Merseyrail Services Holding Company Limited

Report and Financial Statements

8 January 2022

Company no. 04620520

Corporate information

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D Kaye
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G Nicoll
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Strategic report

The directors present their Strategic report and the financial statements for the 52 weeks ended 8 January 2022.

Principal activity and review of the business

In 2003, Merseyrail was awarded a 25-year concession to provide rail services on behalf of Merseytravel, the local transport authority in the Liverpool city region. Now in the second half 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, Abellio and N.V Nederlandse Spoowegen.

Merseyrail is an urban network of vital importance to the transport infrastructure and local economy of the Liverpool city region. It is one of the most intensively used networks in the UK, normally we operate over 510 train services daily from Monday to Saturday and 324 on Sundays. 48,000 passenger journeys are made on Merseyrail each weekday, and there are 17.2 million passenger journeys every year. The pandemic has had a significant impact on the group's operations, with passenger journeys reducing up to 90% during the height of the pandemic. These numbers have since improved; however, we continue to operate 16% below pre pandemic levels. Passenger revenue continues to be closely monitored by management.

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. The business currently operates a fleet of 56 class 507/508 electric trains, which are just over forty years old, however, a new fleet of state-of-the-art trains commissioned by Merseytravel are in the testing phase and are expected to come into service during FY 2023.

The programme of upgrade work to extend platforms and carry out signalling works continued during FY 2022 and is expected to be completed in Q3 FY 2023.

The directors are content with the performance of the business in the year given the continued impact of the pandemic. The Group generated profit before interest and taxes of £2.7m this is compared to a loss of £2.5m in the prior period.

Turnover was £163.0m which was an uplift of 8.0 per cent on the previous period (53 weeks ended 9 January 2021 – £150.0m).

On 8 January 2022, the cash balance was £28.9m (9 January 2021 – £22.5m). The group has remained in a positive cash position throughout the period.

In FY 2022 Merseyrail worked with various parties to continue the ongoing investment into our network through a combination of station improvements via Merseytravel and Network Rail. During the year we started construction of four AFA (access for all) schemes which will enable accessibility in our most inaccessible stations through the construction of new lifts, supporting the ongoing upgrade to our network (Hunts Cross, St Michaels, Birkenhead Park & Hillside) as well as undertaking other major projects including canopy renewals at New Brighton, fire alarm upgrades to the underground network & a lift renewal at Conway Park.

Merseyrail have also secured additional funding through the AFA minor works scheme to assess waiting shelters across our network to ensure they are fully accessible. In addition to this we have funding to carry out an option selection report for new lifts at an additional 3 locations.

Merseyrail was the most punctual rail operator on the UK rail network in FY 2022, with a PPM score of 97.12%.

Due to the ongoing pandemic the National Rail Passenger Survey did not take place in FY 2022. 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 our website at key moments during the pandemic demonstrate that on average 92% of passengers would travel with Merseyrail again based on their journey experience.

The Employee Engagement Survey provided a valuable opportunity for staff to share their opinions. FY 2022 saw a 72% response rate and 70% engagement score for the business in our Your Voice - Employee

Strategic report (continued)

Engagement Survey which took place in November 2021. This was a pleasing result following the challenges the business continued to face as a result of the ongoing pandemic.

Equality, Diversity, and Inclusion (EDI) are important at Merseyrail, and this is reflected internally as we look to refresh and revitalise our Diversity Forum and both our Women in Merseyrail, and our LGBTQ network groups. It is also reflected externally through our relationships with key partners and stakeholders. We work collaboratively with other EDI leads across Serco, Abellio, Network Rail and other train operating companies to share best practice and work together to make continued improvement across the Rail Industry as a whole.

A continuing key focus for the business which is reflected in the rollout of our comprehensive business strategy in 2022, 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.

We have made some important contacts within the Liverpool City 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 understand the barriers to these groups and how we can improve our approach to recruitment.

During this challenging year 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 the Covid-19 pandemic has on the business. On 19 July 2021 all legal limits on social contact were removed. Subsequently all sectors of the economy where reopened, meaning there was now a higher demand for Merseyrail services, which has saw passenger numbers steadily increase.

In December 2021 'Plan B' was triggered and a work from home order was put in place by the government, which influenced the number of passenger journeys on our network. Our staffing numbers were subsequently affected owing to the need for staff to isolate, meaning a reduced timetable was implemented throughout our network.

Following the success of the vaccine 'booster' programme the work from home order was lifted in January 2022 and the business saw a positive recovery in passenger revenues. The business expects this strong recovery to continue throughout FY 2023 which is supported by the announcement from the government in February 2022 confirming all Covid-19 restrictions are now lifted including the requirement for isolation.

For further information see the going concern section within the Directors' report.

Key Performance Indicators

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

KPI	52 weeks to 08/01/2022	53 weeks to 09/01/2021
Operating profit/(loss)	£2.7m	(£2.6m)
PPM	97.12%	97.45%
NRPS	N/A*	90.00%

*The NRPS did not take place during 2021 and therefore no current year comparative is available

Strategic report (continued)

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 9 directors of which 6 are from Merseyrail's shareholders Serco and Abellio.

