

Go Ahead



years of passenger transport

Annual Report and Accounts
for the year ended 1 July 2017

We believe in building a business that creates value for all our stakeholders



“Doing the right thing for our customers has always been a core part of who we are and drives our thinking as we make improvements across the business.”

Andrew Allner,
Chairman

6.5%
Full year dividend up

Dear Shareholder,

These are times of significant change for the world's transport industries. Technology, the political landscape and environmental factors are constantly presenting new opportunities and challenges in the bus and rail markets.

At Go-Ahead, we are committed to being at the forefront of these developments. We aim to make the best possible use of new technology and new working practices to provide long term benefit for our passengers, transport authority clients, communities and investors, while continuing to meet our obligations as a major taxpayer and large-scale employer.

Modernisation of equipment must result in modernisation of working practices. This inevitably creates disruption at times and it is regrettable that industrial action on GTR's Southern rail network resulted in significant delays and cancellations to services during the period, adversely affecting passengers. Although the situation improved in the second half of the year as industrial action reduced, service levels still fell short of our and our customers' expectations. We remain committed to delivering improvements that will create long term benefits for passengers.

 [More information on GTR see page 20](#)

While continuing difficulties at Southern have negatively impacted shareholder returns, strong financial performance in our other franchises has enabled us to deliver value through the rail division.

In the year, our rail businesses contributed £77.6m to the Government, enabling further investment in infrastructure to support a more resilient rail network for the future.

The enactment of the Bus Services Act during the year focused attention on the benefits that partnership working can bring to communities. While it is too early to know the extent of the opportunities and challenges the Act will bring, it has already highlighted the need for private sector investment to maintain and improve bus networks and fleets in the future.

Our strategy

The evolution of our strategy, to protect and grow our core business, win new bus and rail contracts and develop for the future of transport, has refocused the Group on five key themes through which all our companies will deliver change.

 [More information on page 14](#)

Following the disappointing decision by the Department for Transport (DfT) in August 2017 to award the West Midlands franchise to another operator, our UK rail strategy is focused on restoring service and value to GTR and delivering attractive and value enhancing bids to operate future rail franchises.

As we explore new ways of delivering our services, we also continue to explore new markets. Our international development is progressing well with new contracts being won and introduced during the year in three international markets. This good progress has led us to introduce a five-year target for 15% to 20% of Group profit to be generated from international operations.

Our strategy is designed to deliver value to all stakeholders, including our shareholders. Reflecting your Board's commitment to the dividend and our confidence in the outlook for the Group, we propose a final dividend increase of 6.5%, in line with the rise in interim dividend, resulting in a full year dividend of 102.08p.

Your Board has a clear capital allocation policy for the Group, which aims to support existing businesses, expand in targeted markets, reserve against risk and make appropriate returns to shareholders. This policy is supported by the strength of our balance sheet and stable profits in our bus division.

Our people and culture

On behalf of the Board, I would like to thank all of our 29,000 colleagues who work hard every day, sometimes under challenging circumstances, to bring us ever closer to achieving our vision: a world where every journey is taken care of.

On my regular visits to businesses around the Group, I am always impressed by the commitment demonstrated by colleagues to improve services for our passengers. With each visit, I see more examples of Go-Ahead's beliefs and attitudes being brought to life in people's day-to-day roles, reaffirming to me the value of our culture change programme.

Over the last three decades, Go-Ahead has welcomed employees from around the world. Our diverse workforce not only reflects our customer base but also ensures the appropriate pool of people to fulfil our recruitment needs. It is important that we strive to protect the rights of all our people and secure adequate resource for our current and future operations.

At Go-Ahead, we believe in taking care of our people. As well as providing good working conditions and fair pay, we invest in people's training, development and wellbeing. I'm proud of our Investors in People accreditations across the business, particularly in the four companies which have achieved the highest possible status.

This year, inflationary pay increases were awarded across the Group and we continue to support the Voluntary Living Wage. We believe pay should be closely linked to performance and our remuneration policies reflect this. In light of the severe disruption faced by Southern customers in the year, both the Chief Executive, David Brown, and Group Chief Financial Officer, Patrick Butcher, have requested that the remuneration committee does not consider them for an annual performance-related bonus. This will be the second consecutive year in which David has declined an annual bonus.

