

## **Merseyrail Services Holding Company Limited**

### **Report and Financial Statements**

7 January 2023

Company no. 04620520

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## Merseyrail Services Holding Company Limited

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### Corporate information

#### Directors

D Booth  
G Nicoll  
J Whitelurst  
R Conneely (Appointed 28 February 2023)  
E Walker (Appointed 28 February 2023)  
C Harris (Appointed 7 June 2023)

#### Secretary

LDC Nominee Secretary Limited

#### Auditors

Ernst & Young LLP  
Edward Pavilion  
Royal Albert Dock  
Liverpool L3 4AF

#### Bankers

National Westminster Bank  
Liverpool

#### Solicitors

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

Stephenson Harwood LLP  
1 Finsbury Circus  
London  
EC2M 7SH

#### Registered Office

2 New Bailey  
6 Stanley Street  
Salford  
Manchester  
M3 5GS

## Merseyrail Services Holding Company Limited

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### Strategic report

The directors present their Strategic report and the financial statements for the 52 weeks ended 7 January 2023.

#### 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 Merseyside. Now in the latter stages of the concession, the length of the contract has enabled Merseyrail 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 Transport UK Limited T/A Abellio (following the completion of a management buyout on 28 February 2023). Transport UK Group Limited is both UK owned and operated.

*Merseyrail is an urban network of vital importance to the transport infrastructure and local economy of Merseyside. It is one of the most intensively used networks in the UK, we operate over 600 train services daily from Monday to Saturday and 324 on Sundays. 72,000 passenger journeys are made on Merseyrail each weekday, and there are 26 million passenger journeys every year.*

During FY 2023 the rail industry saw the commencement of industrial action, this disruption was not only across our network, but industry wide. This factor coupled with rising inflation and a looming cost of living crisis meant that the business needed to continue to grow passenger revenues and maximise other revenue streams where possible.

FY 2023 saw passenger confidence grow, as large-scale events returned to the region. As a result, our revenue recovery and growth for FY 2023 has been strong, and we are now operating at 85% of pre pandemic levels. As we look ahead into FY 2024, we have three key events in Merseyside, The Grand National, Eurovision, and The Open golf tournament. We hope to utilise these events to maximise our revenues, whilst providing a safe and reliable service for passengers attending these events.

The network is bisected by the river Mersey and incorporates 120km of track, 10.5km of which are underground. Of the 68 stations, 67 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.

During FY 2023 the business continued to operate a fleet of 54 class 507/508 electric trains whilst the testing phase of the new fleet of state of the art 777 trains commissioned by Merseytravel continued. However, on the 23 January 2023 the 777 trains entered service on the Kirkby line with 4 trains entering service. A phased implementation plan to roll out the 777 trains across our network will be undertaken during FY 2024.

The directors are pleased with the performance of the business in the year, recovery continues to be strong, and the positive performance has enabled the business to invest in both its customers and employees. The company generated profit before interest and taxes of £15.1m this is compared to a profit of £2.8m in the prior period.

Turnover was £185.7m which was an uplift of 13.9 per cent on the previous period (52 weeks ended 8 January 2022 – £163.0m).

On 7 January 2023, the cash balance was £33.2m (8 January 2022 – £28.9m). The company has remained in a positive cash position throughout the period.

In FY 2023 Merseyrail continued to work with various parties to invest in the network by delivering key schemes. New lifts at Hillside, Birkenhead Park & Hunts cross stations were constructed, improving accessibility at these stations. In FY 2024, new lifts are expected to open at St Michaels and Liverpool Central, further enhancing the accessibility of our network.

Merseyrail continue to be an active stakeholder in the Headbolt Lane project, inputting in the design and development of the new station, including supporting the introduction of IPEMU battery operated trains. Merseyrail will also continue to support the longer-term development relating to the reopening of St James station.

Merseyrail was the most punctual rail operator on the UK rail network in FY 2023, with a PPM score of 95.35%. In March 2023 Merseyrail received its 5<sup>th</sup> Golden whistle for the Best operator performance at the Golden Whistle Awards.

## Merseyrail Services Holding Company Limited

### Strategic report (continued)

Cementing its reputation as the most punctual rail operator in the country

A continuing key focus for the business which is reflected in the rollout of our comprehensive business strategy in FY 2023, focussing our teams on meeting our key corporate goals as part of achieving our vision to deliver a sustainable and customer focused railway that our region can be proud of. Furthermore, we are committed to improve Diversity Awareness through our community collaborations and inclusive engagement with particular focus on ethnic minority groups and recruitment.

During FY 2023 we have continued with our commitment to working in partnership with community groups, schools, colleges, and charities to support the Liverpool City Region. We have continued to engage with our school partners through regular emails and art projects. We have also continued to engage with our community groups via emails and telephone.

Merseyrail continues to manage the impacts of market pressures including increasing RPI and CPI rates. For further information see the going concern section within the Directors' report.

#### Key Performance Indicators

A summary of the company's KPIs, is provided here.

KPI	52 weeks to 07/01/2023	52 weeks to 08/01/2022
Operating profit	£15.0m	£2.7m
PPM	95.35%	97.12%

#### S172 statement

The Directors of the Group, as those of all UK companies must act in accordance with a set of general duties. These duties are detailed in section 172 of the Companies Act 2006 which is summarised as follows:

'A director of a group must act in the way he considers, in good faith, would be most likely to promote the success of the group for the benefit of its members, and in doing so have regard (amongst other matters) to-

- the likely consequences of any decision in the long-term,
- the interests of the group's employees,
- the need to foster the group's business relationships with suppliers, customers, and others,
- the impact of the group's operations on the community and the environment,
- the desirability of the group maintaining a reputation for high standards of business conduct, and
- *the need to act fairly as between members of the group.*

The Board of directors regularly reviews the business's principal suppliers, customers, and others and how we engage with them.

The Board is comprised of 6 directors from Merseyrail's shareholders Serco and Transport UK Limited T/A Abellio.

The other directors include the Managing director, the Finance director and the People director of Merseyrail.

In addition to a scheduled programme of monthly Board meetings, the Merseyrail Team of Directors (ToD) meet weekly, during which there is feedback from various business areas, with particular focus on specific stakeholder groups.

Key stakeholders are:

- Shareholders – Abellio and Serco
- Merseytravel
- Key suppliers – Network Rail and Stadler
- Office of Rail Regulator (ORR)
- Customers
- Local Community
- Our People

## Merseyrail Services Holding Company Limited

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### Strategic report (continued)

Prior to the monthly Board meeting the Team of Directors ToD hold a business review meeting, the results of which are fed back to the wider Board.

The outcome of stakeholder engagement generally, as fed back to the Board via the channels referred to above and below, influences the formulation and ongoing review of the long-term strategy and financial planning to ensure that our approach continues to deliver sustainable returns and promotes reputational reward. The Directors aim to take the needs and priorities of each stakeholder group into account as part of their decision-making processes, recognising that the pertinence of a particular stakeholder group may vary depending upon the matter under discussion.

The following paragraphs summarise how the Directors fulfil their duties and engage with each of the key stakeholder groups:

#### **Risk Management**

To comply with the Railways and Other Guided Transport Systems (safety) regulations (ROGs), as a Mainline operator, Merseyrail are certified to operate units on the mainline network under a current safety certificate and safety authorisation which is endorsed by the Office of the Rail Regulator (ORR). As a Group we document all our risk management arrangements for operating safely on the mainline network within the safety certificate, which is supported by the relevant elements of the safety management system. Where there are substantial changes to the way in which Merseyrail operates, an amendment application is made to the ORR which ensures that any notable changes are recorded, and the contents of the safety certificate remains valid and up to date.

We remain alert to changes in its risk profile through various mechanisms including risk assessment, safety validation of change, major risk reviews and periodic review of the business risk register.

Risks are owned by management and therefore they are responsible for ensuring that relevant controls are designed, implemented, and periodically tested to ensure that the control design effectiveness remains valid, whether the risk remains, has been terminated and / or whether new risks require new controls putting in place.

On a quarterly basis the business risk register is issued to the Team of Directors for review and update. Responses are received and the relevant updates made to the register including risk score, profile, and mitigation. The risk register also forms part of the monthly board packs.

Through all mediums of evaluating risk in the business there are suitable and sufficient techniques available which allow for controls to be identified and risks to be qualified/quantified.

#### **Our People**

Merseyrail is committed to being a responsible business. Our behaviour is aligned with the expectations of our employees, stakeholders, customers, communities, and society. For our business to succeed we need to manage our people's performance and develop them to create an environment that produces highly motivated, high performing and highly satisfied employees whilst ensuring we operate as efficiently as possible.

Equality, Diversity, and Inclusion (EDI) are important at Merseyrail, and this is reflected internally with our Team of Directors (ToD) being 60% female. In FY 2022 we also continued with our Diversity Forum and both our Women in Merseyrail and our LGBTQ and Allies network groups.

A key focus for FY 2022 and into FY 2023 was to improve Diversity Awareness through our community collaborations and inclusive engagement with particular focus on ethnic minority communities in the Liverpool City Region.

We have made some important contacts within the region and the team involved in the Race Equality Working Group. We will be supporting the group and looking at how we can benefit from the research, background and employment and skills initiatives which they are working on. This will help us as a business to better understand the communities we work in and how we can improve our approach to recruitment within these communities.

We must also ensure we share common values that inform and guide our behaviour, so we achieve goals in the right way.

## Merseyrail Services Holding Company Limited

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### Strategic report (continued)

The Employee Engagement Survey provided a valuable opportunity for staff to share their opinions. FY 2023 saw a 73% response rate and 76% engagement score for the business in our Your Voice - Employee Engagement Survey in November 2022. We have subsequently reviewed those results and action planned accordingly.

We continuously endeavour to engage and involve our employees at every opportunity as our people are *important to us*.

This includes recording and sharing a monthly MD Business update video, functional team meetings and bi-annual director 'blitz' of the network – everywhere in a day. Also, Directors and Senior Management undertake Staff Facebook Live Director Question and Answer sessions.

In late 2022, Merseyrail has been recognised as one of the best employers in the region, following its inclusion in the Liverpool City Region's Fair Employment Charter.

We have met the standards of the initiative launched by Liverpool City Region Metro Mayor Steve Rotherham, which aims to reward, highlight, and acknowledge the best companies in the Merseyside region.

