

**Go North East Limited  
(the “Company”)**

The following Section 172(1) Statement and Corporate Governance Report have been extracted from pages 4 to 13 of the Company’s Annual Report and Financial Statements for the year ended 27 June 2020. All references to “Group” in this document mean The Go-Ahead Group plc (registered number 02100855).

**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, 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 10 to 13 of the Company’s 2020 Annual Report and Financial Statements (pages 6 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 10 to 13 of the Company’s 2020 Annual Report and Financial Statements (pages 6 to 9 of this document). It is also available on the Company’s website at [www.gonortheast.co.uk](http://www.gonortheast.co.uk) .

### 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>e) The desirability of the company maintaining a reputation for high standards of business conduct.</p>	<p>At Go North East, 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 the Department for Transport and Local Transport Authorities 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. 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 bring more ethnic and gender diversity into the business.</p> <p>During the year, the board approved the Company's modern slavery statement (available on the Company's website). 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.</p>

<p>b) 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 and the Company is certified to a 'Developed' standard by Investors in People. This year the Company also received the Princess Royal Training Award for our unique Bus Driver Routeway training programme, which gets unemployed people back into work.</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; measures taken to minimise contact, such as reduction in cash handling; provision of protective equipment for customers facing colleagues; customer information helping people to choose quieter services; working from home; increased levels of engagement with colleagues from front-line works to those furloughed; and greater access to enhanced mental health programmes and helplines.</p> <p>The Company regularly communicates to its employees through depot based information screens, internal employee newsletters, video updates on closed group social media pages and business update discussions with the trade union. An annual employee survey is undertaken to allow colleagues to provide honest feedback about their experience working at Go North East, the results of which provide a measure of colleague engagement and help us identify areas of improvement.</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. A key focus area during the year has been the launch of the 'One Team GNE' initiative which aims to improve and promote team culture across our company, including equality, diversity, health &amp; wellbeing and community engagement matters. Additionally, throughout the year, we've championed the great women we have working here in the North East, from apprentices to drivers, and admin staff to senior managers, all with the aim of encouraging more women to consider public transport as a career. In February, Go North East hosted the 'Women in Bus' conference in Newcastle, a programme designed to support and empower female colleagues across the business.</p>
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<p>c) 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 an annual survey conducted by the independent watchdog, Transport Focus. In the independent Autumn 2019 Bus Passenger Survey conducted by Transport focus, our customers gave us an overall satisfaction rating of 93%. This figure improves upon the previous year, with an increase of 1%.</p> <p>We build relationships with our customers through our passenger-facing colleagues, customer events and social media channels. Our customers' needs are constantly evolving, and these interactions enable us to better understand the needs of our passengers and where to focus improvements.</p>
<p>d) The impact of the company's operations on the community and environment.</p>	<p>As a public transport operator, the Company has 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.</p> <p>By providing essential bus services, Go North East helps people connect with each other and get where they want to go, enabling access to education, retail and employment.</p> <p>The Company places great importance on partnership, adopting a collaborative approach with local governments, local communities and strategic partners, and we are committed to providing our communities with affordable and reliable access to employment, education and leisure activities.</p> <p>Go North East is also looking to the future as part of our commitment to improve air quality. In recent years, 170 low emission buses have joined our fleet and there are more on the way. We are committed to ensuring that our buses provide a clean, safe and efficient way of getting around our region as the local economy recovers.</p> <p>The Company will be welcoming the first set of electric buses, with nine due to arrive in the next financial year for services around Gateshead and Newcastle. The new electric buses, with an investment figure of £2million, have been supported by top-up funding from the Government's Ultra Low Emission Bus Fund, with a view to purchasing more in the future. These buses will form a key part of ongoing efforts to improve air quality and will be the first latest generation full electric buses capable of all-day service to operate in the North East.</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 local management's team 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>
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# 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**

Whilst the Company does not have a defined purpose statement, it is focused on generating value for customers by building a sustainable business which meets the needs of customers and communities. The Company considers that its purpose is influenced and aligned with The Go-Ahead Group plc's purpose "To be a local partner taking care of journeys that enhance the lives and wellbeing of our communities across the world". This drives all decision-making by the board along with the consideration of all our internal and external stakeholder interests, further information of which is provided in Principle 6 (Stakeholder Relationships and Engagement).

We are committed to providing our communities with affordable and reliable access to employment, education and leisure. The Company has articulated values including a set of beliefs (we work together as one team (One Team GNE); we trust people; we stay one step ahead; and we build strong relationships) and a set of attitudes (be respectful; be positive; be YOU at your best; and proud to be part of Team GNE). Our 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, internal newsletters and depot-based information screens are used to demonstrate our values in action. The Company's values are also embedded in our induction and onboarding programmes. The effectiveness of our values is measured through customer satisfaction surveys, colleague engagement surveys, public correspondence, stakeholder surveys, absenteeism and turnover key performance indicators.

