Merseyrail Services Holding Company Limited

Report and Financial Statements

5 January 2019

Company no. 04620520

Corporate information

Directors
D Booth
J Edwards
A Magielse
A Dingwall
J Heron
J Whitehurst

Secretary
Eversecretary Limited

Auditors
Ernst & Young LLP
20 Chapel Street
Liverpool L3 9AG

Bankers
National Westminster Bank
Liverpool

Solicitors
Burges Salmon Solicitors
Narrow Quay House
Narrow Quay
Bristol BS1 4AH

Registered Office
Eversheds House
70 Great Bridgewater Street
Manchester
Lancashire M1 5ES

Strategic report

The directors present their Strategic report and the financial statements for the 52 weeks ended 5 January 2019.

Principal activity and review of the business

In 2003, Merseyrail was awarded a 25-year concession to provide rail services on behalf of Merseytravel, the local transport authority in the Liverpool city region. The length of this concession distinguishes Merseyrail from other train operating companies, whose contracts average between seven and ten years. For this reason, Merseyrail is in the enviable position of being able to take a long-term perspective on investment in and development of rail passenger services. We strive to exceed the expectations of not only the people of Merseyside, but also the wider public transport community. This is in line with the philosophy of our two 50 per cent shareholders, Serco Group plc and Abellio.

Merseyrail is an urban network of vital importance to the transport infrastructure and local economy of the Liverpool city region. It is one of the most intensively used networks in the UK, with over 800 train services daily from Monday to Saturday and 340 on Sundays. 110,000 passenger journeys are made on Merseyrail each weekday, and there are 33 million passenger journeys every year. Approximately 56 per cent of our journeys are made for leisure purposes.

The network is bisected by the River Mersey and incorporates 120km of track, 10.5km of which are underground. Of the 67 stations, 66 are managed by Merseyrail and five are sub-surface. There are terminus stations at Southport, Ormskirk, Kirkby and Hunts Cross on the Northern line and New Brighton, West Kirby, Chester, and Ellesmere Port on the Wirral line. The business operates a fleet of 59 class 507/508 electric trains, which are approaching forty years old.

The directors are satisfied with the performance of the company during the period. Turnover was £161.2m which was an increase of 6.1 per cent on the previous period (52 weeks ended 6 January 2018 – £151.9m).

At 5 January 2019, the cash balance was £34.3m (52 weeks ended 6 January 2018 – £33.6m). The liquidity position has remained strong throughout the period.

In 2018 Merseyrail worked with various parties to continue the ongoing investment into our Network through a combination of station improvements (National Station Improvement Programme (NSIP), Merseytravel, Network rail, Access for All (AFA) and shareholder funding. We are currently working closely with Network rail in the implementation of the Control Period 6 station improvement plan across the Merseyrail Network which will start in April 2019. Merseyrail completed the lift design for Meols station in 2018 with construction starting in January 2019 to make Meols station fully accessible.

Merseyrail was the most punctual rail operator on the UK rail network in 2018 with a PPM score of 95.37%, for which it achieved the Golden Whistle award.

The results of the spring 2018 National Rail Passenger Survey (NRPS) showed that Merseyrail has some of the most satisfied passengers in the UK after achieving a score of 92%; the highest for any franchised rail operator. Merseyrail scored 90% in the autumn 2018 NRPS survey, which was 1% increase the autumn 2017 survey.

Merseyrail broke records at the National Rail Awards in September 2018 by becoming the first rail operator to win three awards at the event; Sustainable Development for its commitment to environmental and community initiatives, Customer Service Excellence for the delivery of the Wirral loop line track renewal project and the flagship title of the night, Passenger Operator of the Year.

Following the decision of the Liverpool City Region Combined Authority in December 2016, Merseytravel commenced procurement of a new fleet of trains that would operate without a second person (Driver Only Operation) from January 2020. Following 12 months of strike action and at the request of the Metro Mayor, Merseyrail and the RMT went in to independent conciliation with ACAS in March 2018. No strikes have taken place on the network since the talks began. An agreement in principle has been reached and subject to a sustainable and affordable funding package there will be a second person on board.

A programme of platform upgrade work commenced on 20 October 2018 to prepare the network for the new trains. The Ormskirk line, Wirral loop line and Bank Hall station were all completed by the end of 2018 and work on the rest of the network will continue in to 2019, with the project due for completion in June.

Strategic report (continued)

Principal activity and review of the business (continued)

A mock-up carriage of the new train, built by Stadler, was available at 3 locations across Merseyside. Merseyrail and Merseytravel held a number of events to engage stakeholders with the new fleet.

The Employee Engagement Survey provided a valuable opportunity for staff to share their opinions. 2018 saw an engagement rate of 85%, which is an increase of 12% compared to 2017. This was particularly positive for a year which saw staff respond to multiple challenges in the business, including accommodating a 350% increase in passengers through Liverpool South Parkway station for the Lime Street upgrade, the launch of platform upgrade work and high profile events such as the Giants in October, for which Merseyrail carried one third of the total visitors.

Merseyrail raised over £30,000 for its charity of the year, the Merseyside and Cheshire Blood Bikes and announced it will support Alder Hey Children's Charity in 2019. Merseyrail engaged with over 6,000 children through school liaisons and education hubs across the region. There are now 49 station adoption schemes with over 100 volunteers. Merseyrail launched its first community stakeholder event in May 2018 to celebrate the collaborative efforts of all groups involved.

Merseyrail Sound Station celebrated the 6th anniversary with a successful refreshed format to find local and emerging musical talent, resulting in the highest calibre of musicians and event attendance to date. Shortlisted artists were selected and participated in a semester of mentoring and workshops before performing at Liverpool Central on Friday 28 September. A partnership with BBC Music Day helped to develop the profile of the event with prime time coverage on BBC Radio.