The Fair Employment Charter for Liverpool City Region celebrates fair employment practices and inspires other companies to drive-up their standards.

The charter has been guided by a Reference Group made up of representatives from Trades Unions, the Chartered Institute of Personnel and Development, Acas, and employers from across the public, private, community and voluntary sectors.

Now Merseyrail has been recognised as one of the leading employers in the city region by attaining the Aspiring level within the Fair Employment Charter with plans to become fully accredited during the next 12 months.

The designation highlights to staff, customers, partners, and the public that Merseyrail is committed to the principle of fair employment and wants to play its part in building a healthy, fair, inclusive, and just Liverpool City Region.

For more details on this approach see the Employees' engagement section of the Director's report.

#### ***Business Relationships***

Merseyrail's strategy focuses on exceeding the expectations of our customers and delivering a sustainable and successful business.

To exceed our customers' expectations, we must not be complacent. Delivery of excellent service day in, day out is core, but we also proactively engage and actively listen to our customers.

To ensure that Merseyrail was able to measure, understand and react to customer satisfaction levels, customer confidence surveys were introduced in 2020. These surveys, conducted through social media channels and website at key moments during the pandemic demonstrate that on average 91% of passengers would travel with Merseyrail again based on their journey experience. Merseyrail was also named in the top 50 customer service businesses in the UK, as the top performing rail operator in the Institute of Customer Services January 2023 UKCSI survey.

Merseyrail will continue to strive to be a proactive and engaging partner and through driving innovation, growth, and efficiency, we will support Merseytravel in delivering an affordable rail proposition. In line with our client's own ambitions, we will continue to proactively engage with the Liverpool City Region Combined Authority's Long-Term Rail Strategy, driving forward with expansion and enhancement of the network. Our proactive partnership approach is also critical to our success in many other areas too, notably with Network Rail, Stadler and other strategic suppliers and stakeholders.

Our partnership with Stadler and Merseytravel has seen the introduction of the new 777 class units on to the Kirkby line, commencing in January 2023 with 4 units entering service. The roll-out of the new trains will continue for the next 12 months across the rest of the network. As part of the introduction of the new trains, we have successfully concluded negotiations with both the RMT and ASLEF.

We have also completed the construction of new lifts at Birkenhead Park, Hunts Cross and Hillside, with construction work progressing well at St Michaels and Liverpool Central. This work has been carried out in partnership with Merseytravel and Network Rail.

## **Merseyrail Services Holding Company Limited**

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### **Strategic report (continued)**

We regularly engage with stakeholders to obtain their feedback and points of view to foster the Group's relationships and ensure we have good working partnerships.

We hold frequent meetings with Stadler, Network Rail and Merseytravel to discuss projects and their progress.

For more details on this approach see the Stakeholders' interest section of the Director's report.

#### ***Community and Environment***

The Group's approach is to use our position of strength to create positive change for the people and communities with which we interact. One of our key business objectives is to "Be a valued society partner to the Liverpool City Region.

During FY 2023 we have continued to focus on our role as a valued society partner to the Liverpool City Region, ensuring we continually enhance the communities we serve. Whilst there was a slow start to the year with the effects of Covid still affecting our work the second half of the year saw a substantial increase in activity and support for our partners.

We selected 4 charities in FY 2023 to support, who were all voted for by our staff. These charities are KIND, SWACA, Paper Cup Project and Tam O Shanter Community Farm. We will also be supporting them through FY 2024. 34 charities have also benefitted from our collections on stations and adding to the amounts collected or raised for our four charities of the year in FY 2023 we are delighted with the end of year total of £51,417 for those charities in our region.

We continue our commitment to working in partnership with community groups, schools, colleges, and charities to support local community initiatives and it's these people and organisations who enable us to deliver such a range of beneficial projects in their areas and make our stations an integral part of the community.

We also were able to financially support events and community groups in FY 2023. This has included educational art projects with Everton Free School, sponsorship of the Pride awards, Merseyrail Business Houses Sunday League, Girls Football teams, Jubilee Events, our Memorial Garden refurbishment, and employability projects with several schools in the region.

We have and will continue to encourage our staff and partners to find meaningful ways to contribute their time, skills and energy to voluntary and community organisations and other initiatives across the region.

We have continued as a key partner in the Liverpool City Council's UNICEF Child Friendly City Project. We are leading on actions and activity with partners in the transport and public services sector on their 'Place' Badge. This is ensuring that young people have a say and a part in the green spaces, neighbourhoods, and transport in the region now and in the future.

As directors we keep the local community informed by means of social media.

#### ***Shareholders***

The Board is committed to communicating effectively with shareholders and understanding their views and acting fairly between the different members. It is important to us that the shareholders understand our strategy and objectives, so we engage regularly with our shareholders to explain our strategy, listen to feedback, and answer issues or queries raised.

As mentioned above this is achieved by regular Board, Audit Committee and shareholder meetings and communication between the different parties.

#### ***Long term Decisions***

During FY 2024 the delivery the New Fleet project and therefore rolling out of the new 777 units across our network will be a key focus for the Merseyrail team. Additionally, we have procured IPMU battery operated trains to support plans for Head Bolt Lane, the first station expansion outside of the core Merseyrail network, linking with the combined authorities long term rail plan. The station is due to open during FY 2024.

## Merseyrail Services Holding Company Limited

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### Strategic report (continued)

Merseyrail will continue to upgrade our infrastructure and make improvements to the network and our services. The directors of the businesses attend a quarterly strategy group to discuss proposals and provide progress updates.

Further long-term plans continue to include extension of the network from Bidston to Wrexham, the reopening of St James station allowing for direct access to the thriving Baltic Triangle area, and enhancements to the capacity, accessibility, and facilities at Liverpool Central Station.

Merseyrail remains committed to upgrading the customer ticketing proposition to provide a modernised service to customers, work continues to analyse a suite of additional options to take the project forward. The business is looking at modernising ticketing and implementing contactless ticketing. In developing the Future Ticketing programme customers were surveyed to incorporate their point of view.

Merseyrail will continue to work closely with our stakeholders to help deliver the Metro Mayors long-term plans to reform Merseysides transport system.

### Principal risks and uncertainties

The principal risks and uncertainties facing the group 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, and people 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 stakeholder. Looking ahead, Merseyrail will be working in partnership with Merseytravel and other funders to:

- Introduce the fleet of new class 777 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.

The Group has recovered well since the Covid-19 pandemic first hit and has began operating in "new normal" market conditions which has seen a shift in passenger travel to a more leisure travel focused service. However, the Group recognises the current cost of living crisis and the potential impact on leisure travel as people look at ways to save money and reducing the level of disposal income for leisure activities. Therefore, the key risk area for Merseyrail is the loss of leisure passengers as a result of inflationary pressures on personal budgets.

To mitigate these risks Merseyrail are undertaking various actions:

- Assessing the impact any ticket price changes would have on passenger numbers and building that price elasticity into forecasts to aid key business decisions.
- Revenue trends monitored regularly by the business to identify change in passenger habits
- Increased promotional work being performed around key events coming to the city, for example The Grand National Festival, Eurovision and The Open golf.

Whilst the cost of living is something to be monitored it also presents as a potential opportunity for the business, with Merseyrail train tickets being relatively cheap and Liverpool having lots of free events and activities throughout the year.

#### **Credit Risk**

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



## Merseyrail Services Holding Company Limited

### Strategic report (continued)

#### **Energy Crisis Risk**

The business has hedged its energy purchasing for FY 2024 and in to the first quarter of FY 2025 at a rate which is lower than current market values, thus reducing the financial impact of potential energy price increases expected during these periods. Energy forward contracts show that there will be an increase after the hedged period, however it is currently unknown as to what extent those prices will increase. While the business recognises there is an emerging risk as a result of future energy prices, this is being felt across the industry as a whole. The situation remains unknown at this stage and what measures will be taken by the industry to mitigate the exposure to the rising energy prices. The situation is being monitored through regular updates from the Rail Delivery Group around future EC4T costs.

#### **Liquidity Risk**

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

#### **Interest Risk**

During the year there has been a high degree of volatility in interest rates. Discount rates and short-term inflation rates have been rising since the prior year end. Concerns over high global inflation, recession, disruption to supply chains due to the war in Ukraine and rising interest rates, compounded by the market volatility in September 2022 due to political events resulted in a sharp rise in the Bank of England base rate.

While there is a risk associated to the interest rate increases, the group has positive cash reserves, and no borrowings so has minimal interest rate risk.

#### **Climate Control Risk**

The group has considered the impact of Climate Change and have determined there are three main potential risks for Merseyrail:

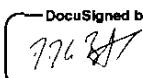
- Significant disruption to services or loss of network because of climate change such as weather and temperature changes (e.g., coastal and river flooding, heat restrictions, extreme ice)
- Disruption to the supply chain including fleet maintainer because of climate change
- Reduction in passenger numbers due to effects of climate change including service disruption and passenger comfort.

Merseyrail will continue to work with key stakeholders to understand their climate change mitigation measures and how Merseyrail can support these. These include Network Rail who are responsible for the infrastructure, Merseytravel who have led on the procurement of the new fleet and Stadler as the current fleet and new fleet maintainer. In addition, Merseyrail will continue to monitor the climate change risk and identify any adaptation measures reporting to the Merseyrail Sustainability Strategy Group.

#### **Cyber Risk**

The business is at a greater risk of a cyber-attack given that it is an operator of essential transport services. This was evidenced by the cyber-attack which took place in April 2021. Failure to prevent a cyber-attack or data breach could negatively impact our customer data, employee data, rail and railside operations, financial reporting systems and stakeholder confidence. It could ultimately result in fines levied by the Information Commissioners Office (ICO). In 2022 the business endorsed a clear strategic plan to mitigate risks associated with cyber security, data loss, GDPR non-compliance, and data control weaknesses. Industry experts have been recruited to support the delivery of these changes and embed practices across the organisation. Excellent progress has been made with the deployment of best-in-class endpoint security and a number of other remediations to remove security vulnerabilities. A portfolio of investment and modernisation will continue through 2023 which will further reinforce cyber and data security and ensure that the business can actively monitor and react to changing threats.

Approved by the Board on 23 June 2023 and signed on its behalf by:

DocuSigned by:  
  
7A1A771E6132457 ...  
Director

D Booth

Company registration no. 04620520

## Merseyrail Services Holding Company Limited

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### Directors' report

The directors present their report and financial statements for the 52 weeks ended 7 January 2023. The prior period ended finished on 8 January 2022.

