs the board and promotes a culture of open and constructive debate. This role is separate to that of the Managing Director who is empowered to operate the business autonomously with the support of the Finance Director, Operations Director and Engineering Director. Board meetings are held on a monthly basis with the Group executive directors in attendance who scrutinise and provide independent challenge to the board’s execution of strategy. In addition, there are cross business forums that operate at Managing Director, Finance Director, Engineering Director and Operations Director levels. The Chairman visits annually to conduct a deep dive into execution of the strategy and there are regular visits by Group Non-Executive Directors that challenge both our strategy and objectives.

The Managing Director reports to the Group executive directors directly on day to day management issues, including risk, and is responsible for ensuring compliance with the Group's policies and procedures.

The board is committed to developing a more diverse workforce, including at the most senior levels.

The board believes that continuous director training and development supports board effectiveness. With the ever-evolving regulatory landscape in which the Company operates, it is critical that the board maintains a good working knowledge of the transport sector and how the Company operates within its sector, as well as being aware of recent and upcoming developments in the wider legal and regulatory environment. Examples of training and development opportunities provided to all directors during the year included negotiation, bribery and corruption, awareness of cyber threats, active bystander and safeguarding.

Whilst a formal board evaluation does not take place, individual director effectiveness is assessed by functional key performance indicators and formal appraisal interviews.

### **Principle 3 – Director Responsibilities**

The board holds eleven scheduled meetings a year with all directors expected to attend all board meetings. The board receives regular and timely information (at least monthly) on all key aspects of the business including health and safety, financial performance and KPIs, capital expenditure, contracts and tendering, operating and engineering performance, people and engagement, market and competition and industrial relations.

The Group Board reviews governance processes, including policies and procedures, on at least an annual basis to ensure that these remain fit for purpose and strengthen the governance of the Company. A comprehensive Operating Company Board Procedures Manual is maintained which provides an overview of the governance and reporting framework within which the board should operate. It includes formal procedures for the working of the board, delegated authorities, the timely provision of appropriate information and the duties and responsibilities of directors, including standards of conduct and compliance. This Operating Company Board Procedures Manual is based on the Manual used by the Group.

The board has established robust procedures for ensuring that its power to authorise conflicts of interest is operated in accordance with the Companies Act 2006. All directors are required to make the board aware of any other commitments and actual/potential conflicts of interest that could interfere with their ability to act in the best interests of the company. Situations considered by the board and authorisations given are recorded in the board minutes and in a register of conflicts and are reviewed annually by the board. The authorisations are for an indefinite period, but the board retains the power to vary or terminate the authorisation at any time. The board believes that this system operates effectively.

The board believes in equal opportunities and apply fair and equitable employment practices. Our Code of Conduct states that all employees should be treated with respect and that their health, safety and basic human rights should be protected. The Company has a zero-tolerance approach to bribery and corruption and all our colleagues are required to adhere to our Anti-bribery and Corruption policy. We also have a zero-tolerance approach to sexism, racism, bigotry, or any unfair treatment of anyone with a protected characteristic.

### **Principle 4 – Opportunity and Risk**

The Board seeks out opportunity whilst mitigating risk. We operate tendered public transport contracts for Transport for London (TfL). Tender opportunities are evaluated on a route by route basis taking account of proximity to our operating locations and garage capacity. Other commercial value opportunities, e.g. rail replacement contracts, are evaluated on a case by case basis.

The Company recognises the distinction between risks that are outside of the Company's control or against which mitigations are limited and those risks that the Company has an appetite for. A summary of the Company's key principal risks and mitigations are as outlined in the Strategic Report.

Ultimate accountability of risk identification and management lies with the Managing Director, supported by all other directors on the board. At operational level, there are internal audit functions embedded within each functional discipline.

The assessment of key principal and emerging risks is embedded within the day to day operations of the Company. Such assessments are consolidated and reviewed as part of monthly board reporting as well as being reported to the Group twice a year in accordance with full year and half year results reporting. As part of this reporting process, risk reports are completed which outline the key principal and emerging risks facing the Company, provide an explanation of the procedures in place to mitigate and manage such risks and prioritise the most important risks from both an inherent and residual perspective. These reports are then discussed with the Group executive directors at bi-annual risk board meetings with discussion focused on the most important risk and control areas within the business. Following such meetings, the Group executive directors report to the Group audit committee with final approval being granted by the Group Board for key risks that could have a material impact on the Group performance, strategy or business model.

The level of risk the Company is willing to take to achieve its strategic objectives, together with the level of risk shock that it can withstand is aligned with that set out in the Group's risk appetite statement. The Company benchmarks its bi-annual risk reporting against the Group's risk appetite statement, with any key risks being identified and discussed with the Group executive directors at bi-annual risk board meetings.

### **Principle 5 - Remuneration**

Remuneration arrangements are based on the principles that reward should be sufficient to attract and retain high calibre directors, senior management and the wider workforce.

For the London General Transport Services board members, remuneration is determined by the Group Board in line with the Group's Senior Management Remuneration Policy. Remuneration is structured to support both the financial objectives and the strategic priorities of the Group in a manner which is aligned with shareholders' and stakeholders' long-term interests. The directors' remuneration is disclosed on page 38 (note 6) of the Company's 2020 Annual Report and Financial Statements.

The Group executive directors are remunerated by the Group. For further details of the remuneration policy which applies to the Group executive directors together with details of the remuneration paid to them in the 2020 financial year, please see pages 90 to 112 of the Group's 2020 Annual Report and Accounts.