Principal risks and uncertainties

The principal risks and uncertainties facing the company are broadly grouped as market, credit, liquidity and interest rate risk:

Market Risk

The 25 year concession grants Merseyrail some stability, enabling us to take a long-term view on investment. However, the local nature of the service does mean that Merseyrail is very reliant on the regional economy. Retaining and increasing patronage remains a priority, and the Merseyrail leadership team are closely monitoring all relevant business KPIs which includes operational, commercial and finance, customer, people and society KPIs, to ensure that any necessary remedial action is taken in response to changing economic conditions. We continue to work with local and national organisations to ensure that services meet and exceed the expectations of our stakeholders.

Looking ahead, Merseyrail will be working in partnership with Merseytravel and other funders to, subject to relevant business case approvals:

- Introduce a fleet of new trains to replace the Class 507/508 rolling stock units
- Modernise the way passengers pay for their rail journeys through smart ticketing systems
- Embrace further devolution opportunities, particularly with respect to responsibilities for station operation, maintenance, renewal and enhancement.
- Identify and deliver increased passenger growth, to underpin Merseytravel's long term rail strategy and bring further economic benefits to the city region.
- To invest in the development of our leadership/management culture, empowering our people to contribute effectively to the changes facing the network in coming years.

Credit Risk

The company has limited credit risk with the majority of our debtors being other companies operating within the rail industry.

Liquidity Risk

The business has a low liquidity risk as it receives contracted payments from Merseytravel for the duration of the concession.

Strategic report (continued)

Principal risks and uncertainties (continued)

Interest Risk

The company has positive cash reserves and no borrowings so has minimal interest rate risk.

Brexit Risk

The company has considered the impact of Brexit and have determined that there are three possible main areas of risk for Merseyrail – disruption to the supply chain, effect on current fleet maintenance and a general economic downturn.

To mitigate these risks Merseyrail are undertaking various actions:

- Reviewing the situation with suppliers as although the majority of suppliers are UK based reliance on imports further up the supply chain could present challenges. This is particularly applicable to our fleet maintainer and assurances are being sought from Stadler.
- The effect on the economy will continue to be monitored through our forecasting process and revenue management group.

Approved by the Board on 5th April 2019 and signed on its behalf by:

Director
Alan Dingwell
5th April 2019

Company no. 04620520

Registered No. 04620520

Directors' report

The directors present their report and financial statements for the 52 weeks ended 5 January 2019.

Results and dividends

The Group profit for the period after taxation amounted to £15.2m (52 weeks ended 6 January 2018 – profit of £14.9m). The directors recommend a final dividend £17.3m (52 weeks ended 6 January 2018 – £14.6m).

Future developments

Throughout 2019 Merseyrail will continue, in partnership with Merseytravel and others, to make improvements to the network and service, to enable the challenges of the coming year to be met.

Merseyrail will continue to work with Stadler and Merseytravel on the introduction of the new fleet. Merseyrail will begin the testing & commissioning phase of the new fleet on behalf of Stadler in June 2019. The initial stage of this will take place in Germany and then move on to Liverpool and happen over a course of overnight closures on the network.

Merseyrail have embarked on the 'Platform Train Interface' works which is a significant programme of engineering works focusing on preparing a number of stations across the network for the new fleet. Merseyrail continue to work closely with Network Rail and Merseytravel in order to ensure this is completed successfully.

Merseyrail will continue its commitment to reaching a resolution with the RMT through independent conciliation service, ACAS, following an agreement in principle that subject to an affordable and sustainable funding package there will be a second person on board.

The Future Ticketing Programme is now taking shape, with Merseyrail co-ordinating and managing a suite of projects that directly contribute to both Merseytravel's vision and the Transport for the North scheme (TfN). An agreement is currently waiting to be signed with TfN that will see £1.6m worth of investment in our projects and will enable Merseyrail to be pioneers in Future ticketing in the north of the country.

From February 2019 all Railpass products will be available on Walrus and platform validators are due to be introduced at stations towards the end of the year.

Merseyrail will commence its annual Charity of the Year partnership with Alder Hey Children's Charity in March 2019 and plans to repeat its community stakeholder event in May 2019, which brings together a number of groups and organisations that contribute to Merseyrail's Corporate Social responsibility strategy.

Meeting the compliance needs of the Network and Information Security Directive (NIS) and General Data Protection Rules (GDPR) remain an on going priority, along with major refreshes to ageing infrastructure and software platforms. The ambition is to move to the Office 365 platform this year to help maintain a secure, fit for future office platform and to help facilitate collaborative working both within Merseyrail and our stakeholders.

Events since the balance sheet date

There have been no significant events since the balance sheet date.

Financial instruments

The financial instruments relate to debtors and creditors and details of financial instruments are provided in note 24. No derivative financial instruments are used within the group. This is the same as in the prior year.

Going concern

The nature of the Merseyrail Concession Agreement with Merseytravel provides a significant subsidy payment. Given the frequency of contract payments, combined with a network where Merseyrail are the sole operator and having reviewed the budgets and forecasts for a 12 month period from the date of signing the financial statements including relevant sensitivities, the directors are confident that the business will continue to be cash generative. The directors believe this will be achieved without the need

Directors' report (continued)

Going concern (continued)

for third party funding in the foreseeable future. Thorough cash management processes are followed and show sufficient liquidity. Accordingly, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for its foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors

The directors who served the company during the period were as follows:

D Booth
J Edwards
A Magielse
J Heron
J Whitehurst (appointed 10 August 2018)
A Dingwall

Indemnity provision for directors

During the year the company had third party indemnity insurance for the directors and officers. This insurance remains in force as at the date of approving the Directors' report. This is the same as in the prior year.

Political and charitable contributions

During the period, the group made charitable donations and sponsorship payments of £101,675 (52 weeks ended 6 January 2018 – £57,805) principally to local charities and groups serving the communities in which the group operates.

Employee involvement and disabled employees

The group gives full and fair consideration to applications for employment from disabled people having regards to their particular aptitudes and abilities. Efforts are made to continue the employment of those who become disabled during their employment, and training, career development and promotion is, as far as possible, identical for all employees in accordance with their skills and abilities.