#### Results and dividends

The profit for the period after taxation amounted to £12.6m (52 weeks ended 8 January 2022 – £2.6m). As the business operated throughout the year under a “new normal” phase of trading, the directors have issued dividends of £14.5m for the period ended 7 January 2023 (52 weeks ended 8 January 2022 – £nil).

#### Future developments

On 31 August 2022, Transport UK Group Limited entered into a sale and purchase agreement with N.V. Nederlandse Spoorwegen in respect of the purchase of all issued shares in the capital of Abellio Transport Group Limited, subject to approval from partners including Merseytravel, as well as the receipt of regulatory consent from the Office of Road and Rail. On 28 February 2023 the management buyout was completed after receiving all formal approvals required. Transport UK Group Limited is both UK owned and operated.

Throughout FY 2024 Merseyrail will continue, in partnership with Merseytravel and others, to make improvements to the network and service. The new fleet expansion and procurement of a IPEMU battery-operated unit to enable class 777 services to be extended off the current Merseyrail network, with the first expansion to Head Bolt Lane due to open in FY 2024. This will support in our commitment to upgrade services for our customers. Despite the challenges relating to the introduction of the new fleet into service, real progress has been made to ensure the phased introduction of the new fleet throughout FY 2024.

Further extensions of the network from Bidston to Wrexham, the reopening of St James station allowing for direct access to the thriving Baltic Triangle area, and enhancements to the capacity, accessibility, and facilities at Liverpool Central Station are also part of Merseyrail's long-term plans.

Merseyrail continues to work closely with Network Rail in maintaining and upgrading our infrastructure, including the replacement of 14 escalators across our network, Access for All scheme which will continue throughout FY 2024.

The business is now operating with a bigger focus on the leisure market. We are seeing a positive trend in passengers using the network, revenues and cashflows are regularly monitored and we anticipate that the business will continue to perform strongly with EBIT to remain at the current levels seen in FY 2023.

### Streamlined Energy and Carbon Reporting

#### Energy Efficiency Action

Periodic analysis of electric and water usage is calculated at each station/depot to identify any deviation over 20%. Thereafter, an investigation working collaboratively with the location manager is conducted to rectify and lower potential usage.

Delivery of annual station audits is maintained to ensure compliance is maintained following the environmental safety code and COSHH and waste arrangements.

In 2019 the influence of temperature control was increased. Information from weekly snapshots and deviations found in 2019 suggested a more significant contribution from this particularly at smaller stations. The influence of lighting was also decreased due to the installation of LED lighting across a significant proportion of the network.

Opportunities for improvements are documented in the annual Environmental Sustainability Plan. In addition, improvements identified during energy audits are initiated via new works requests and tracked at the Environment and Energy Delivery Group.

Staff and Passenger Environmental Roadshows are scheduled throughout the year involving our main stakeholders including Network Rail to promote themed principles. Including the Environmental Code, Community Events and Climate Change initiatives.

## Merseyrail Services Holding Company Limited

### Directors' report (continued)

Throughout FY 2023 Merseyrail saw the fourth year of a behavioural change in relation to the Environmental Code. The code focuses on six key elements to aid the reduction of the amount of energy consumed. Pleasingly, actual year to date usage was 5,394,805 kWh which falls below the year-to-date target of 5,690,822 kWh (5% reduction).

All non-traction electricity is procured through a REGO backed green tariff. As a result, emissions using a market-based factor remain at zero. Our traction also continues to be procured through Network Rail using a 'blue' nuclear tariff, a market-based conversion factor of zero can also be applied to this energy consumption. In addition, Merseyrail will become the first operator to procure a battery-operated unit, further supporting our commitment to reduce our energy usage.

Furthermore, Merseyrail's tenure to date has involved units which have operated on the third rail network, therefore, the introduction of the IPEMU trains which will have the capacity to operate on bimode as both third rail traction and battery operated, which is new to Merseyrail's experience as a train operator. The operational change of introducing the sub-fleet of Class 777s (i.e., IPEMU) is beneficial to the reduction of EC4T traction data.

As part of the network expansion programme managed by Merseytravel, the number of stations operated by Merseyrail will increase to include Headbolt Lane which will be non-third rail and is being delivered in line with the introduction of the IPEMU and the Baltic Station which will be located between Liverpool Central and Brunswick and will be categorised as a sub-surface station.

UK and offshore Emissions	52 weeks ended 7 January 2023	52 weeks ended 8 January 2022
Non-traction electricity consumption used to calculate emissions (kWh)	5,374,177	5,526,201
Traction electricity consumption used to calculate emissions (kWh)	55,672,881	58,410,519
Gas consumption used to calculate emissions (kWh)	328,285	351,184
Diesel Transport fuel consumption used to calculate emissions (L)	8,556	7,782
Unleaded Transport fuel consumption used to calculate emissions (L)	4,253	6,521
Emissions from combustion of gas: tCO <sub>2</sub> e (Scope 1)	60.1	64.3
Emissions from combustion of fuel for transport purposes: tCO <sub>2</sub> e (Scope 1)	30.4	33.9
Emissions from purchased electricity: tCO <sub>2</sub> e (Scope 2, location -based)	11,805.3	13,575.7
Emissions from business travel in rental cars or employee-owned vehicles where group is responsible for purchasing the fuel: tCO <sub>2</sub> e (Scope 3)	-	-
Intensity ratio: gCO <sub>2</sub> e / Passenger journey km	27.27	43.75

#### Methodology

A location-based calculation of CO<sub>2</sub> equivalent was applied to both traction (energy used by trains) and non-traction (energy used in buildings) using the 2021 and 2022 DEFRA emissions factor for grid electricity. Traction electricity usage is calculated by Network Rail using modelled usage across the network Merseyrail operate on and provided to the business on a four-weekly basis. Data for non-traction energy was taken from AMR half hourly data for 73 of 76 meters owned by Merseyrail. Data for the remaining 3 meters was taken from supplier invoices and manual meter readings.

Gas usage was collected from our energy supplier for all 4 meters and CO<sub>2</sub> equivalent calculated using the 2021 and 2022 DEFRA emissions factor for natural gas.

Fuel data is collected from purchase receipts and recorded in litres. The 2021 and 2022 DEFRA emissions factors for average biofuel blend Diesel and Petrol were applied.

Merseyrail's intensity metric is calculated using ticket sales.

## Merseyrail Services Holding Company Limited

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### Directors' report (continued)

#### Boundaries

The following emissions are covered in the scope of this report:

- Scope 1 – All scope 1 emissions produced by Merseyrail. These are all direct emissions from fuel combustion on site and includes mains gas as well as vehicle fuel usage.
- Scope 2 – All scope 2 emissions produced by Merseyrail. These are all indirect emissions produced offsite when generating electricity directly consumed by the organisation.
- Scope 3 – Only scope 3 emissions associated with fuel purchased by Merseyrail for leased or employee-owned vehicles are included. All other indirect emissions such as procurement, waste and water are not required to be included.

#### Going concern

The Directors have continued to adopt the going concern basis in preparing these financial statements after assessing the financial forecasts of the company for the period to 24 June 2024 whilst considering a range of sensitivities for plausible downside scenarios due to the cost-of-living crisis and its impact on both UK public transport and the wider economy.

Merseyrail operates under a concession agreement which is monitored using a 'liquidity maintenance' test. If failed, could lead to the possibility of the concession agreement being terminated early. Historically Merseyrail has been a profitable business with a strong cash position and no external or intercompany debt, therefore the terms of the maintenance test have not previously been breached. Liquidity is further supported by the 25-year Concession Agreement with Merseytravel which grants Merseyrail some stability and provides a significant subsidy payment in the form of frequent contract payments.

The local nature of the train service does mean that Merseyrail is very reliant on the regional economy. The impact that the coronavirus pandemic has had upon the economy and subsequently passenger revenue numbers particularly during FY 2021 and the first half of FY 2022 has been significant and unprecedented. During FY 2023 we have seen passenger numbers improve considerably, however the latter half of the year has seen disruptions on our network attributable to RMT industrial strike action. The action has impacted our ability to provide a full service to our customers, in turn having a negative impact on passenger numbers due to the effects of cancellations and reduced timetables.

As most of the revenue is contractual, a key driver in the profit and loss and cash flow forecasts is the projected passenger revenues. Therefore, when assessing the going concern assumption the focus of management has been the potential volatility of passenger revenues.

Management have assessed the entity's ability to continue as a going concern and prepare financial statements on that basis. Management have carried out a robust assessment of the principal risks and uncertainties facing the Company, which could impact the business model, focussing, specifically on:

#### Cost-of-living crisis.

- Increases in EC4T charges caused by the ongoing energy price increases
- Increased RPI rates to 10.82% for forecast period – this increase has only been applied to the costs of the business within the scenario testing, however the contractual mechanism with Merseytravel means that the contract payment received would also increase in line with the RPI rates
- The potential impact of leisure passenger numbers dropping as a result of the challenges presented by the cost-of-living crisis

#### Other Ongoing matters

- The long-term impact of technological changes and the introduction of the new fleet.

In assessing the Going Concern assumption for these financial statements, management have prepared cash flow and profit forecasts to consider the liquidity requirements set out in the concession agreement and the potential impacts the matters noted above could have on the Company. Cash flow and profit forecasts have been prepared up to and including 24 June 2024.

## Merseyrail Services Holding Company Limited

### Directors' report (continued)

#### *Going concern (continued)*

Merseyrail does not have any external finance or borrowings. It does, under the franchise agreement, have several operational and financial covenants the main one being the liquidity maintenance ratio. This requires that, at each rail period end, the company has adequate funds to meet its forecast financial obligations for the following two periods after considering franchise revenue receipts in the next two periods. This ratio has been considered as part of the Company's going concern assessment.

If any of the below scenarios impact cash inflows to the point at which the liquidity test is breached there are several mitigating actions the company can take to bring headroom to the required levels.