The other directors include the Managing director, the Finance and Transformation 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

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.

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,

Strategic report (continued)

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 83% 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 2021 and into FY 2022 was to improve Diversity Awareness through our community collaborations and inclusive engagement with particular focus on the BAME (Black, Asian and Minority Ethic) community.

We have made some important contacts within the Liverpool City 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 understand the barriers to the BAME community 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.

The Employee Engagement Survey provided a valuable opportunity for staff to share their opinions. FY 2022 saw a 70% response rate and 72% engagement score for the business in our Your Voice - Employee Engagement Survey in November 2021. 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.

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 customer's 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.

Merseyrail was the most punctual rail operator on the UK rail network in FY 2022, with a PPM score of 97.12%.

Due to the ongoing pandemic the National Rail Passenger Survey did not take place in FY 2022. 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 92% of passengers would travel with Merseyrail again based on their journey experience.

Strategic report (continued)

Merseyrail will continue to strive to be a good 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 saw delivery of seven 777 class units during FY 2022 and testing of these units on the Merseyrail Network is underway. A number of common outstanding issues across all units that need to be resolved prior to entry into service. In conjunction with Network Rail platform upgrade works have commenced and are expected to continue into FY 2023.

Discussions between the RMT with regards to the second person on the train are progressing.

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 "Focus on our role as a valued society partner to the Liverpool City Region, ensuring we continually enhance the communities we serve".

During FY 2022 we have worked hard under very difficult circumstances to ensure that Merseyrail's involvement in the communities across the city region helps to make it a better place and that it has the greatest positive impact. This has included working with our partners to support and help charities and organisations to make a difference to local lives and issues. During FY 2022 we rolled over our charity partnership with James Place - a centre offering lifesaving support to men in suicidal crisis. We were very pleased to be able to raise £20,000 for them during the year but also to continue to support their work tackling this very important issue across Merseyside. In FY 2023 we will champion four small charities spanning different sectors across Merseyside, enabling us to reach out and support more individuals in our communities.

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. During FY 2022 this has been digitally and in the form of virtual work experience and meet the professional sessions for schools and colleges. Working under the government guidelines over the last 12 months has meant that we have not been able to physically visit schools and it has been extremely important to continue those relationships with them. We have achieved this by including the students in creative projects such as key worker thank you posters and poetry writing. This engagement with our schools in the region will help to improve access to opportunities and to ensure they have a voice in the Merseyrail of the future. We have also become 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.

FY 2022 has been challenging for our station community partnerships with them not being able to attend the stations for most of the year. But despite these challenges they have still managed to continue their work in making our stations a thriving and community minded space with flourishing planting and creative projects. We have also engaged with a new partnership at our Maghull North station. The most pleasing result was that our station volunteers' group at Maghull Station were awarded best rail station in the northwest of England by the RHS Britain in Bloom judges.

Strategic report (continued)

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.

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

Throughout FY 2023 Merseyrail will continue, in partnership with Merseytravel and others, to make improvements to the network and service. The directors of the businesses attend a quarterly strategy group to discuss proposals and provide a progress update.

The New Fleet project is gathering pace and testing is at an advanced stage, testing will likely continue throughout the first half of FY 2023. Expansion of our fleet is due to continue in the procurement of IPMU battery operated trains this will allow further expansion over the coming years as it removes the requirement to electrify. The fleet will 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. Merseyrail has recently accepted the expression of interest to operate the train service and manage the station.

Further long-term plans 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 our customer ticketing proposition and continues to analyse a suite of additional options to take the project forward. We are looking at modernising ticketing and implementing contactless ticketing. In developing our Future Ticketing programme our customers were surveyed to incorporate their point of view.

Merseyrail also continues to work closely with Network Rail in maintaining and upgrading our infrastructure. There are regular meetings with Network Rail to discuss key projects on the Network and progress such as The Access for All scheme which will continue throughout FY 2023.

Following the pandemic in which the Group sought cost savings, the business is now moving to a recovery phase and focus on is bringing passengers back to the network.

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.

Strategic report (continued)

- Identify and deliver increased passenger growth, to underpin Merseytravel's long term rail strategy and bring further economic benefits to the city region.
- To invest in the development of our leadership/management culture, empowering our people to contribute effectively to the changes facing the network in coming years.

Credit Risk

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

Energy Crisis Risk

The business has hedged its energy purchasing for FY 2023 and FY 2024 at a rate which is lower than current market values, thus reducing the financial impact of potential energy price increases expected during these periods.

Liquidity Risk

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

Interest Risk

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

Brexit Risk

Although the group is yet to see an impact on revenues thought to be directly associated with Brexit the Group continues to monitor the main areas of risk as part of our forecasting and revenue management procedures these being, disruption to the supply chain, effect on current fleet maintenance and a general economic downturn.

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.