The Company is continuing its strategy of targeted revenue growth through increased investment in colleague recruitment and training, in new technologies including new contactless enabled ticket machines, real time apps and redesigned websites, as well as continuing a program of cost reductions through improvements in operational and fuel efficiency. The Company's three key strategic objectives are based on those of The Go-Ahead Group plc (the Group) and include (i) Protect and grow the core; (ii) Win new bus and rail contracts; and (iii) Develop for the future of transport. Progress on achieving our strategic objectives is measured through a set of KPI's including customer satisfaction scores, punctuality, number of bus incidents, employee turnover, number of commercial passengers, revenue growth and operating profit.

## **Principle 2 – Board Composition**

The board comprises the Group Chief Executive and the Group Chief Financial Officer (the Group executive directors) and the local management team (Managing Director, Finance Director, Operations Director, Engineering Director and Commercial Director). All directors on the board are full time employees of either the Group or the Company. This size and composition is 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 rest of the local management team.

Board meetings are held on a monthly basis with the Group executive directors in attendance who scrutinise and provide independent challenge the board's execution of strategy. In addition, there are cross business forums that operate at Managing Director, Finance Director, Engineering Director, Commercial 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, the Group executive directors' individual effectiveness is assessed as part of the Group Board's wider annual review. The individual effectiveness of the local management team is assessed by formal annual performance reviews and appraisals.

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

The board holds eleven scheduled meetings a year with all directors expected, wherever possible, to attend all board meetings. The board receives regular and timely information (at least monthly) on all key aspects of the business including financial performance and KPIs, capital expenditure, contracts and tendering, health and safety, 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. The Company complies with the Group Policies and Procedures Manual and reports its compliance to the Group annually on a self-certification basis. More recently, this also includes an Operating Company Board Procedures which sets out 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.

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

The Board seeks out opportunity whilst mitigating risk. Opportunities for long-term value creation are identified through monthly board reviews, the corporate planning processes, engagement with external stakeholders and regular strategic business reviews performed by local management. 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.

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 Go North East board members (Managing Director, Finance Director, Operations Director, Engineering Director and Commercial Director), 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 35 (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 senior management is led by the Go North East board members and is generally linked to the headline company pay award, except for special cases of role progression/changes or other circumstances of note. Remuneration for bus drivers and engineers is driven by a collective bargaining process with remuneration for the remaining workforce, such as administrative roles, following suit and being set in line with this. This approach allows for the Company's local 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 Go North East, the mean gender pay gap is 4.5% (or 55p) which is substantially lower than the 16.2% national average. The mean bonus pay gap shows a variance of 33.4% (or £652.76) in favour of women. A higher proportion of the women who receive a bonus were in the upper pay quartiles.

### **Principle 6 – Stakeholders**

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, workforce, customers, 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.

#### ***Workforce***

The Company regularly communicates to its employees through depot-based information screens, internal employee newsletters, video updates on closed group social media pages and business update discussions with the trade union.

Annual employee engagement surveys are performed to highlight areas of improvement. 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 is certified to 'Developed' standard by Investors in People – an important external validation of the Company's policies and performance in leading, supporting and managing employees well for sustainable results.



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, staff 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 regular depot level 'Employee Relations Forums' with directors and senior management, staff representatives, closed group depot social media sites, management site visits, personal development reviews, grievance procedures, one-to-one meetings with managers, 'open-door' policies and trade unions. There is also increasing visibility of directors across the depots with depot review meetings being moved from headquarters to the depots from last year.

### ***Customers***

We build our relationships with our customers through passenger-facing colleagues, customer events and social medial channels. Our customers' needs are constantly evolving, and these interactions enable us to better understand the needs of our customers. Social media plays an increasing role in our communication and engagement with our customers, providing a platform for customers to engage with the Company and for the Company to understand the needs and demands of our customers. Customer events such as depot open days gives an opportunity to engage with our local communities.

### ***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. Having strong supplier relationship management with our key suppliers, particularly of parts and materials, has helped us to reduce costs and improve the reliability of our fleet. In 2019, the Group also launched its Cognate Hub platform to manage and onboard suppliers and is designed to help manage and monitor supply chain efficiently and reduce risk to the business. Cognate focuses heavily on compliance providing Go Ahead Group companies with access to a validated pool of high-quality suppliers.

### ***Local authorities***

Working closely with local authorities enables us to contribute our private sector experience and expertise to the public agenda and produce better policy outcomes and service delivery. We have a constructive and strong relationship with the local authorities in which we operate. Collaboration is built through regular discussion and meetings in order to discuss local short-term priorities as well as to understand the long-term strategic agenda. During the COVID-19 pandemic we also engaged with our external stakeholders such as local authorities and local politicians through regular newsletters to keep them informed on all of the actions taken by Go North East in response to the pandemic.

### ***Local 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.

In August 2019 we led on the launch of 'NEbus', which is the reinvigorated operators' association of local bus companies including Go North East, Arriva North East, Stagecoach North East and a number of smaller operators. NEbus was launched to call for buses to have a higher profile, for stakeholders to recognise the huge steps forward that the industry has made in recent years, talk more positively and to work more collaboratively in partnership to enable local bus services to be even more successful in supporting the economy of the North East.

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. Further details are provided in our section 172(1) statement on pages 6 to 9 of the Company's 2020 Annual Report and Financial Statement (pages 1-5 of this document).