The group also has a policy of communicating and consulting with its managers and employees to ensure their active involvement.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to made himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

Pursuant to section 487 of the Companies Act 2006, Ernst & Young LLP will be deemed to be re-appointed as auditors.

On behalf of the Board

Director
Alan Dingwell

Company no. 04620520
5th April 2019

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

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

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

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

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

Independent Auditor's Report to the members of Merseyrail Services Holding Company Limited

Opinion

We have audited the financial statements of Merseyrail Services Holding Company Limited ('the parent company') and its subsidiaries (the 'group') for the 52 weeks ended 5 January 2019 which comprise the Group Statement of comprehensive income, the Group and Company Statement of changes in equity, the Group and Company Statement of financial position, the Group Statement of cash flows and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the group's and of the parent company's affairs as at 5 January 2019 and of the group's profit for the 52 weeks then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you were:

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

Independent Auditor's Report to the members of Merseyrail Services Holding Limited (continued)

Other Information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of 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, 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 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 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 7, 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's and the 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.

Independent Auditor's Report to the members of Merseyrail Services Holding Limited (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

Jennifer Hazlehurst (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Liverpool

5th April 2019

Group Statement of comprehensive income

for the period ended 5 January 2019

	Notes	52 weeks ended 5 January 2019 £000	52 weeks ended 6 January 2018 £000
Turnover	2	161,212	151,941
Cost of sales		(142,379)	(133,188)
Operating profit	3	18,833	18,753
Interest receivable and similar income	5	105	28
Interest payable and similar charges	6	(1)	(308)
Other finance income	20	86	75
Profit on ordinary activities before taxation		19,023	18,548
Tax	7	(3,856)	(3,635)
Profit for the financial period	17	15,167	14,913
Other comprehensive income			
Actuarial gain relating to pension scheme	20	2,796	3,208
Deferred tax attributable to actuarial gain		(531)	(617)
Other comprehensive income		2,265	2,591
Total comprehensive income for the period		17,432	17,504

Group Statement of changes in equity

for the period ended 5 January 2019

Group	*Called-up capital*	*Profit and loss account*	*Share-holders equity*
	£000	*£000*	*£000*
At 8 January 2017	–	9,402	9,402
Profit for the period	–	14,913	14,913
Other comprehensive income	–	2,591	2,591
Total comprehensive income for the year	–	17,504	17,504
Equity dividends paid (note 8)	–	(14,564)	(14,564)
At 6 January 2018	–	12,342	12,342

Group	*Called-up capital*	*Profit and loss account*	*Share-holders equity*
	£000	*£000*	*£000*
At 7 January 2018	–	12,342	12,342
Profit for the period	–	15,167	15,167
Other comprehensive income	–	2,265	2,265
Total comprehensive income for the year	–	17,432	17,432
Equity dividends paid (note 8)	–	(17,320)	(17,320)
At 5 January 2019	–	12,454	12,454

Company Statement of changes in equity

for the period ended 5 January 2019

Company	*Called-up capital*	*Profit and loss account*	*Share-holders equity*
	£000	*£000*	*£000*
At 8 January 2017	–	–	–
Profit for the period	–	14,564	14,564
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	14,564	14,564
Equity dividends paid (note 8)	–	(14,564)	(14,564)
At 6 January 2018	–	–	–

Company	*Called-up capital*	*Profit and loss account*	*Share-holders equity*
	£000	*£000*	*£000*
At 7 January 2018	–	–	–
Profit for the period	–	17,320	17,320
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	17,320	17,320
Equity dividends paid (note 8)	–	(17,320)	(17,320)
At 5 January 2019	–	–	–

Group Statement of financial position

at 5 January 2019

	Notes	£000	2019 £000	£000	2018 £000
Fixed assets					
Intangible assets	9		1,503		1,659
Tangible assets	10		3,807		4,364
Deferred tax asset	7		328		423
			5,638		6,446
Current assets					
Stocks	12	114		161	
Debtors	13	11,139		11,160	
Cash at bank and in hand		34,301		33,614	
		45,554		44,935	
Creditors: amounts falling due within one year	14	(38,680)		(38,741)	
Net current assets			6,874		6,194
Total assets less current liabilities			12,512		12,640
Accruals and deferred income					
Deferred government grants			(58)		(298)
Net assets before pension liability			12,454		12,342
Pension liability	20		–		–
Net assets			12,454		12,342
Capital and reserves					
Called-up share capital	16		–		–
Profit and loss account	17		12,454		12,342
Shareholders' funds	18		12,454		12,342

The financial statements of Merseyrail Services Holding Company Limited were approved by the Board of Directors on 5th April 2019

Director

Alan Dingwell

Company no. 04620520

Company Statement of financial position

at 5 January 2019

	Notes	£000	2019 £000	£000	2018 £000
Fixed assets					
Investments	11		–		–
					–
Current assets					
Debtors	13	254		366	
			254		366
Creditors: amounts falling due within one year	14		(254)		(366)
Net current assets			–		–
Total assets less current liabilities			–		–
Capital and reserves					
Called up share capital	16		–		–
Profit and loss account	17		–		–
Shareholders' funds	18		–		–

The financial statements of Merseyrail Services Holding Company Limited were approved by the Board of Directors on 5th April 2019

Director
Alan Dingwell
Company no. 04620520

Group Statement of cash flows

for the period ended 5 January 2019

	Note	*5 January 2019 £000*	*6 January 2018 £000*
Net cash inflow from operating activities	19	18,910	26,084
Investing activities			
Interest received		105	28
Proceeds on transfer of depots and related stock		–	3,148
Proceeds on sale of investment in Nisa		20	–
Purchase of tangible fixed assets		(1,028)	(1,033)
Net cash (outflow)/inflow from investing activities		(903)	2,143
Financing activities			
Equity dividends paid		(17,320)	(14,564)
Interest element of finance lease repayments		–	(6)
Interest element of loan repayments		–	(302)
Repayment of secured loans		–	(745)
Capital element of finance lease repayments		–	(93)
Net cash outflow from financing activities		(17,320)	(15,710)
Increase in cash and cash equivalents		687	12,517
Cash and cash equivalents at 7 January 2018		33,614	21,097
Cash and cash equivalents at 5 January 2019		34,301	33,614

Notes to the financial statements

at 5 January 2019

1. Accounting policies

Statement of compliance

Merseyrail Services Holding Company Limited is a limited liability company incorporated in England. The Registered Office is Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire RG27 9UY.