- Cancellation of proposed dividend payments
- Changing the supplier payment terms with one key specific supplier
- Delay Accounts Payable spend in FY 2024 and FY 2025

A base case cash flow forecast has been prepared and assumes that the business will continue standard operations in line with the "new normal" market conditions with regards to passenger trends. The base case also assumes that leisure travel will recover to an annual average of 108% of pre pandemic levels in FY 2024 and beyond. Commuter levels are expected to increase to an annual average of 89% in FY 2024, again continuing at the same rate in FY 2025. To support the above assumptions, leisure passenger revenues have recovered to an annual average of 105% of pre pandemic levels during the FY 2023 year and commuter revenues have recovered to an annual average of 75% of FY23, with a recovery rate of 84% in the final period of FY 2023.

As forecasting is inherently difficult in the current environment and passenger revenues can be impacted by external factors, management applied sensitivities to the base case, challenging the forecasted values by incorporating severe but plausible scenarios which include:

- Increases in EC4T energy prices based on the forward contract rates for FY2024 onwards.
- Leisure revenues reduce by 20% of the forecasted rates for FY 2024 onwards.

It is expected that energy prices will increase beyond the current hedge in place due to the rising costs caused by the ongoing energy crisis. Merseyrail is hedged against the EC4T energy prices through the RDG EC4T Scheme Council. Currently, there is an overlook through until March 2024 which was entered in to based on demand forecasts in November 2019 (before Covid). The EC4T rates throughout FY 2023 and FY 2024 have been included in the forecasts and budgets and therefore any increase would not be felt until April 2024. Based on the current forward contract rates available for energy there is potential for the rates used in the forecasts for 2024 onwards to increase by up to 62% beyond the current inflation rate. Headroom remains positive and the liquidity position is maintained throughout the going concern period when taking in to account the impact of the increase in EC4T charges based on a 62% rise for going concern period from April 2024 onwards.

While no mitigating actions are needed, the business is aware this a potential risk going forward, and the situation is being monitored through regular updates from the Rail Delivery Group around future EC4T costs. As energy prices are expected to increase from April 2024 onwards, all sensitivities performed below have considered the price rises before any additional sensitivity has been applied.

With the ongoing cost of living crisis there is a risk that passenger revenue numbers will be impacted, particularly leisure travel as people look at ways to save money. If leisure revenues were to reduce by 20% of the current forecasted levels, headroom remains positive, and the liquidity position is maintained.

As a severe but plausible scenario, the business has looked at the potential downside when applying all sensitivities to the base case together, being:

- Increase of 62% to EC4T rates from April 2024 onwards
- Reduction in leisure travel of 20%, and
- Inflation rate assumed to remain at 10.82% applied to costs for whole forecast period

## Merseyrail Services Holding Company Limited

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### Directors' report (continued)

#### *Going concern (continued)*

In this scenario this would result in negative headroom of £1.4m in P5 FY 2025, therefore the liquidity maintenance test would be breached. This scenario is deemed highly unlikely to occur given the recovery rates to date have been surpassing our base case projections. However, to bring headroom up to the required levels the business can withdraw forecasted dividend payments in P7 FY 2025, reducing the 2 periods worth of payments required to be covered at P5 FY 2025 and therefore satisfying the liquidity maintenance test.

The base case and sensitised cashflows demonstrate that sufficient cash resources exist in all scenarios with minimum cash position being £33.9m in the base case and £23.1m as the lowest point in the severe downside sensitivity. Although headroom falls below the required levels in some scenarios, mitigating actions are available and can be actioned immediately.

Following this detailed exercise and considering the results of the base case forecast and downside sensitivities, the directors are satisfied that the liquidity maintenance requirements will be met for the period covered by the forecast (up to 24 June 2024) therefore there will be no breach of the Concession Agreement with Merseytravel.

As such the directors have concluded that it is appropriate to continue to adopt the going concern basis in preparing these financial statements.

#### **Financial instruments**

The financial instruments relate to debtors and creditors and details of these are provided in note 22. No derivative financial instruments are used. This is the same as in the prior year.

#### **Directors**

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

D Booth  
D Kaye (Resigned 7 June 2023)  
G Nicoll  
A Magielse (Resigned 28 February 2023)  
J Heron (Resigned 28 February 2023)  
J Whitehurst  
R Conneely (Appointed 28 February 2023)  
E Walker (Appointed 28 February 2023)  
C Harris (Appointed 7 June 2023)

#### **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.

#### **Post balance sheet events**

On 31 August 2022, Transport UK Group Limited entered into a sale and purchase agreement with N.V. Nederlandse Spoorwegen in respect of the purchase of all issued shares in the capital of Abellio Transport Group Limited, subject to approval from partners including Merseytravel, as well as the receipt of regulatory consent from the Office of Road and Rail. On 28 February 2023 the management buyout was completed after receiving all formal approvals required.

The Company has been party to a dispute relating to the underpayment (to the Company) of Contract Payments under the Concession Agreement during Control Period 6. On 19 January 2022, the Company received a counter claim notice claiming there had been an error in the Contract Payments for Control Period 5 resulting in an overpayment, with an estimated liability value of £11,460,000. It should be noted that the Company disputed this amount based on the reliability of the calculation mechanism used.

## Merseyrail Services Holding Company Limited

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### Directors' report (continued)

#### *Post balance sheet events (continued)*

Following an arbitration process relating to both disputes commenced in FY24, for which the final hearing took place during February 2023, the outcome of the hearing determined that Contract Payments received and still expected to be received during Control Period 6 have been incorrectly calculated, thus resulting in an underpayment to the Company. The outcome also determined that the Company was not subject to an overpayment in Control Period 5, therefore meaning the counter claim was unsuccessful. Subsequently, the Arbitrator has awarded the Company, the sums due by reason of underpayment in Control Period 6, in addition to interest and costs.

A consultation process is in progress to enable parties to determine and agree the award value associated with the Arbitrators determination.

Post balance sheet events are set out in note 23 to the financial statements.

#### **Political and charitable contributions**

During the period, the company made charitable donations and sponsorship payments of £51,417 (52 weeks ended 8 January 2022 – £25,378) principally to local charities and groups serving the communities in which the company operates.

#### **Stakeholder interests**

It is important to Merseyrail that we foster the Company's business relationships with suppliers, customers, and others and that we consider the effect on all stakeholders of principal business decisions taken by the company.

We regularly engage with Network Rail, Stadler and other strategic suppliers and stakeholders to this end.

Examples of what we currently do to engage with stakeholders and obtain their feedback and points of view are:

- Annual stakeholder reception
- Annual stakeholder survey
- Frequent meetings with our key suppliers Merseytravel, Stadler and Network Rail
- Work with local companies and small medium enterprises to provide guidance and support to enable them to work with us
- Simplifying vendor accreditation documentation to make it easier for new suppliers to engage with us
- Bi-annual customer surveys
- Passenger forums

#### **Employee Engagement**

Our employee engagement scores are detailed above in the strategic report (page 5). We endeavour to engage and involve our employees at every opportunity as our people are important to us.

Examples of what we currently do regarding visibility and frontline engagement are:

- We record and share a monthly MD Business update video
- We hold monthly functional team meetings
- We hold a yearly Management Conference
- Twice yearly director 'blitz' of the network – everywhere in a day
- The use of a variety of communications channels: Merseyrail Facebook page, The Loop - our employee intranet page, Signal Briefing – our Traincrew magazine, Team Meetings and Snapshot Briefs and Staff Facebook Live Director Question and Answer sessions
- Regular Wellbeing e-shot which includes hints, tips, and links to resources to support wellbeing including Mental, Financial, Physical and Social Wellbeing
- Customer Praise Wall on our intranet which is regularly updated with any customer praise we receive to help engage employees and boost morale
- Regular Business Update sessions

## Merseyrail Services Holding Company Limited

### Directors' report (continued)

- Health & Wellbeing Roadshows, these showcase the benefits which are available to staff, supported by our key health and wellbeing suppliers and are supported by our health and wellbeing champions and Mental Health First Aiders.
- Both Prostate-specific antigen (PSA) and Human Papilloma Virus (HPV) testing were offered to employees.

Examples of how employees are involved in the business and decision making:

- Employee forums, workshops, and champion meetings (Women in Merseyrail, Diversity Forum, Health and wellbeing and engagement champions and LGBTQ+ & Allies Network)
- Involvement in upgrade and refurbishment work across the network

#### Employee involvement and disabled employees

The company gives full and fair consideration to applications for employment from disabled people having regards to their 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 company also has a policy of communicating and consulting with its managers and employees to ensure their active involvement.

#### Disclosure of information to the auditors

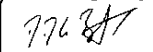
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's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

DocuSigned by:



7A1A771E6132457 ...  
Director

D Booth

23 June 2023

Company registration no. 04620520



## **Merseyrail Services Holding Company Limited**

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### **Directors' responsibilities statement**

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the company financial statements in accordance with the requirements of the Companies Act 2006 and United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies in accordance Section 10 of FRS 102 and then apply them consistently.
- make judgements and accounting estimates that are reasonable and prudent.
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information.
- provide additional disclosures when compliance with the specific requirements in FRS 102 is insufficient to enable users to understand the impact of transactions, other events and conditions on the company financial position and financial performance.
- state whether applicable UK accounting standards, including FRS102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the company will not continue in business.

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

Under applicable law and regulations, the directors are also responsible for preparing a strategic report and directors' report that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

## **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 year ended 7 January 2023 which comprise the Group Statement of Comprehensive Income, the Group and Company Statement of Financial Position, the Group and Company Statement of changes in equity, the Group Statement of Cash Flows and the related notes 1 to 24, 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 7 January 2023 and of the group's profit for the year 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. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the 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.

### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for the period to 24 June 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

### **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 contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERSEYRAIL SERVICES HOLDING COMPANY LIMITED**

### **Other information (continued)**

Apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, 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 16, 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.

### **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.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERSEYRAIL SERVICES HOLDING COMPANY LIMITED**

### **Auditor's responsibilities for the audit of the financial statements (continued)**

#### ***Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud***

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

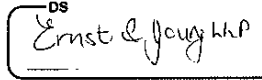
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are: Railways Act 1992, Transport Act 2000, Railways and Transport Safety Act 2003, Railways Act 2005, Companies Act 2006, UK tax legislation, FRS 102, The Data Protection Act 2018 and Railways (Safety Case) Regulations 2000.
- We understood how Merseyrail Services Holding Company Limited is complying with those frameworks by making enquiries with management, those charged with governance, internal audit and those responsible for legal and compliance matters and also reviewing the entity code of conduct and whistle-blower hotline.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by assessing the risk of fraud absent of controls, and then identifying the controls which are in place at the entity level and whether the design of these controls is sufficient for the prevention and detection of fraud. We also consider the risk of management override and consider the design and implementation of controls at the financial statement level to prevent this.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items. For both direct and other laws and regulations, our procedures involved; making enquiries with those charged with governance and senior management for their awareness of non-compliance with laws and regulations, inquiring about policies that have been established to prevent non-compliance with laws and regulations by officers and employees and how the company monitors this. In respect of the risk of management override we perform tailored journal entry testing to identify a subset of the whole population that might pertain to fraud risk areas, performed procedures on revenue to a lower testing threshold and enquired of third parties in areas of significant judgment.