Your Board

Just as it's important for our organisation to adapt to change and continuously improve, it is equally crucial for your Board to do the same. In line with our commitment to good corporate governance, the Board undertakes an annual evaluation aiming to enhance effectiveness. This year, as an alternative to the more traditional Board effectiveness review and aligned to the Group's culture change programme, we undertook a comprehensive Board development programme, which enabled us to build upon the Board's strengths, support our succession planning strategy and improve the Board's effectiveness. Having undertaken this process, the Board has committed to retaining its focus on three core areas in the coming year: resolving the issues at GTR, developing our strategy for sustainable growth and improving the culture of the Group. I believe strongly in the importance of the Board's role within an organisation, demonstrating the beliefs and attitudes in its approach to leadership.

 [More information on page 19](#)

In accordance with our succession plan, Nick Horler will retire from the Board at the 2017 AGM after six years on Go-Ahead's Board. On behalf of the Board, I would like to thank Nick for the valuable contribution he has made to the Group; he has brought great expertise and experience to the Board, and I have very much enjoyed working with him.

I look forward to welcoming two new Board members in the coming months. Harry Holt and Leanne Wood, who will join the Board in October 2017, will ensure we have the right balance of skills and experience to take the business forward, creating greater diversity of thought and approach.

 [More information on page 74](#)

Our purpose and contribution

In this, Go-Ahead's thirtieth year, I'm proud to lead the Board of a business that has enabled three decades of passenger journeys; connecting people with friends, family, work and leisure activities.

Over the last year, we've made progress in evolving our strategy, shaping our culture and preparing for the future challenges facing us and our wider industry. A good public transport system is essential to support a growing economy and a thriving society. As one of the largest operators of public transport in the UK, we play an important role, providing a vital service for our communities, through the people we employ and the taxes we pay. Partnership working in all areas of our business is critical to our success and the wider success of the industry; improvement and change cannot be delivered single-handedly.

 [More information on page 12](#)

Our Group has a clear and important purpose. We believe in doing business in the right way, behaving ethically and creating value beyond financial return for all our stakeholders. I believe that these values, along with Go-Ahead's strong financial grounding and track record of operational delivery, support our position as a leading provider of public transport now and in the future.



Andrew Allner,
Chairman

6 September 2017

Board effectiveness in action

Progress against actions arising from 2015/16 internal evaluation

Good progress has been made against the opportunities to increase Board effectiveness from the previous year's internal evaluation:

Theme [Progress made to increase Board effectiveness as identified in the 2015/16 Board effectiveness review](#)

Culture

A detailed review of the Board's role in the governance and oversight of culture was undertaken during the year, with culture now discussed at all Board meetings and key culture indicators agreed, linked to executive remuneration.



[Further information is provided on pages 52 and 57](#)

Succession planning

To support the Board's succession plan and timeline, the existing skill set of the Board was assessed during the year, including a gap analysis to achieve a better link to strategy and culture. There was also an increased focus on aligning senior management succession to strategic planning to ensure we have the best individuals ready for the Group's future direction and executive succession planning.



[Full details can be found below and on page 61](#)

Risk

The improvements made last year to the risk management process were reviewed and found to be fully embedded and effective. There was increased discussion and articulation of risk appetite, including the Board's risk appetite statement. During the year, there was also an increased focus on key risk areas such as franchise bidding process, reputation and cyber security.



[Full details of the work undertaken during the year can be found in the managing risk section on pages 40 to 45 and in the audit committee's report on pages 64 to 72](#)

New Board development programme

The Board places great importance on the annual Board effectiveness review and this year, to align the review with the Group-wide culture change programme, a different approach was taken with a focus more on individual and collective Board development. The decision was taken to bring forward the externally facilitated review scheduled for 2018 and Dr Sabine Dembkowski of Better Boards Ltd was commissioned to work with the Board on a Board development programme. Neither Dr Sabine Dembkowski nor Better Boards Ltd has any other connection with Go-Ahead.