The Group's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Group for the 52 weeks ended 5 January 2019. This is the same as in the prior year.

Basis of preparation

The financial statements of Merseyrail Services Holding Company Limited were approved for issue by the Board of Directors on 5th April 2019. The financial statements are prepared in accordance with applicable accounting standards. The financial statements are prepared in sterling which is the functional currency of the group and rounded to the nearest £000.

Basis of consolidation

The group financial statements consolidate the financial statements of Merseyrail Services Holding Company Limited and all its subsidiary undertakings drawn up to 3 January (or nearest Saturday) each year. No profit and loss account is presented for Merseyrail Services Holding Company Limited as permitted by section 408 of the Companies Act 2006.

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities.

The group profit and loss account and statement of cash flows also include the results and cash flows of Merseyrail Electrics 2002 Limited.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Pension and other post-employment benefits

The cost of the defined benefit pension plans are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management works closely with the actuaries to establish the rate which best represents the company's views. The mortality rate is based on publicly available UK mortality tables. Future salary increases and pension increases are based on expected UK future inflation rates. Further details are given in note 20.

Goodwill and intangible assets

The group establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business acquisitions. This estimate is based on a variety of factors such as the life of the franchise and any legal, regulatory or contractual provisions that can limit useful life.

Taxation

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are given in note 7.

Notes to the financial statements

at 5 January 2019

1. Accounting policies (continued)

Going concern

The Merseyrail Concession Agreement with Merseytravel provides a significant subsidy payment. Given the frequency of contract payments, combined with a network where Merseyrail are the sole operator and having reviewed the budgets and forecasts for a 12 month period from the date of signing the financial statements including relevant sensitivities, the directors are confident that the business will continue to be cash generative. The directors believe this will be achieved without the need for third party funding in the foreseeable future. Thorough cash management processes are followed and show sufficient liquidity. Accordingly, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for its foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Group financial statements

The financial statements consolidate the financial statements of the company and its subsidiary for the 52 weeks ended 5 January 2019.

Goodwill

Positive goodwill acquired on a business is capitalised, classified as an finance intangible on the statement of financial position and amortised on a straight-line basis over its useful life. The directors regard 25 years as a reasonable maximum for the estimated useful life of goodwill since it coincides with the life of the rail concession (25 years).

Intangible fixed assets

Other intangible fixed assets are capitalised at cost in the year they are incurred and amortised over their useful economic lives. The concession costs incurred in the period ended 3 January 2004 (shown in note 9) are amortised over the life of the concession (25 years).

The carrying values of intangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

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 at the following annual rate:

Leasehold land and buildings – 2%-10% per annum

Plant and machinery, motor vehicles and fixtures and fittings – 4%-50% per annum

Assets under construction are not depreciated until the asset has been brought into operation.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Investments

Investments held as fixed assets are stated at the lower of cost less impairment at the balance sheet date.

Turnover

Turnover consists of rendering of services and goods for resale. Rendering of services includes passenger income, concession payments and ancillary services.

Passenger income represents agreed amounts attributed to the company by the income allocation systems of the Railway Settlement Plan Limited with revenue being recognised as journeys are undertaken.

Concession payments relate to amounts received from Merseytravel under the Concession Agreement to operate Merseyrail trains and is recognised as per the Concession Agreement between the two parties.

The provision of ancillary services to external parties is recognised only when it can be measured reliably and it is probable that economic benefits will flow to the company as the service is delivered.

Notes to the financial statements

at 5 January 2019

1. Accounting policies (continued)

Turnover (continued)

Goods for resale relates to the stock sold in the M to Go shops.

Long term contracts

Contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. Profit on long term contracts is only taken at the stage near enough to completion for that profit to be reasonably certain.

Stocks

Stock is stated at the lower of cost and net realisable value. Cost includes materials and consumable goods. Provision is made for obsolete, slow-moving and defective items where appropriate.

Current asset investments

Investments held as current assets are stated at the lower of cost and market value at the balance sheet date.

Grants

Grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment.

Capital grants and other contributions received towards the cost of tangible fixed assets are included as deferred income in the balance sheet and credited to the income statement over the expected useful life of the asset. Revenue grants are credited to the income statement to match off with the expenditure to which they relate.

Current taxation

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred taxation

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

- where there are differences between amounts that can be deducted for tax for assets (other than goodwill) and liabilities compared with the amounts that are recognised for those assets and liabilities in a business acquisition a deferred tax liability/(asset) shall be recognised. The amount attributed to goodwill is adjusted by the amount of the deferred tax recognised; and
- unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

Notes to the financial statements

at 5 January 2019

1. Accounting policies (continued)

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and are depreciated over their useful lives. A corresponding liability is recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments in the balance sheet.

The interest element of the rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income statement on a straight-line basis over the lease term.

Pensions

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. When a settlement or a curtailment occur the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the income statement during the period in which it occurs.

The net interest element is determined by multiplying the net defined benefit liability by the discount rate, at the start of the period taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost.

Re-measurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net defined benefit liability (excluding amounts included in net interest) are recognised immediately in other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit and loss in subsequent periods.

The deficit reflected in the balance sheet reflects only that portion of the deficit that is expected to be funded over the franchise term, net of deferred tax. A 'franchise adjustment' is made to the deficit on this basis. The franchise adjustment is the projected deficit at the end of the franchise term, which the company will not be required to fund, discounted back to present value.

The defined benefit pension scheme is funded, with the assets held separately from those of the company, in separate trustee administered funds. Pension scheme assets are measured at bid value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. Subject to the franchise adjustment, any resulting defined benefit asset or liability is presented separately after other net assets on the face of the balance sheet.