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.

#### **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.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERSEYRAIL SERVICES HOLDING COMPANY LIMITED**

<sup>DS</sup>  


*Elizabeth Jones (Senior statutory auditor)*

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

*Liverpool*

*23 June 2023*

## Merseyrail Services Holding Company Limited

**Group Statement of comprehensive income**

for the period ended 7 January 2023

		52 weeks ended 7 January 2023	52 weeks ended 8 January 2022
	Notes	£000	£000
<b>Turnover</b>	2	185,683	163,005
Cost of sales		(174,348)	(160,295)
Other income	3	3674	-
<b>Operating profit</b>	3	15,009	2,710
Interest receivable and similar income	5	99	20
Other finance income	19	28	21
<b>Profit on ordinary activities before taxation</b>		15,136	2,751
Tax	6	(2,543)	(178)
<b>Profit for the financial period</b>	17	12,593	2,573
<b>Other comprehensive income</b>			
Actuarial gain relating to pension scheme	19	6,382	5,951
Deferred tax attributable to actuarial gain	6	(1,596)	(1,488)
Other comprehensive income		4,786	4,463
<b>Total comprehensive income for the period</b>		17,379	7,036

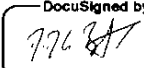
## Merseyrail Services Holding Company Limited

**Group Statement of financial position**

at 7 January 2023

			2023		2022
	Notes	£000	£000	£000	£000
<b>Fixed assets</b>					
Intangible assets	8		993		1,037
Tangible assets	9		1,619		2,196
Investments	10		-		-
Deferred tax asset	6		218		256
			<u>2,830</u>		<u>3,489</u>
<b>Current assets</b>					
Stocks	11	101		78	
Debtors	12	13,853		11,642	
Cash at bank and in hand		<u>33,152</u>		<u>28,861</u>	
		47,106		40,581	
<b>Creditors:</b> amounts falling due within one year	13	<u>(27,260)</u>		<u>(24,273)</u>	
<b>Net current assets</b>			<u>19,846</u>		<u>16,308</u>
<b>Total assets less current liabilities</b>			<u>22,676</u>		<u>19,797</u>
<b>Accruals and deferred income</b>					
Deferred government grants			-		-
<b>Net assets before pension liability</b>			22,676		19,797
Pensions	19		-		-
<b>Net assets</b>			<u>22,676</u>		<u>19,797</u>
<b>Capital and reserves</b>					
Called-up share capital	15		-		-
Profit and loss account	16		<u>22,676</u>		<u>19,797</u>
<b>Shareholders' funds</b>	16		<u>22,676</u>		<u>19,797</u>

The financial statements of Merseyrail Services Holding Company Limited were approved by the Board of Directors on 23 June 2023.

DocuSigned by:  
  
 7A1A771E8132457  
 Director

D Booth

Company no. 04620520

## Merseyrail Services Holding Company Limited

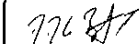
## Company Statement of financial position

at 7 January 2023

	Notes	£000	2023 £000	2022 £000
<b>Fixed assets</b>				
Investments	10		—	—
<b>Current assets</b>				
Debtors	12	—	—	—
<b>Creditors: amounts falling due within one year</b>	13		—	—
<b>Net current assets</b>			—	—
<b>Total assets less current liabilities</b>			—	—
<b>Capital and reserves</b>				
Called up share capital	15		—	—
Profit and loss account	16		—	—
<b>Shareholders' funds</b>	16		—	—

The financial statements of Merseyrail Services Holding Company Limited were approved by the Board of Directors on 23 June 2023.

DocuSigned by:



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Director

D Booth

Company no. 04620520



## Merseyrail Services Holding Company Limited

**Group Statement of changes in equity**

for the period ended 7 January 2023

	<i>Called-up capital</i>	<i>Profit and loss account</i>	<i>Share- holders equity</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>At 10 January 2021</b>	—	12,761	12,761
Loss for the period	—	2,573	2,573
Other comprehensive income	—	4,463	4,463
Total comprehensive income for the year	—	7,036	7,036
Equity dividends paid (note 7)	—	—	—
<b>At 8 January 2022</b>	—	19,797	19,797
	<i>Called-up capital</i>	<i>Profit and loss account</i>	<i>Share- holders equity</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>At 9 January 2022</b>	—	19,797	19,797
Profit for the period	—	12,593	12,593
Other comprehensive income	—	4,786	4,786
Total comprehensive income for the year	—	17,379	17,379
Equity dividends paid (note 7)	—	(14,500)	(14,500)
<b>At 7 January 2023</b>	—	22,676	22,676

## Merseyrail Services Holding Company Limited

### Company Statement of changes in equity

for the period ended 7 January 2023

	<i>Called-up capital</i>	<i>Profit and loss account</i>	<i>Share- holders equity</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>At 10 January 2021</b>	—	—	—
Profit for the period	—	—	—
Other comprehensive income	—	—	—
Total comprehensive income for the year	—	—	—
Equity dividends paid (note 7)	—	—	—
<b>At 8 January 2022</b>	—	—	—
	<i>Called-up capital</i>	<i>Profit and loss account</i>	<i>Share- holders equity</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>At 9 January 2022</b>	—	—	—
Profit for the period	—	14,500	14,500
Other comprehensive income	—	—	—
Total comprehensive income for the year	—	14,500	14,500
Equity dividends paid (note 7)	—	(14,500)	(14,500)
<b>At 7 January 2023</b>	—	—	—

## Merseyrail Services Holding Company Limited

**Group Statement of cash flows**

for the period ended 7 January 2023

		7 January 2023	8 January 2022
	Note	£000	£000
<b>Net cash inflow from operating activities</b>	17	19,007	6,724
<b>Investing activities</b>			
Interest received		99	20
Purchase of tangible fixed assets		(315)	(360)
<b>Net cash outflow from investing activities</b>		(216)	(340)
<b>Financing activities</b>			
Equity dividends paid		(14,500)	-
<b>Net cash outflow from financing activities</b>		(14,500)	-
<b>Increase in cash and cash equivalents</b>		4,291	6,384
<b>Cash and cash equivalents at 9 January 2022</b>		28,861	22,477
<b>Cash and cash equivalents at 7 January 2023</b>		33,152	28,861

## Merseyrail Services Holding Company Limited

# Notes to the financial statements

for the period ended 7 January 2023

### 1. Accounting policies

#### **Statement of compliance**

Merseyrail Services Holding Company Limited is a limited liability company incorporated in England. The Registered Office is 2 New Bailey, 6 Stanley Street, Salford, Manchester, M3 5GS.

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 7 January 2023. This is the same as in the prior period.

#### **Basis of preparation**

The financial statements of Merseyrail Services Holding Company Limited were approved for issue by the Board of Directors on 23 June 2023. 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 7 January 2023 in line with the policy to draw up the accounts to the closest Saturday to 6 January annually. 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**

##### **Judgements and Estimates**

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 costs 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 19.

##### **Goodwill and intangible assets**

The company 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 potential legal, regulatory, or contractual provisions that can limit useful life. Further detail has been provided in note 8.

##### **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 6.

## Merseyrail Services Holding Company Limited

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# Notes to the financial statements

At 7 January 2023

### 1. Accounting policies (continued)

#### *Accrued Income*

#### *CP6 Settlements*

Network Rail is funded under 5-year Control Periods (CP). At the start of each Control Period the level of charges levied by Network Rail is determined by the Office of Rail and Road (ORR), based on the expenditure requirements of Network Rail for the following 5 years. From April 2019 Merseyrail moved into control period 6. An arbitration process relating to a dispute regarding the value of contract payments for CP6 commenced in FY24, for which the final hearing took place during February 2023. The outcome of the hearing determined that Contract Payments received and still expected to be received during Control Period 6 have been incorrectly calculated, thus resulting in an underpayment to the Company.

A consultation process is in progress to enable parties to determine and agree the award value.

#### *Onerous contracts and impairment of fixed assets*

The Coronavirus pandemic impacted passenger numbers and shifted the business from a commuter led business to predominantly leisure business, and although operating below pre pandemic levels in the commuter market, overall recovery has been strong. With these changes in passenger habits as a result of the move to hybrid working for many companies, it may impact the long-term financial results of Merseyrail, thus leading to a potential indicator of impairment. As such, a review has been performed on both the tangible and intangible assets of the company to consider impairment along with an analysis of the concession agreement to consider whether an onerous contract exists.

To do this, profit and cashflow forecasts were completed covering the remainder of the concession agreement, consistent with the going concern review for that period and then assuming further recovery of passenger revenues and discounted using 6.10% for impairment purposes. Both in the case of the impairment review and the onerous contract review sufficient headroom was found to exist to negate the need for impairment or an onerous contract provision. The assumptions included in our cashflow forecast are that the business will show steady performance and growth with leisure travel recovering to 108% of pre pandemic levels in FY 2024 and beyond. Commuter travel recovery is expected to reach 89% of pre pandemic levels in FY 2024. The ongoing cashflow forecast into perpetuity is based upon RPI growth of 10.1% in FY 2024, reducing to 7% for FY 2025 and 3% for FY 2026 and beyond. Sensitivities have been ran on those which do not show an impairment or onerous contract. Consistent with the Going Concern review, the cashflow model has been sensitised with a number of different scenarios detailed in the Going Concern note. Based on the sensitivities, the expectation remains that there is no fixed asset impairment or onerous contract.

#### *Provisions and contingent assets & liabilities*

Provisions are recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, considering the risks and uncertainties surrounding the obligation.

A contingent asset is defined by the standard as 'a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity'.

Contingent assets are not recognised in the financial statements where not virtually certain but are disclosed when an inflow of economic benefits is probable, i.e. more likely than not. This is because of the uncertain future nature of the possible economic inflow.