Remuneration for administrative staff is guided by salary scales which are adjusted each year in line with headline company rate which is normally derived from an average of the settlements agreed with the trade union, Unite. Exceptional performance can be rewarded by discretionary bonuses. Management salaries are subject to a similar cost of living review and a separate performance related bonus. Remuneration for the wider workforce, such as bus drivers and engineers, is driven by a collective bargaining process which allows for the Company's management team to set priorities and adjust remuneration to meet specific demands, taking into account the labour market, workforce aspirations, operating conditions and competitor activity.

During the year, the board considered the data, and narrative, relevant to the Company's Gender Pay Reporting in preparation for external publication, including proposed plans to enhance performance. In London General Transport Services, the mean pay gap of 4% is equivalent to 68p which is significantly lower than the 16.2% national average. Likewise the median pay gap of 3.3% (or £0.52) is also substantially lower than the 17.3% national median. At London General Transport Services the opportunity to receive a bonus is heavily influenced by length of service. The mean bonus gap is 0.2% (or £0.97), which is significantly better than the national average of 67.9%.

## **Principle 6 – Stakeholder Relationships and Engagement**

The Board is clear that good governance and effective communication are essential on a day-to-day basis to deliver our purpose and to protect the Company's brand, reputation and relationships with all our stakeholder community including the Group, Transport for London (TfL), passengers, workforce, government and local authorities, suppliers and the local communities in which we work. The board believes that listening and engaging effectively with our key stakeholders is critical to ensuring that the right decisions are made which consider their needs and priorities. An established reporting process is in place, where the Company is required to report formally to the Group Board on what engagement has taken place with our key stakeholders and the outcome of such engagement.

### ***The Go-Ahead Group plc (the Group)***

The Group is the Company's ultimate parent. The board believe that effective communication and proactive engagement with the Group is paramount in establishing a mutual understanding of both the Company's and the Group's wider objectives. The Group executive directors, who also sit on the Company's board, form the primary communication route between the Company's board and the Group Board. This facilitates effective open, transparent and two-way engagement, the feedback from which forms part of the board's strategic discussions.

### ***TfL***

As our primary customer, the Company engages with TfL both operationally, to apply the best standards and practice, and strategically to ensure that public service transport continues to meet the changing needs of our passengers and to keep London moving.

### ***Passengers***

Passenger needs are constantly evolving, and we build a greater understanding of them through regular meetings and consultation with Transport for London (TfL), in addition to our own analysis of an ever-changing market. Our interaction with TfL on this topic ensures we understand, and deliver, their strategy through partnership working, based on two-way dialogue. TfL report of customer satisfaction metrics, which is constantly reviewed by management and, where required, is the subject of a focused improvement plan. We additionally engage with London Travelwatch, the independent statutory watchdog for users.

### ***Workforce***

The Company regularly communicates with its employees through internal media, newsletters and business updates. "Bus Talk" is the Company magazine which is published bi-monthly and ensures all London General Transport Services employees receive accurate and timely information from the business. The employee portal, toolbox talks, garage open forums, weekly trade union meetings and visits to bus stands are examples of some of the other channels the Company uses to engage with its employees. This year the Company developed its own colleague engagement tool, the "iGo App", in order to further enhance engagement and make relevant information available to all colleagues.

Annual employee engagement surveys are performed to highlight areas of improvement, although this year's was postponed due to the COVID-19 pandemic. The board considers the results of all employee engagement surveys a good barometer of the workforce's confidence in the Company's strategic direction, optimism in the future and career opportunities.

The Company has a formal whistleblowing policy in place where employees can, in confidence, raise legitimate concerns about wrongdoing within their workplace. This policy is reviewed by the board on an annual basis, with this year's review confirming that the policy remains fit for purpose and enables a good level of communication with colleagues at all levels of the business.

The Company makes use of intranet sites, notice boards, intranet and induction processes etc. to ensure that employees are fully aware of the process for raising concerns and providing a safe and secure environment for doing so. Employees also have access to a wide range of alternative and more informal channels through which to raise concerns. These include the HR Manager, colleague champions, one-to-one meetings with managers, 'open-door' policies, staff forums, trade unions, garage forums, roadside chats and health and safety reviews. All employees have a direct channel to the managing director with a bespoke email address specifically for concerns. The Company has also started a trial at Orpington garage 'The Pod' that allows colleagues to inform managers how they feel each day and get support for both personal and professional support within 48 hours. All London operators are members

of CIRAS which provides employees with an anonymous reporting line if they feel unable to speak to a manager about a safety related issue.

### ***Government and local authorities***

Working closely with both central and local government enables us to contribute our private sector experience and expertise to the public agenda and produce better policy outcomes and service delivery. Regular engagement with the London Boroughs ensures proposed road schemes are planned and timed so as to cause as little disruption to journey times as practicable.

### ***Suppliers***

Our suppliers are fundamental contributors to the success of our business. Regular meetings and forums are held to manage relationships, understand challenges and to source, identify and implement new solutions and alternative ways of working. For example, in November 2019, the Company was awarded the Energy Globe Award for the successful sustainable project of converting Waterloo Garage from diesel to full electric vehicle operation; an award that could not have been achieved without the contributions of suppliers and partners.

### ***Communities***

Public transport is critical to the functioning of society and has been fundamental in supporting communities through the COVID-19 crisis and other emergencies. We have various channels for facilitating effective two-way engagement with our communities such that we are often the first port of call to assist in a local evacuation and during COVID-19 one of our garages provided temporary parking for NHS ambulances. Staff within our garages regularly enlist their colleagues to assist in fund raising for issues close to their heart, and during COVID-19 food has been collected to assist families in need. In making decisions, the board considers how the Company's activities may impact both current and future stakeholders, which, for example, could include impacts on the environment. For further information on the impact of the Company's operations on the community and environment, please see our Sustainability Report available in the environment section of our website at [goaheadlondon.com](http://goaheadlondon.com).