Finance costs

Finance costs of financial liabilities are recognised in the income statement over the term of such instruments at a constant rate on the carrying amount.

Bank borrowings

All interest-bearing loans and borrowings which are basic financial instruments are initially recognised at the present value of cash payable to the bank (including interest payments and repayment of capital). After initial recognition they are measured at amortised cost using the effective interest rate method, less impairment. The effective interest rate amortisation is included in finance revenue in the income statement.

Notes to the financial statements

at 5 January 2019

2. Turnover and segmental analysis

All turnover originates in the United Kingdom and derives from passenger income and other services.

Area of activity

	52 weeks ended 5 January 2019	*52 weeks ended 6 January 2018*
	£000	*£000*
Group turnover		
Continuing operations:		
Total sales of goods	2,051	1,986
Rendering of services	159,161	149,955
Sales to third parties	161,212	151,941

3. Operating profit

This is stated after charging/ (crediting):

	52 weeks ended 5 January 2019	*52 weeks ended 6 January 2018*
	£000	*£000*
Fees payable to the company and subsidiary's auditors for the audit of the financial statements	89	82
Fees payable to the company's auditors and their associates for other services to the group:		
– other audit related assurance services	16	11
Loss on disposal of fixed assets	2	30
Profit on sale of investments	(20)	–
Government grant released	(481)	(527)
Depreciation and amortisation – intangible fixed assets	156	156
– owned tangible fixed assets	1,583	1,729
– fixed assets held under finance lease	–	78
Access charges payable to Network Rail	8,223	5,519
Operating lease rentals – plant and machinery	12,580	12,562
– land and buildings	8,947	9,068

Notes to the financial statements

at 5 January 2019

4. Staff costs

	52 weeks ended 5 January 2019 £000	52 weeks ended 6 January 2018 £000
Wages and salaries	44,577	46,775
Social security costs	4,834	4,885
Pension costs – defined benefit schemes	5,672	6,360
– personal pension schemes	18	16
	55,101	58,036

The staff costs include the directors' salaries.

The average monthly number of employees during the period, including directors was made up as follows:

	52 weeks ended 5 January 2019 No.	52 weeks ended 6 January 2018 No.
Operational	1,033	1,036
Engineering and maintenance	32	120
Administration and support	89	83
	1,154	1,239

The costs of the directors of Merseyrail Services Holding Company Limited's remuneration are borne by related parties. It is not practicable to identify remuneration related to the services as directors of the company or its subsidiary.

5. Interest receivable and similar income

	52 weeks ended 5 January 2019 £000	52 weeks ended 6 January 2018 £000
Bank interest	65	10
Other interest	40	18
	105	28

Notes to the financial statements

at 5 January 2019

6. Interest payable and similar charges

	52 weeks ended 5 January 2019 £000	52 weeks ended 6 January 2018 £000
Loan interest	–	45
Loan settlement interest	–	257
Finance lease interest	–	6
Other interest	1	–
	1	308

7. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	52 weeks ended 5 January 2019 £000	52 weeks ended 6 January 2018 £000
Current tax:		
UK corporation tax on the profit for the period	(4,293)	(4,381)
Adjustment in respect of prior periods	1	53
Total current tax	(4,292)	(4,328)
Deferred tax:		
Origination and reversal of timing differences	(12)	2
Adjustment in respect of prior periods	(83)	74
Pension cost charge in excess of pension relief	531	617
Deferred tax	436	693
Tax on profit on ordinary activities	(3,856)	(3,635)

Notes to the financial statements

at 5 January 2019

7. Tax (continued)

(b) Factors affecting tax charge for the period

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 19% (52 weeks ended 6 January 2018 – 19.23%). The differences are explained below:

	52 weeks ended 5 January 2019	*52 weeks ended 6 January 2018*
	£000	*£000*
Profit on ordinary activities before tax	19,023	18,548
Tax on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (52 weeks ended 6 January 2018 – 19.23%)	(3,614)	(3,567)
Effects of:		
Expenses not deductible for tax purposes	(159)	(194)
Adjustment in respect of prior periods	(83)	126
Total tax expense	(3,856)	(3,635)

(c) Deferred tax

	£000
Deferred tax asset:	
At 7 January 2018	423
Deferred tax credit in income statement	436
Debited to statement of comprehensive income	(531)
At 5 January 2019	328

	52 weeks ended 5 January 2019	*52 weeks ended 6 January 2018*
	£000	*£000*
Included in fixed assets	328	423

Notes to the financial statements

at 5 January 2019

7. Tax (continued)

Analysis of deferred tax balance

	52 weeks ended 5 January 2019 £000	*52 weeks ended 6 January 2018 £000*
Depreciation in excess of capital allowances	246	342
Short term timing difference	82	81
Deferred tax asset	328	423

There is no deferred tax asset or liability in the company.

The underlying trade of the Group is profitable and profit forecasts support that it is more likely than not that there will be sufficient future trading profits against which the timing differences giving rise to the deferred tax asset will reverse.

(d) Factors that may affect future tax charges

Reductions in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 5 January 2019 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

8. Dividends

	5 January 2019 £000	*6 January 2018 £000*
Equity dividends paid of £8,659,766 per share (6 January 2018 – £7,282,000)	17,320	14,564

9. Intangible fixed assets

Group	*Concession costs £000*	*Franchise Intangible £000*	*Total £000*
Cost:			
At 7 January 2018 and 5 January 2019	726	3,190	3,916
Amortisation:			
At 7 January 2018	418	1,839	2,257
Charge for the period	29	127	156
At 5 January 2019	447	1,966	2,413
Net book value:			
At 5 January 2019	279	1,224	1,503
At 7 January 2018	308	1,351	1,659

Notes to the financial statements
at 5 January 2019

10. Tangible fixed assets

Group	*Leasehold land and buildings £000*	*Assets in the course of construction £000*	*Plant and machinery £000*	*Fixtures and fittings £000*	*Total £000*
Cost:					
At 7 January 2018	1,114	379	8,230	6,811	16,534
Additions	–	804	116	108	1,028
Disposals	–	–	(101)	–	(101)
Transfers	–	(882)	753	129	–
At 5 January 2019	1,114	301	8,998	7,048	17,461
Accumulated depreciation:					
At 7 January 2018	541	–	7,163	4,466	12,170
Charge for the period	49	–	758	776	1,583
Disposals	–	–	(99)	–	(99)
At 5 January 2019	590	–	7,822	5,242	13,654
Net book value:					
At 5 January 2019	524	301	1,176	1,806	3,807
At 7 January 2018	573	379	1,067	2,345	4,364

The cost of assets held by the group under finance leases at 5 January 2019 was £1,863,000 (6 January 2018 – £1,863,000). The accumulated depreciation provided for on those assets at 5 January 2019 was £1,863,000 (6 January 2018 – £1,863,000). The assets are held for continuing use in the business with an annual peppercorn rent made.