## Merseyrail Services Holding Company Limited

# Notes to the financial statements

At 7 January 2023

### 1. Accounting policies (continued)

#### *Provisions (continued)*

As noted above, from April 2019 Merseyrail moved into control period 6 ("CP6"). An arbitration process relating to the contract dispute concluded in FY24. The outcome of the hearing determined that Contract Payments received and still expected to be received during Control Period 6 have been incorrectly calculated, thus resulting in an underpayment to the Company. The outcome gives rise to a future asset, however at the date of these financial statements, the value of the asset is subject to consultation. No asset is recognised in these financial statements but will be reflected in FY24 financial statements once the amount is agreed.

#### *Going concern*

The Directors have continued to adopt the going concern basis in preparing these financial statements after assessing the financial forecasts of the company for the period to 24 June 2024 whilst considering a range of sensitivities for plausible downside scenarios due to the cost-of-living crisis and its impact on both UK public transport and the wider economy.

Merseyrail operates under a concession agreement which is monitored using a 'liquidity maintenance' test. If failed, could lead to the possibility of the concession agreement being terminated early. Historically Merseyrail has been a profitable business with a strong cash position and no external or intercompany debt, therefore the terms of the maintenance test have not previously been breached. Liquidity is further supported by the 25-year Concession Agreement with Merseytravel which grants Merseyrail some stability and provides a significant subsidy payment in the form of frequent contract payments.

The local nature of the train service does mean that Merseyrail is very reliant on the regional economy. The impact that the coronavirus pandemic has had upon the economy and subsequently passenger revenue numbers particularly during FY 2021 and the first half of FY 2022 has been significant and unprecedented. During FY 2023 we have seen passenger numbers improve considerably, however the latter half of the year has seen disruptions on our network attributable to RMT industrial strike action. The action has impacted our ability to provide a full service to our customers, in turn having a negative impact on passenger numbers due to the effects of cancellations and reduced timetables.

As most of the revenue is contractual, a key driver in the profit and loss and cash flow forecasts is the projected passenger revenues. Therefore, when assessing the going concern assumption the focus of management has been the potential volatility of passenger revenues.

Management have assessed the entity's ability to continue as a going concern and prepare financial statements on that basis. Management have carried out a robust assessment of the principal risks and uncertainties facing the Company, which could impact the business model, focussing, specifically on:

#### Cost-of-living crisis

- Increases in EC4T charges caused by the ongoing energy price increases
- Increased RPI rates to 10.82% for the forecasting period – this increase has only been applied to the costs of the business within the scenario testing, however the contractual mechanism with Merseytravel means that the contract payment received would also increase in line with the RPI rates.
- The potential impact of leisure passenger numbers dropping as a result of the challenges presented by the cost-of-living crisis

#### Other Ongoing matters

- The long-term impact of technological changes and the introduction of the new fleet.

In assessing the Going Concern assumption for these financial statements, management have prepared cash flow and profit forecasts to consider the liquidity requirements set out in the concession agreement and the potential impacts the matters noted above could have on the Company. Cash flow and profit forecasts have been prepared up to and including 24 June 2024.

## Merseyrail Services Holding Company Limited

# Notes to the financial statements

At 7 January 2023

### 1. Accounting policies (continued)

#### *Going concern (continued)*

Merseyrail does not have any external finance or borrowings. It does, under the franchise agreement, have several operational and financial covenants the main one being the liquidity maintenance ratio. This requires that, at each rail period end, the company has adequate funds to meet its forecast financial obligations for the following two periods after considering franchise revenue receipts in the next two periods. This ratio has been considered as part of the Company's going concern assessment.

If any of the below scenarios impact cash inflows to the point at which the liquidity test is breached there are several mitigating actions the company can take to bring headroom to the required levels.

- Cancellation of proposed dividend payments
- Changing the supplier payment terms with one key specific supplier
- Delay Accounts Payable spend in FY 2024 and FY 2025

A base case cash flow forecast has been prepared and assumes that the business will continue standard operations in line with the "new normal" market conditions with regards to passenger trends. The base case also assumes that leisure travel will recover to an annual average of 108% of pre pandemic levels in FY 2024 and beyond. Commuter levels are expected to increase to an annual average of 89% in FY 2024, again continuing at the same rate in FY 2025. To support the above assumptions, leisure passenger revenues have recovered to an annual average of 105% of pre pandemic levels during the FY 2023 year and commuter revenues have recovered to an annual average of 75% of FY23, with a recovery rate of 84% in the final period of FY 2023.

As forecasting is inherently difficult in the current environment and passenger revenues can be impacted by external factors, management applied sensitivities to the base case, challenging the forecasted values by incorporating severe but plausible scenarios which include:

- Increases in EC4T energy prices based on the forward contract rates for FY2024 onwards.
- Leisure revenues reduce by 20% of the forecasted rates for FY 2024 onwards.

It is expected that energy prices will increase beyond the current hedge in place due to the rising costs caused by the ongoing energy crisis. Merseyrail is hedged against the EC4T energy prices through the RDG EC4T Scheme Council. Currently, there is an overlock through until March 2024 which was entered in to based on demand forecasts in November 2019 (before Covid). The EC4T rates throughout FY 2023 and FY 2024 have been included in the forecasts and budgets and therefore any increase would not be felt until April 2024. Based on the current forward contract rates available for energy there is potential for the rates used in the forecasts for 2024 onwards to increase by up to 62% beyond the current inflation rate. Headroom remains positive and the liquidity position is maintained throughout the going concern period when taking in to account the impact of the increase in EC4T charges based on a 62% rise for going concern period from April 2024 onwards.

While no mitigating actions are needed, the business is aware this a potential risk going forward, and the situation is being monitored through regular updates from the Rail Delivery Group around future EC4T costs. As energy prices are expected to increase from April 2024 onwards, all sensitivities performed below have considered the price rises before any additional sensitivity has been applied.

With the ongoing cost of living crisis there is a risk that passenger revenue numbers will be impacted, particularly leisure travel as people look at ways to save money. If leisure revenues were to reduce by 20% of the current forecasted levels, headroom remains positive, and the liquidity position is maintained.

As a severe but plausible scenario, the business has looked at the potential downside when applying all sensitivities to the base case together, being:

- Increase of 62% to EC4T rates from April 2024 onwards
- Reduction in leisure travel of 20%, and

## Merseyrail Services Holding Company Limited

# Notes to the financial statements

At 7 January 2023

### 1. Accounting policies (continued)

#### *Going concern (continued)*

- Inflation rate assumed to remain at 10.82% applied to costs for the whole forecast period

In this scenario this would result in negative headroom of £1.4m in P5 FY 2025, therefore the liquidity maintenance test would be breached. This scenario is deemed highly unlikely to occur given the recovery rates to date have been surpassing our base case projections. However, to bring headroom up to the required levels the business can withdraw forecasted dividend payments in P7 FY 2025, reducing the 2 periods worth of payments required to be covered at P5 FY 2025 and therefore satisfying the liquidity maintenance test.

The base case and sensitised cashflows demonstrate that sufficient cash resources exist in all scenarios with minimum cash position being £33.9m in the base case and £23.1m as the lowest point in the severe downside sensitivity. Although headroom falls below the required levels in some scenarios, mitigating actions are available and can be actioned immediately.

Following this detailed exercise and considering the results of the base case forecast and downside sensitivities, the directors are satisfied that the liquidity maintenance requirements will be met for the period covered by the forecast (up to 24 June 2024) therefore there will be no breach of the Concession Agreement with Merseytravel.

As such the directors have concluded that it is appropriate to continue to adopt the going concern basis in preparing these financial statements.

#### *Goodwill*

Positive goodwill acquired on a business is capitalised, classified as a 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 (note 8) 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.

#### *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.



## Merseyrail Services Holding Company Limited

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### Notes to the financial statements

At 7 January 2023

#### 1. Accounting policies (continued)

##### *Turnover (continued)*

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.

##### *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.

##### *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.

## Merseyrail Services Holding Company Limited

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# Notes to the financial statements

At 7 January 2023

## 1. Accounting policies (continued)

### *Accrued Income*

The Company recognises accrued income in relation to ongoing claims in line with agreed industry standard processes. In determining the amount to recognise, management utilise all available information in relation to the claim, and, if appropriate, seek external guidance from industry experts.

### *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.

### *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 considering 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. Turnover and segmental analysis

**At 7 January 2023**

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

52 weeks ended 7 January 2023	52 weeks ended 8 January 2022
£000	£000

Continuing operations:

This is stated after charging / (crediting):

52 weeks ended 7 January 2023	52 weeks ended 8 January 2022
£000	£000

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## Merseyrail Services Holding Company Limited

**Notes to the financial statements**

At 7 January 2023

**4. Staff costs**

	<i>52 weeks ended 7 January 2023 £000</i>	<i>52 weeks ended 8 January 2022 £000</i>
Wages and salaries	48,978	44,609
Social security costs	5,496	4,588
Pension costs – defined benefit schemes	9,134	8,775
Pension costs – personal pension schemes	-	-
	<u>63,608</u>	<u>57,972</u>

The staff costs include the directors' salaries.

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

	<i>52 weeks ended 7 January 2023 No.</i>	<i>52 weeks ended 8 January 2022 No.</i>
Operational	1,043	1,027
Engineering and maintenance	30	30
Administration and support	78	76
	<u>1,151</u>	<u>1,133</u>

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. This is consistent with the prior year.