With the focus more on actual Board development, a programme was designed to provide the Board with insights about themselves and their colleagues on the Board. This provided a foundation upon which individuals could increase their personal impact, which in turn could increase the overall effectiveness of the wider Board. The key objectives of the Board development programme were therefore two-fold:

1. To develop individual Board members and the Board as a whole so that they are better equipped to deal with the increasing challenges and enhance their effectiveness; and
2. To identify the know-how areas and role behaviours that were present on the Board and to identify the skills and experience any new non-executive directors should bring to best complement the existing Board.

Identifying know-how areas and role behaviours

A key element of the Board development programme was the focus on the key competency areas for the Board's role behaviours and know-how areas. This enabled the Board to assess their existing skill set and to undertake a gap analysis against the Board's requirements in order to achieve a better link to strategy and culture.

In certain key areas, there was found to be a difference between the perceived importance of the competence area and where more development was needed on the Board than at present. From this analysis, the Board identified the specific know-how areas and role behaviours that could strengthen the Board and this was then used to create the detailed briefing to guide the search process for Nick Horler's replacement when he retires at the 2017 Annual General Meeting. In order to maximise the effectiveness of the Board, two new non-executive directors will be appointed from October 2017 and together they will bring the skills, experience and behaviours that will best complement the existing Board and support the strategic direction of the Group.

Stages of 2016/17 Board development programme

The Board development programme was designed in conjunction with the Chairman and the Group Company Secretary and consisted of a number of key elements that involved the wider Board over a number of months:

Stage 1: Programme design

Meetings between Better Boards, Group Company Secretary, Chairman and Group Chief Executive to discuss and agree programme objectives, design and action plan

Stage 2: Board introduction

Better Boards attended a Board meeting to explain the programme's objectives and action plan to the wider Board and the time commitment required from Board members

Stage 3: Initial face-to-face meetings (x1 hour)

Better Boards held one-to-one meetings with individual Board members to get personal insights into Board effectiveness, including any challenges and issues

Stage 4: Online audit

Each Board member completed a confidential online audit questionnaire

Stage 5: Analysis of data

Data from the on-line audit and the one-to-one meetings were combined to generate individual reports and an aggregated report for the collective Board

Stage 6: Individual coaching conversations (x3 hours)

Better Boards held confidential coaching conversations with each Board member to discuss the findings from their individual reports. Each session concluded with a personal action plan

Stage 7: Feedback meeting

Better Boards met with the Chairman and Group Company Secretary to discuss the aggregated Board results and agree the key agenda items for the Board Off-Site

Stage 8: Board Off-Site (x2 days)

Facilitated by Better Boards and the Group Company Secretary, the Off-Site comprised a series of interactive sessions and activities, including a Board dinner, which covered:

- Board strength matrix
- Key competencies and know-how areas
- Gap analysis
- Roles and responsibilities
- Leveraging the skills of the Board
- Commitments to support Board colleagues
- Aligning Board vision and culture
- Board priorities
- Action planning

Key insights from Board development programme

Go-Ahead has a strong Board, with relationships built on trust, and its size is a key strength in ensuring everyone can contribute

The Board can further build upon this trust, with even more constructive challenge and probing questions to achieve the best and collective outcomes

Non-executive directors can support the executive directors more by sharing their insights and experience from other sectors and business areas

Board members now have an increased awareness of their key skills and strengths which can help individual Board members increase their own personal impact and the impact of others

There is an increased awareness of the roles of executive versus non-executive directors and how these different roles can support each other more effectively

Key actions to enhance board effectiveness

Board papers should be reviewed in the context of stimulating and improving the quality of debate, to facilitate more broad and strategic thinking and to enable focus on the right issues

Board effectiveness can be further improved by using the results of the skills and gap analysis to guide the search process for Nick Horler's replacement, thereby ensuring the new non-executive director has the right balance of skills on the Board

Organisational structure and succession planning will be regularly assessed to ensure alignment with strategy

Individual directors can hold themselves to account by regularly reviewing the Board strengths and commitment matrices created following the Off-Site, in addition to the key insights and actions. This will ensure the Board's continuous development

NOMINATION COMMITTEE REPORT



“Through the Board development programme, we were able to identify the skills and experience we need on the Board to support the delivery of strategy.”