The cost of assets held by the group financed by a government grant at 5 January 2019 was £2,846,000 (6 January 2018 – £2,846,000). The accumulated depreciation provided for on those assets at 5 January 2019 was £2,047,000 (6 January 2018 – £1,566,000).

11. Investments

	Subsidiary undertakings £
Cost:	
At 7 January 2018 and 5 January 2019	2

The investment in the subsidiary relates to 100% of the issued share capital of Merseyrail Electrics 2002 Limited, a company incorporated in England which operates passenger railway services.

12. Stocks

Group	*5 January 2019 £000*	*6 January 2018 £000*
Raw materials and consumables	114	161
	114	161

Stocks recognised as an expense in the period were £207,000 (6 January 2018 – £37,000).

Notes to the financial statements

at 5 January 2019

13. Debtors

	Group		Company	
	5 January 2019	*6 January 2018*	*5 January 2019*	*6 January 2018*
	£000	*£000*	*£000*	*£000*
Trade debtors	4,252	5,065	–	–
Amounts owed by subsidiary undertaking	–	–	254	366
VAT	810	1,031	–	–
Other debtors	869	289	–	–
Prepayments and accrued income	5,208	4,775	–	–
	11,139	11,160	254	366

14. Creditors: amounts falling due within one year

	Group		Company	
	5 January 2019	*6 January 2018*	*5 January 2019*	*6 January 2018*
	£000	*£000*	*£000*	*£000*
Trade creditors	4,659	12,130	–	–
Corporation tax payable	2,011	1,884	46	47
Other creditors	20,121	17,712	–	–
Other taxation and social security costs	1,098	1,057	208	319
Accruals and deferred income	10,791	5,958	–	–
	38,680	38,741	254	366

In the current year management have reassessed where certain items are mapped to and concluded that two items totalling £2.4m are better included within Accruals and deferred income and accruals rather than Trade creditors. The prior year figures have not been restated. If a corresponding adjustment were to be made then £2.3m would transfer from Trade Creditors to Accruals and Deferred income.

15. Issued share capital

		5 January 2019		*6 January 2018*
Allotted, called up and fully paid	*No.*	*£*	*No.*	*£*
Ordinary A shares of £1 each	1	1	1	1
Ordinary B shares of £1 each	1	1	1	1
		2		2

The A shares and B shares are separate classes of shares but carry the same rights and privileges and rank pari pasu in all respects.

Notes to the financial statements

at 5 January 2019

16. Movements on reserves

Group	*Income statement* *£000*
At 7 January 2018	12,342
Profit for the financial period	15,167
Dividends paid (note 8)	(17,320)
Actuarial gains and losses (net of deferred tax)	2,265
At 5 January 2019	12,454

The company has taken advantage of section 408 of the Companies Act 2006 not to present a company income statement. Profit for the company of £17,320,000 (6 January 2018 – £14,564,000) is derived from net management charge of £843,615 (6 January 2018 – £1,289,897) and dividend income of £16,476,385 (6 January 2018 – £13,274,103). Retained profit of the company for the period was £nil (6 January 2018 – £nil).

17. Reconciliation of shareholders' funds

Group	*5 January 2019* *£000*	*6 January 2018* *£000*
Profit for the financial period	15,167	14,913
Dividends paid (note 8)	(17,320)	(14,564)
Other recognised gains and losses relating to the period (net of deferred tax)	2,265	2,591
Net increase in shareholders' funds	112	2,940
Opening shareholders' funds	12,342	9,402
Closing shareholders' funds	12,454	12,342

Company	*5 January 2019* *£000*	*6 January 2018* *£000*
Profit for the financial period	17,320	14,564
Dividends paid (note 8)	(17,320)	(14,564)
Net change in shareholders' funds	–	–
Opening shareholders' funds	–	–
Closing shareholders' funds	–	–

Notes to the financial statements

at 5 January 2019

18. Notes to the statement of cash flows

Reconciliation of profit to net cash inflow from operating activities

	5 January 2019 *£000*	*6 January 2018* *£000*
Group profit for the year	18,833	18,753
Depreciation of tangible assets	1,583	1,807
Amortisation of intangible assets	156	156
Loss on disposal of fixed assets	2	30
Decrease in stocks	47	609
Decrease/(increase) in debtors	21	(10)
(Decrease)/increase in creditors	(444)	5,930
Difference between pension charge and cash contributions	2,882	3,283
Corporation tax paid	(4,170)	(4,474)
Net cash inflow from operating activities	18,910	26,084

19. Capital commitments

	5 January 2019 *£000*	*6 January 2018* *£000*
Contracted for but not provided in the financial statements	83	24

Notes to the financial statements

at 5 January 2019

20. Pensions

Pension commitments

The group operates a section of the Railways Pension Scheme ('the section'). This provides benefits for employees based on final pensionable pay. The members are expected to meet 40% of the cost of the emerging benefits. The employer made contributions of £3,104,000(including Brass) in the period (6 January 2018 – £3,297,000). The expected employer contributions for the next financial period are estimated at £3,217,000 (6 January 2018 – £3,081,000).