**5. Interest receivable and similar income**

	<i>52 weeks ended 7 January 2023 £000</i>	<i>52 weeks ended 8 January 2022 £000</i>
Bank interest	96	2
Other interest	3	18
	<u>99</u>	<u>20</u>

## Merseyrail Services Holding Company Limited

## Notes to the financial statements

At 7 January 2023

## 6. Tax

(a) Tax on profit on ordinary activities

The tax (charge) is made up as follows:

	52 weeks ended 7 January 2023	52 weeks ended 8 January 2022
<b>Current tax:</b>		
UK corporation tax on the profit for the period	(4,075)	(1,701)
Adjustment in respect of prior periods	(26)	119
Total current tax	<u>(4,101)</u>	<u>(1,582)</u>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	(59)	(15)
Adjustment in respect of prior periods	21	(69)
Pension cost charge in excess of pension relief	1,596	1,488
Deferred tax	<u>1,558</u>	<u>1,404</u>
Tax on profit on ordinary activities	<u>(2,543)</u>	<u>(178)</u>

(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 8 January 2022 – 19%). The differences are explained below:

	52 weeks ended 7 January 2023 £000	52 weeks ended 8 January 2022 £000
Profit on ordinary activities before tax	<u>15,136</u>	<u>2,751</u>
Tax on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (52 weeks ended 8 January 2022 – 19%)	(2,876)	(523)
<b>Effects of:</b>		
Expenses not deductible for tax purposes	(31)	(105)
Adjustment in respect of prior periods	(5)	50
Impact on deferred tax of change in tax rate	369	400
Total tax (charge)	<u>(2,543)</u>	<u>(178)</u>

(c) Deferred tax

	£000
Deferred tax asset:	
At 9 January 2022	256
Deferred tax credit in the profit and loss account	1,558
Debited to statement of comprehensive income	(1,596)
At 7 January 2023	<u>218</u>

## Merseyrail Services Holding Company Limited

**Notes to the financial statements**

At 7 January 2023

**6. Tax (continued)***Deferred tax (continued)*

	<i>52 weeks ended 7 January 2023 £000</i>	<i>52 weeks ended 8 January 2022 £000</i>
Deferred tax asset included in fixed assets	<u>218</u>	<u>256</u>

**Analysis of deferred tax balance**

	<i>52 weeks ended 7 January 2023 £000</i>	<i>52 weeks ended 8 January 2022 £000</i>
Depreciation in excess of capital allowances	138	178
Short term timing difference	80	78
Deferred tax asset	<u>218</u>	<u>256</u>

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. This is consistent with the prior year.

**(d) Factors that may affect future tax charges**

In the March 2021 budget, it was announced that corporation tax will remain at 19% until April 2023 at which point it will then rise to 25%. The deferred tax asset at 7 January 2023 has been calculated in line when the expected tax rate prevailing when we will realise the asset which is 19% for short term timing difference and 25% for depreciation in excess of capital allowances and pension movements.

In the September 2022 mini budget Kwasi Kwarteng announced the freeze of corporation tax rates at 19%, however in the subsequent announcement in October 2022 the planned increase in corporation tax rate to 25% was reinstated.

**7. Dividends**

	<i>7 January 2023 £000</i>	<i>8 January 2022 £000</i>
Equity dividends paid of £7,250,000 per share (52 weeks ended 8 January 2022 – £nil)	<u>14,500</u>	<u>-</u>

## Merseyrail Services Holding Company Limited

## Notes to the financial statements

At 7 January 2023

## 8. Intangible fixed assets

<i>Group</i>	<i>Concession costs £000</i>	<i>Goodwill £000</i>	<i>Software £000</i>	<i>Total £000</i>
Cost:				
At 9 January 2022	726	3,190	-	3,916
Transfers in the period	-	-	122	122
Disposals in the period	-	-	-	-
At 7 January 2023	726	3,190	122	4,038
Amortisation:				
At 9 January 2022	533	2,346	-	2,879
Charge for the period	29	127	10	166
At 7 January 2023	562	2,473	10	3,045
Net book value:				
At 7 January 2023	164	717	112	993
At 8 January 2022	193	844	-	1,037

## 9. Tangible fixed assets

<i>Group</i>	<i>Leasehold land and buildings £000</i>	<i>Assets in the course of construction £000</i>	<i>Plant and machinery £000</i>	<i>Fixtures and fittings £000</i>	<i>Total £000</i>
Cost:					
At 9 January 2022	1,114	151	9,470	7,550	18,285
Additions	-	315	-	-	315
Disposals	-	(2)	(1,393)	(967)	(2,362)
Transfers	-	(366)	179	65	(122)
At 7 January 2023	1,114	98	8,256	6,648	16,116
Accumulated depreciation:					
At 9 January 2022	734	-	8,671	6,684	16,089
Charge for the period	47	-	405	312	764
Disposals	-	-	(1,390)	(966)	(2,356)
At 7 January 2023	781	-	7,686	6,030	14,497
Net book value:					
At 7 January 2023	333	98	570	618	1,619
At 8 January 2022	380	151	799	866	2,196

The cost of assets held by the company under finance leases at 7 January 2023 was £1,863,000. (8 January 2022 – £1,863,000). The accumulated depreciation provided for on those assets at 7 January 2023 was £1,863,000 (8 January 2022 – £1,863,000). The assets are held for continuing use in the business with an annual peppercorn rent made.

## Merseyrail Services Holding Company Limited

### Notes to the financial statements

At 7 January 2023

#### 9. Tangible fixed assets (continued)

The cost of assets held by the company financed by a government grant at 7 January 2023 was £2,609,000 (8 January 2022 – £2,846,000). The accumulated depreciation provided for on those assets at 8 January 2022 was £2,404,000 (8 January 2022 – £2,575,000).

#### 10. Investments

<i>Company</i>	<i>Subsidiary undertakings</i>
Cost:	£
At 8 January 2022 and 7 January 2023	<u>2</u>

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. The registered office of this company is Rail House, Lord Nelson Street, Liverpool, L1 1JF.

#### *Group*

The Group holds shares as an indirect investment in each of the following companies through Merseyrail Electrics 2002 Limited:

<i>Company name</i>	<i>Capital</i>	<i>Proportion held</i>	<i>Activities</i>
ATOC Limited	£0.04	5.00%	Contracting arm of ATOC
Rail Staff Travel Limited	£0.04	5.26%	Manages staff travel in the industry on behalf of ATOC
Rail Settlement Plan Limited	£0.04	5.26%	Operates the income allocation and settlement routines on behalf of ATOC
NRES Limited	£1.00	5.26%	Provides rail related information to the public
Train information Services Limited	£1.00	5.26%	Provides the national rail enquiry services

#### 11. Stocks

<i>Group</i>	<i>7 January 2023</i>	<i>8 January 2022</i>
	<i>£000</i>	<i>£000</i>
Raw materials and consumables	<u>101</u>	<u>78</u>

Stocks recognised as an expense in the period were £1,006,000 (8 January 2022 – £861,000).



## Merseyrail Services Holding Company Limited

### Notes to the financial statements

At 7 January 2023

#### 12. Debtors

	<i>Group</i>		<i>Company</i>	
	<i>7 January</i>	<i>8 January</i>	<i>7 January</i>	<i>8 January</i>
	<i>2023</i>	<i>2022</i>	<i>2023</i>	<i>2022</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade debtors	5,992	3,807	–	–
VAT	2,845	2,278	–	–
Other debtors	1,374	890	–	–
Prepayments and accrued income	3,642	4,667	–	–
	<u>13,853</u>	<u>11,642</u>	<u>–</u>	<u>–</u>

#### 13. Creditors: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	<i>7 January</i>	<i>8 January</i>	<i>7 January</i>	<i>8 January</i>
	<i>2023</i>	<i>2022</i>	<i>2023</i>	<i>2022</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade creditors	10,464	7,461	–	–
Corporation tax payable	2,389	924	–	–
Other creditors	5,862	3,867	–	–
Other taxation and social security costs	1,195	1,067	–	–
Accruals and deferred income	7,350	10,954	–	–
	<u>27,260</u>	<u>24,273</u>	<u>–</u>	<u>–</u>

#### 14. Contingent Assets

The Company has been party to a dispute relating to the underpayment (to the Company) of Contract Payments under the Concession Agreement during Control Period 6. On 19 January 2022, the Company received a counter claim notice claiming there had been an error in the Contract Payments for Control Period 5 resulting in an overpayment, with an estimated liability value of £11,460,000. It should be noted that the Company disputed this amount based on the reliability of the calculation mechanism used.

An arbitration process relating to both disputes commenced in FY24, for which the final hearing took place during February 2023. The outcome of the hearing determined that Contract Payments received and still expected to be received during Control Period 6 have been incorrectly calculated, thus resulting in an underpayment to the Company. The outcome also determined that the Company was not subject to an overpayment in Control Period 5, therefore meaning the counter claim was unsuccessful. Subsequently, the Arbitrator has awarded the Company, the sums due by reason of underpayment in Control Period 6, in addition to interest and costs.

A consultation process is in progress to enable parties to determine and agree the award value associated with the Arbitrators determination. The outcome gives rise to a future asset, however at the date of these financial statements, the value of the asset is subject to consultation. No asset is recognised in these financial statements but will be reflected in FY24 financial statements once the amount is agreed.

## Merseyrail Services Holding Company Limited

**Notes to the financial statements**

At 7 January 2023

**15. Issued share capital**

	7 January 2023		8 January 2022	
<i>Allotted, called up and fully paid</i>	<i>No.</i>	<i>£</i>	<i>No.</i>	<i>£</i>
Ordinary A shares of £1 each	1	1	1	1
Ordinary B shares of £1 each	1	1	1	1
		<u>2</u>		<u>2</u>

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

**16. Reconciliation of shareholders' funds**

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 £14,500,000 (8 January 2022 – £nil) is derived from dividend income of £14,500,000 (8 January 2022 – £nil). Retained profit of the company for the period was £nil (8 January 2022 Retained profit – £nil).

	8 January 2022	9 January 2021
<i>Group</i>	<i>£000</i>	<i>£000</i>
Profit for the financial period	12,593	2,573
Dividends paid (note 7)	(14,500)	-
Other recognised gains and losses relating to the period (net of deferred tax)	4,786	4,463
Net profit in shareholders' funds	2,879	7,036
Opening shareholders' funds	19,797	12,761
Closing shareholders' funds	<u>22,676</u>	<u>19,797</u>
<i>Company</i>	<i>£000</i>	<i>£000</i>
Profit for the financial period	14,500	-
Dividends paid (note 7)	(14,500)	-
Net change in shareholders' funds	-	-
Opening shareholders' funds	-	-
Closing shareholders' funds	<u>-</u>	<u>-</u>

## Merseyrail Services Holding Company Limited

### Notes to the financial statements

At 7 January 2023

#### 17. Notes to the statement of cash flows

Reconciliation of profit to net cash inflow from operating activities

	7 January 2023 £000	8 January 2022 £000
Group profit for the year	15,009	2,710
Depreciation of tangible assets	764	906
Amortisation of intangible assets	166	154
Loss on disposal of fixed assets	4	256
(Increase)/Decrease in stocks	(23)	1
(Increase in debtors	(2,211)	(2,388)
Increase/(Decrease) in creditors	1,520	(359)
Decrease in deferred government grants	–	–
Difference between pension charge and cash contributions	6,410	5,972
Other none cash movements	(2)	–
Corporation tax paid	(2,630)	(528)
Net cash inflow from operating activities	<u>19,007</u>	<u>6,724</u>

#### 18. Capital commitments

	7 January 2023 £000	8 January 2022 £000
Contracted for but not provided in the financial statements	<u>–</u>	<u>–</u>

#### 19. Pensions

##### *Pension commitments*

The company 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 £3,172,000 (including Brass) in the period (8 January 2022 – £3,192,000). The expected employer contributions for the next financial period are estimated at £3,609,000 (8 January 2022 – £3,368,000).