Andrew Allner,
Nomination Committee Chair

Dear Shareholder,

As Nomination Committee Chair, I am pleased to present the committee's report for the year ended 1 July 2017.

Board succession planning has continued to be a focus for the committee this year. Following the review of the Board's composition and succession plan last year, the priority has been to assess the existing skill set of the Board to ensure that we have the right skills and experience to support the delivery of strategy.

Board changes

In accordance with our succession plan, Nick Horler will retire from the Board at the 2017 Annual General Meeting (AGM) and I am grateful to Nick for the support and dedication he has given the Board during his tenure. As a consequence of Nick Horler's planned retirement, one of the key focus areas for the committee during the year has been to lead the process of finding his replacement.

Through the Board development programme, we were able to identify the skills and experience we were looking for and work collaboratively with executive search consultant, Inzito (who had no other connection with the Group), to identify suitable non-executive director candidates to replace Nick Horler. Having followed the robust process set out on pages 74 and 75, the committee proposed to the Board the appointment of two new non-executive directors and in October 2017 we will welcome Harry Holt and Leanne Wood to the Board. Together they will bring the skills, experience and behaviours that will complement the existing Board. Harry brings a wealth of experience in government relations, strategic planning and operations. Leanne has been at the helm of leading corporate strategy and organisational transformation, with an international career background.

With our new Board composition, our female representation on the Board will increase from 17% to 29%.

The right balance of skills

The review of the balance of skills on the Board evolved this year through the Board development programme, where the key focus was to help individual Board members understand their own skills and strengths, how they were perceived by their fellow Board members and the collective strengths of the Board as a whole.

There is now better clarity around the different areas of skill and expertise individual Board members bring and all Board members are committed to helping their colleagues make greater use of their strengths. Where gaps were identified in the skills required, this was

aligned to our non-executive director search to ensure that our new Board members would bring the skills and experience needed to support the strategic direction of the Group.

Succession planning and talent pipeline

Last year, we reported that a review of the Board's succession planning had been undertaken, which included the Chairman meeting with each non-executive director to discuss their tenure and contribution to the Board. This succession plan has been kept under review, with our work during the year extended to assess the skills and experience of the Board so as to ensure that succession planning for Board members remains aligned to the strategic direction and ambition of the Group.

Further work will be undertaken across the year ahead to extend the committee's work, specifically around contingency planning for executive directors, and succession and development insight to further strengthen succession planning for the executive directors.

The committee also oversees the Group's talent strategy, with the approach this year developed to focus on leadership skills and better aligning our talent strategy with the business strategy. The committee recognises the importance of developing a pipeline of strong leadership capability so that we can appoint trained leaders, particularly where operations are being mobilised in new territories.

As our approach to strengthening talent management and succession planning is evolving, the committee will continue to retain broad oversight of this agenda, with the Group Chief Financial Officer taking on the role of Board sponsor for talent management.

Diversity and inclusion initiatives across the Group

Our focus on improving diversity has continued to develop with the committee being provided with regular progress updates on inclusion and diversity initiatives across the Group. The pace and impact of activity has been far reaching, supported by the creation of a new role of Group Diversity, Inclusion and Engagement Manager. This key appointment has helped to shape and co-ordinate strategy and provide thought leadership on inclusion and diversity across the bus and rail divisions. Additional support has also been provided from the Diversity and Inclusion Steering Group and the new Bus and Rail Working Groups. For further information on diversity and inclusion initiatives across the Group, please see page 76.

Apprenticeship Levy

The Apprenticeship Levy came into effect in April 2017, with the objective of improving productivity by investing in human capital. The Levy presents an opportunity for the Group to continue to invest in the training and development of business critical roles e.g. train drivers, bus and rail engineers, on-board teams, managers and leaders. The committee will receive updates from a Steering Group who meet regularly to explore ways of maximising the Levy to best support the workforce development.

Andrew Allner,
Nomination Committee Chair
6 September 2017