On 8 July 2010, the UK Minister for Pensions announced the Government's intention to move to using the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) as the inflation measure for determining the pension increases to be applied to the statutory index-linked features of retirement benefits. The rules of the section refer directly to the relevant legislation, rather than RPI inflation, in respect of increases to deferred pensions and pensions in payment. The company has therefore allowed for increases to pensions in payment and deferment in line with CPI inflation.

A CPI inflation of 2.10% p.a. has been assumed at 5 January 2019.

A High Court judgment regarding the equalisation of GMP was published on 26 October 2018. The judgment itself related to the Lloyds Banking Group's pension schemes and requirements to equalise scheme benefits, to address the inherent inequality between genders caused by GMP legislation. GMP is the minimum benefit that must be provided by a pension scheme to a member who had been contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. This ruling has implications for all occupational pension schemes; including Merseyrail; that were contracted out of SERPS on a defined benefit basis between 17 May 1990 and 5 April 1997.

The Scheme Actuary has estimated that the impact on the value of the liabilities of the Merseyrail shared Cost Section of the Railways Pension Scheme Group is around 0.2% which is then further reduced by 40% (as the employer is only required to fund 60% of obligations under the scheme rules). This has been deemed immaterial and hence has not been included in the value of the defined benefit obligation at the 2018 year-end.

Actuarial assumptions

The full actuarial valuation at 31 December 2016 was updated to 5 January 2019 and 6 January 2018 by a qualified actuary, using the following assumptions in relation to future experience:

	5 January 2019	*6 January 2018*	*7 January 2017*
Discount rate	3.20%	2.90%	2.90%
Rate of increase in salaries	2.70%	2.60%	2.70%
Rate of increase in deferred pensions	2.10%	2.00%	2.10%
Rate of increase in pensions in payment	2.10%	2.00%	2.10%
Inflation assumption	3.20%	3.10%	3.20%
Long term rate of return expected	3.20%	2.90%	2.90%

In addition to the above rates of increase in salaries, a scale of promotional salary increase is assumed.

Notes to the financial statements

at 5 January 2019

20. Pensions (continued)

The main mortality assumptions used to determine benefit obligations were:

		5 January 2019 Table	*5 January 2019 Multiplier*	*6 January 2018 Table*	*6 January 2018 Multiplier*
Male pensioners	Pension under £10,300 pa (6 January 2018 - £10,300) or pensionable pay under £35,000 pa	S1 normal males heavy	96%	S1 normal males heavy	96%
	Others	S1 normal males	93%	S1 normal males	93%

Male members are segmented into three postcode groups and an adjustment is made to the multipliers accordingly.

Allowance for future improvements in mortality has been made in line with the "core projection" model published by the CMI in 2013, assuming a long-term improvement rate for the period to 5 January 2019 of 1.25% p.a. (6 January 2018 – 1.25% p.a.).

The net asset/ (liability) of the group is summarised as follows:

	5 January 2019 £000	*6 January 2018 £000*	*7 January 2017 £000*	*9 January 2016 £000*	*3 January 2015 £000*
Total market value of assets	193,349	192,159	171,128	146,397	135,688
Present value of scheme liabilities	(257,027)	(265,506)	(247,426)	(207,152)	(207,578)
Members' share of deficit	25,471	29,339	30,519	24,302	28,756
Franchise adjustment	38,207	44,008	45,779	36,453	39,049
Deficit in scheme	–	–	–	–	(4,085)
Related deferred tax asset	–	–	–	–	817
Net pension asset / (liability)	–	–	–	–	(3,268)

The long term contractual responsibility for the rail pension schemes rests with the Department for Transport. Accordingly, the company balance sheet only recognises the share of surplus or deficit expected to be realised over the life of each franchise. To better reflect the company's limited responsibility for pensions during the length of its franchise, the operating profit only recognises the company's agreed cost for pensions during this period. This is effected by means of a franchise adjustment to the income statement.

Notes to the financial statements

at 5 January 2019

20. Pensions (continued)

Fair value of assets

The assets in the scheme were:

	5 January 2019 %	5 January 2019 Value £000	6 January 2018 %	6 January 2018 Value £000
Equities	61.1	118,045	63.1	121,248
Bonds/Gilts	20.5	39,683	10.5	20,075
Property	9.2	17,883	9.3	17,958
Cash and other	9.2	17,738	17.1	32,878
	100%	193,349	100%	192,159

	5 January 2019 £000	6 January 2018 £000
Amounts included within operating profit:		
Current service cost	6,010	6,170
Brass contributions	142	164
Past service cost (curtailment)	(480)	–
Total included within operating profit	5,672	6,334
Amounts included as other finance (income)/costs:		
Expected return on scheme assets	(3,210)	(2,930)
Interest cost on scheme liabilities	4,400	4,180
Interest on franchise adjustment	(1,276)	(1,325)
Net finance return	(86)	(75)

Taken to other comprehensive income:

	5 January 2019 £000	6 January 2018 £000
Return on plan assets	2,658	(15,969)
Effect of changes in financial assumptions	(12,491)	(6,100)
Effect of experience adjustments	–	11,560
Effect of changes in demographic assumptions	(6,620)	–
Loss from change in members share	6,580	4,205
Loss on franchise adjustment	7,077	3,096
Remeasurement gains and losses recognised in other comprehensive income	(2,796)	(3,208)

Notes to the financial statements

at 5 January 2019

20. Pensions (continued)

Analysis of the change in benefit obligation during the period:

	5 January 2019	*6 January 2018*
	£000	*£000*
Benefit obligation at beginning of the period	265,506	247,426
Current service cost – Employer (including Brass)	6,152	6,334
Current service cost – Employee	4,007	4,110
Past service cost (curtailment) - Employer	(480)	–
Past service cost (curtailment) - Employee	(320)	–
Interest cost – Employer	4,400	4,180
Interest cost – Employee	2,933	2,790
Effect of changes in financial assumptions	(12,491)	(6,100)
Effect of experience adjustments	–	11,560
Effect of changes in demographic assumptions	(6,620)	–
Benefits paid (including Brass)	(6,060)	(4,794)
Benefit obligation at end of period	257,027	265,506