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 2.7% p.a. has been assumed at 7 January 2023.

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

## Merseyrail Services Holding Company Limited

**Notes to the financial statements**

At 7 January 2023

**19. Pensions (continued)*****Pension commitments (continued)***

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.

While the funded status liability (pre members' share) increased over the period, the employer's net liability has remained at £zero, as a result of the Company choosing to recognise only 60% of the past service deficit (or surplus) in recognition of the shared cost nature of the Scheme and an adjustment made through the Franchise Adjustment.

***Actuarial assumptions***

The full actuarial valuation at 31 December 2019 was updated to 7 January 2023, 8 January 2022 and 9 January 2021 by a qualified actuary, using the following assumptions in relation to future experience:

	7 January 2023	8 January 2022	9 January 2021
Discount rate	5.00%	1.90%	1.55%
Rate of increase in salaries	2.70%	2.80%	2.40%
Rate of increase in deferred pensions	2.70%	2.80%	2.40%
Rate of increase in pensions in payment	2.70%	2.80%	2.40%
Inflation assumption	3.10%	3.30%	2.90%
Long term rate of return expected	5.00%	1.90%	1.55%

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

Male members are segmented into six postcode and pension amount groups (females into two groups) and an adjustment is made to the multipliers accordingly.

Allowance for future improvements in mortality from 1 January 2019 onwards has been made in line with the 2021 version of the "CMI core projection" model published by the Institute and Faculty of Actuaries, but with a smoothing factor of 7.5, assuming a long-term improvement rate of 1.25% p.a. For the period 1 January 2013 to 31 December 2018 allowance for future improvements in mortality has been made in line with the 2018 version of the "CMI core projection" model.

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

	7 January 2023 Value £000	8 January 2022 Value £000	9 January 2021 Value £000	4 January 2010 Value £000	6 January 2019 Value £000
Total market value of assets	257,011	280,852	233,804	218,615	193,349
Present value of scheme liabilities	(232,306)	(414,715)	(398,358)	(312,310)	(257,027)
Members' share of deficit	(9,882)	53,545	65,822	37,478	25,471
Franchise adjustment	(14,823)	80,318	98,732	56,217	38,207
Deficit in scheme	—	—	—	—	—
Related deferred tax asset	—	—	—	—	—
Net pension asset/ (liability)	—	—	—	—	—

## Merseyrail Services Holding Company Limited

## Notes to the financial statements

At 7 January 2023

## 19. Pensions (Continued)

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 affected by means of a franchise adjustment to the income statement.

**Fair value of assets**

The assets in the scheme were:

	7 January 2023	7 January 2023 Value £000	8 January 2022	8 January 2022 Value £000
	%		%	
Equities	74.6	191,730	66.7	187,328
Bonds/Gilts	16.6	42,664	7.0	19,660
Property	10.9	28,014	9.8	27,523
Cash and other	(2.1)	5,397	16.5	46,341
	100%	257,011	100%	280,852

*Amounts included within operating profit:*

Current service cost	9,042	8,669
Brass contributions	92	106
Total included within operating profit	9,134	8,775

*Amounts included as other finance (income)/costs:*

Expected return on scheme assets	(3,185)	(2,160)
Interest cost on scheme liabilities	4,683	3,669
Interest on franchise adjustment	(1,526)	(1,530)
Net finance return	(28)	(21)

*Taken to other comprehensive income:*

	7 January 2023 £000	8 January 2022 £000
Return on plan assets	24,655	(46,566)
Effect of changes in financial assumptions	(203,818)	4,229
Effect of experience adjustments	7,547	-
Effect of changes in demographic assumptions	(131)	(822)
Loss/(Gain) from change in members share	68,698	17,264
Loss/(Gain) on franchise adjustment	96,667	19,944
Remeasurement gains and losses recognised in other comprehensive income	(6,382)	(5,951)

## Merseyrail Services Holding Company Limited

### Notes to the financial statements

At 7 January 2023

#### 19. Pensions (Continued)

	7 January 2023	8 January 2022
Analysis of the change in benefit obligation during the period:	£000	£000
Benefit obligation at beginning of the period	414,715	398,358
Current service cost – Employer (including Brass)	9,134	8,775
Current service cost – Employee	6,028	5,779
Effect of experience adjustments	7,547	-
Interest cost – Employer	4,683	3,669
Interest cost – Employee	3,122	2,446
Effect of changes in financial assumptions	(203,818)	4,229
Effect of changes in demographic assumptions	(131)	(822)
Benefits paid (including Brass)	(8,974)	(7,719)
Benefit obligation at end of period	232,306	414,715

Analysis of the change in plan assets during the period:

	7 January 2023	8 January 2022
	£000	£000
Fair value of plan assets at beginning of the period	280,852	233,804
Interest income – Employer	3,185	2,160
Interest income – Employee	2,123	1,440
Return on plan assets	(24,655)	46,566
Administrative expenses paid from plan assets	(746)	(648)
Employer contribution	3,080	3,086
Employer Brass matching contributions	92	106
Member contributions	2,054	2,057
Benefits paid (including Brass)	(8,974)	(7,719)
Fair value of plan assets at end of period	257,011	280,852

Discussions with the Pensions Regulator, and other stakeholders, in relation to the latest statutory Pensions Act valuation as at 31 December 2016 and, now due to the passage of time, as at 31 December 2019 for all Sections of the Railway Pension Schemes in relation to the Train Operating Companies are still on going. As a result, the Regulator has asked that these Pensions Act valuations are deemed 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.

## Merseyrail Services Holding Company Limited

### Notes to the financial statements

At 7 January 2023

#### 20. Obligations under leases

At 7 January 2023 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	7 January 2023		8 January 2022	
	Land and buildings	Other	Land and buildings	Other
	£000	£000	£000	£000
Amounts payable:				
Within one year	11,060	40,497	9,533	37,639
Within two to five years	36,299	103,128	38,134	120,369
Over five years	237	14,273	2,910	38,741
	<u>47,596</u>	<u>157,898</u>	<u>50,577</u>	<u>196,749</u>

#### 21. 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:

##### Serco Group plc

	7 January 2023	8 January 2022
	£000	£000
Executive salaries and expense recharges (including non-directors)	-	-
Dividends paid and proposed	7,250	-
Other trading transaction costs	<u>281</u>	<u>7</u>

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 company owed Serco Group plc £nil (8 January 2022 – £nil). At the period end, the company was owed £nil by Serco Group plc (8 January 2022 – £nil).

##### NV Nederlandse Spoorwegen

	7 January 2023	8 January 2022
	£000	£000
Other trading transaction income including salary recharges	(73)	(50)
Executive salaries and expense recharges (including non-directors)	-	-
Dividends paid and proposed	7,250	-
Other trading transaction costs	<u>260</u>	<u>385</u>

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 company owed NV Nederlandse Spoorwegen £13,519 (8 January 2022 – £5,747). At the period end, the company was owed £6,566 by NV Nederlandse Spoorwegen (8 January 2022 – £2,574).

## Merseyrail Services Holding Company Limited

### Notes to the financial statements

At 7 January 2023

#### 22. Financial Instruments

Group	7 January 2023 £000	8 January 2022 £000
Financial assets that are debt instruments measured at amortised cost		
– trade and other debtors	7,366	4,697
Financial liabilities measured at amortised cost		
– trade creditors	5,862	3,867
– other creditors	10,464	7,462
– accruals excluding deferred income	6,279	9,310
Company	7 January 2023 £000	8 January 2022 £000
Financial assets that are debt instruments measured at amortised cost		
– other debtors	-	-
– amounts owed by parent undertaking	-	-
Financial liabilities measured at amortised cost		
– trade creditors	-	-
– other creditors	-	-
– accruals excluding deferred income	-	-

#### 23. Post Balance Sheet events

On 31 August 2022, Transport UK Group Limited entered into a sale and purchase agreement with N.V. Nederlandse Spoorwegen in respect of the purchase of all issued shares in the capital of Abellio Transport Group Limited, subject to approval from partners including Merseytravel, as well as the receipt of regulatory consent from the Office of Road and Rail. On 28 February 2023 the management buyout was completed after receiving all formal approvals required.

The Company has been party to a dispute relating to the underpayment (to the Company) of Contract Payments under the Concession Agreement during Control Period 6. On 19 January 2022, the Company received a counter claim notice claiming there had been an error in the Contract Payments for Control Period 5 resulting in an overpayment, with an estimated liability value of £11,460,000. It should be noted that the Company disputed this amount based on the reliability of the calculation mechanism used.

An arbitration process relating to both disputes commenced in FY24, for which the final hearing took place during February 2023. The outcome of the hearing determined that Contract Payments received and still expected to be received during Control Period 6 have been incorrectly calculated, thus resulting in an underpayment to the Company. The outcome also determined that the Company was not subject to an overpayment in Control Period 5, therefore meaning the counter claim was unsuccessful. Subsequently, the Arbitrator has awarded the Company, the sums due by reason of underpayment in Control Period 6, in addition to interest and costs.

A consultation process is in progress to enable parties to determine and agree the award value associated with the Arbitrator's determination. The outcome gives rise to a future asset, however at the date of these financial statements, the value of the asset is subject to consultation. No asset is recognised in these financial statements but will be reflected in FY24 financial statements once the amount is agreed.



## Merseyrail Services Holding Company Limited

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### Notes to the financial statements

At 7 January 2023

**24. Ultimate parent undertaking and controlling party**

The ultimate controlling parties of Merseyrail Services Holding Company Limited are Transport UK Group Limited T/A Abellio and Serco Group plc. Copies of the financial statements of Transport UK Group Limited are available from St Andrews House, 18-20 St. Andrew Street, London, EC4A 3AG. 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.