Analysis of the change in plan assets during the period:

	5 January 2019	*6 January 2018*
	£000	*£000*
Fair value of plan assets at beginning of the period	192,159	171,128
Interest income – Employer	3,210	2,930
Interest income – Employee	2,140	1,950
Return on plan assets	(2,658)	15,969
Administrative expenses paid from plan assets	(523)	(410)
Employer contribution	2,962	3,133
Employer Brass matching contributions	142	164
Member contributions	1,977	2,089
Benefits paid (including Brass)	(6,060)	(4,794)
Fair value of plan assets at end of period	193,349	192,159

Discussions with the Pensions Regulator, and other all stakeholders, in relation to the latest statutory Pensions Act valuation as at 31 December 2016 for all Sections of the Railway Pension Schemes in relation to for the Train Operating Companies are still on going and this process is likely to continue for some months. As a result, the Regulator has asked that these Pensions Act valuations are is not completed until matters are all agreed. Until the valuation is complete, it will not be possible to determine the future investment strategy and cash contribution requirements.

Notes to the financial statements

at 5 January 2019

21. Obligations under leases

At 5 January 2019 the company has entered into commercial leases on certain properties, motor vehicles, and all the rolling stock required to operate our rail services. Future minimum rentals payable under non-cancellable operating leases are as follows:

Group		*5 January 2019*		*6 January 2018*
	Land and buildings	*Other*	*Land and buildings*	*Other*
	£000	*£000*	*£000*	*£000*
Operating leases which expire:				
Within one year	9,208	14,378	8,768	18,651
Within two to five years	4,228	67	12,189	1,602
Over five years	2,511	–	2,778	–
	15,947	14,445	23,735	20,253

22. Related party transactions

During the year the group entered into transactions, in the ordinary course of business, with other related parties. The transactions with them are summarised below:

Merseyrail Electrics 2002 Ltd

	5 January 2019	*6 January 2018*
	£000	*£000*
Other trading transaction income	1,042	1,597

All of the above expenses were receivable from Merseyrail Electrics 2002 Ltd which is 100% owned by Merseyrail Services Holding Company Ltd. At the period end, the company owed Merseyrail Electrics 2002 Ltd £nil (6 January 2018 – £nil). At the period end, the company was owed £254,000 by Merseyrail Electrics 2002 Ltd (6 January 2018 – £366,000).

Serco Group plc

	5 January 2019	*6 January 2018*
	£000	*£000*
Executive salaries and expense recharges (including non-directors)	178	294
Dividends paid and proposed	8,660	7,282
Other trading transaction costs	63	95

All of the above expenses were payable to Serco Group plc and its subsidiaries which are related parties by virtue of Serco Group plc owning 50% of the issued share capital of the company. At the period end, the group owed Serco Group plc £nil (6 January 2018 – £48,543). At the period end, the group was owed £nil by Serco Group plc (6 January 2018 – £nil).

Notes to the financial statements

at 5 January 2019

23. Related party transactions (continued)

NV Nederlandse Spoorwegen

	5 January 2019	*6 January 2018*
	£000	*£000*
Other trading transaction income including salary recharges	(299)	(242)
Executive salaries and expense recharges (including non-directors)	121	417
Dividends paid and proposed	8,660	7,282
Other trading transaction costs	190	313

All of the above expenses/(income) were payable to/(receivable from) NV Nederlandse Spoorwegen and its subsidiaries which are related parties by virtue of NV Nederlandse Spoorwegen owning 50% of the issued share capital of the company. At the period end, the group owed NV Nederlandse Spoorwegen £5,953 (6 January 2018 – £134,480) At the period end, the group was owed £33,088 by NV Nederlandse Spoorwegen (6 January 2018 – £21,501).

Northern Rail Limited

	5 January 2019	*6 January 2018*
	£000	*£000*
Other trading transaction income including salary recharges	(64)	(98)

All of the above income was receivable from Northern Rail Limited a related party by virtue of the fact that both Northern Rail Limited and Merseyrail Electrics 2002 Limited are joint ventures of the same ultimate controlling parties. At the period end, the group was owed £3,338 by Northern Rail Limited (6 January 2018 – £13,344).

Abellio Scotrail Limited

	5 January 2019	*6 January 2018*
	£000	*£000*
Other trading transaction income including salary recharges	(36)	(5)

All of the above income was receivable from Abellio Scotrail Limited a related party by virtue of the fact that both Abellio Scotrail Limited and Merseyrail Electrics 2002 Limited are joint ventures of the same ultimate controlling parties. At the period end, the group was owed £nil (6 January 2018 – £nil) by Abellio Scotrail Limited.

Abellio Greater Anglia Limited

	5 January 2019	*6 January 2018*
	£000	*£000*
Other trading transaction income including salary recharges	(45)	–

Notes to the financial statements

at 5 January 2019

22. Related party transactions (continued)

All of the above income was receivable from Abellio Greater Anglia Limited a related party by virtue of the fact that both Abellio Greater Anglia Limited and Merseyrail Electrics 2002 Limited are joint ventures of the same ultimate controlling parties. At the period end, the group was owed £nil (6 January 2018 – £nil) by Abellio Greater Anglia Limited.

23. Post Balance Sheet Events

There have been no significant events since the balance sheet date.

24. Financial Instruments

	5 January 2019	*6 January 2018*
	£000	*£000*
Financial assets that are debt instruments measured at amortised cost		
– other debtors	5,121	6,385
Financial liabilities measured at amortised cost		
– trade creditors	4,659	12,130
– accruals	6,153	–

25. Ultimate parent undertaking and controlling party

The ultimate controlling parties of Merseyrail Services Holding Company Limited are NV Nederlandse Spoorwegen and Serco Group plc. Copies of the financial statements of NV Nederlandse Spoorwegen are available from Laan Van Puntenburg 100, 3511 ER, Utrecht, Netherlands. Copies of the financial statements of Serco Group plc are available from Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire RG27 9UY.