Covid- 19 Risk

Although the UK is progressing out of the pandemic the Group continues to consider the potential long-term impact of the pandemic and have determined that there are 6 possible areas of risk for Merseyrail:

- Disruption to supply chain (due to absenteeism or inability to provide services/equipment),
- Increased staff absence,
- Loss of patronage,
- Inability to operate full complement of services,
- Ability to operate within operational and financial covenants associated with the franchise agreement (for further details please see the Going concern section),
- Maintaining sufficient liquidity (for further details please see the Going concern section).

To mitigate these risks Merseyrail are undertaking various actions:

- Reviewing and updating pandemic risk assessment/register to capture the changes in threat level to the business and identify where potential mitigations are required.
- Finance is constantly reviewing costs and looking for savings with budget holders
- Ongoing review of discretionary spend
- Continuing to ensure stringent cash management

Strategic report (continued)

- Enhancing levels of communication to various functions to ensure that employees understand the action that they need to take and how to escalate concerns to their line manager
- Increased levels of health and safety processes including cleaning and the provision of PPE equipment
- Liaising with major suppliers about potentially delaying payments Liaison with Network Rail and Stadler to identify and capture the controls that they have implemented to factor them into Merseyrail's arrangements.

Whilst the pandemic put pressure on passenger revenues it should be noted that recovery has been strong, and now the UK is on the road map out of the pandemic it is expected that revenue will recover further and the outlook into FY 2023 and FY 2024 is positive.

Cyber Risk

The Group is at a greater risk of a cyber-attack given that it operates in key infrastructure, this was evidenced by the Cyber-attack which took place during April 21. Failure to prevent a cyber-attack or data breach could negatively impact our customer and employee data, Rail and Railside operations, financial reporting systems and stakeholder confidence. It could ultimately result in fines levied by the ICO. The business continues to proactively manage risks associated with data loss, GDPR non-compliance, and data control weaknesses. Merseyrail implemented several enhanced security protocols to mitigate any future attacks, this included 2 factor authentication, geofencing VPN access and data security training programmes for our employees. To further reinforce our data security, we are currently undertaking a full review of our IT structure, systems, and procedures to ensure that they are fit for purpose.

Streamlined Energy and Carbon Reporting

Energy Efficiency Action

In mid-2020 Merseyrail undertook phase 4 of their LED installation scheme, covering 18 stations. The savings from this were therefore shared between FY 2021 and FY 2022 with an estimate of 71,036 kWh saved in the reporting period.

FY 2022 saw the third year of a behavioural change competition called the Carbon Cup implemented. Stations competed against each other to reduce the amount of energy consumed. We anticipate this contributed a 3.2% reduction across our portfolio equating to 176,838 kWh.

Covid-19 continued to have a significant impact on energy usage during the reporting period. National lockdown restrictions resulted in a significant reduction in passenger numbers during the first half 2021. These passengers not using heated waiting shelters, lifts, and escalators, as well as the de-staffing of several booking offices due to sickness saw an anticipated reduction of 1.9% in FY 2022 amounting to 103,020 kWh when comparing to the previous reporting period.

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.

UK and offshore Emissions	52 weeks ended 8 January 2022	53 weeks ended 9 January 2021
Non-traction electricity consumption used to calculate emissions (kWh)	5,526,201	5,662,970
Traction electricity consumption used to calculate emissions (kWh)	58,410,519	55,784,660
Gas consumption used to calculate emissions (kWh)	351,184	319,507
Diesel Transport fuel consumption used to calculate emissions (L)	7,782	7,077
Unleaded Transport fuel consumption used to calculate emissions (L)	6,521	10,895

Strategic report (continued)

Emissions from combustion of gas: tCO_2e (Scope 1)	64.3	58.7
Emissions from combustion of fuel for transport purposes: tCO_2e (Scope 1)	33.9	42.5
Emissions from purchased electricity: tCO2e (Scope 2, location - based)	13,575.7	14,325.9
Emissions from business travel in rental cars or employee-owned vehicles where group is responsible for purchasing the fuel: tCO_2e (Scope 3)	-	-
Intensity ratio: gCO_2e / Passenger journey km	43.75	50.89

Methodology

A location-based calculation of CO2 equivalent was applied to both traction (energy used by trains) and non-traction (energy used in buildings) using the 2020 and 2021 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 us 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 CO2 equivalent calculated using the 2020 and 2021 DEFRA emissions factor for natural gas.

Fuel data is collected from purchase receipts and recorded in litres. The 2020 and 2021 DEFRA emissions factors for average biofuel blend Diesel and Petrol were applied.

Our intensity metric is calculated using ticket sales.

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.

Approved by the Board on 7 April 2022 and signed on its behalf by:

Director

D Booth

Company registration no. 04620520

Registered No. 04620520

Directors' report

The directors present their report and financial statements for the 52 weeks ended 8 January 2022. The prior period end finished on 9 January 2021. As the current period and previous period are slightly different lengths this means the results are not directly comparable.

Results and dividends

The profit for the period after taxation amounted to £2.6m (53 weeks ended 9 January 2021 – loss of £2.0m). Due to the business continuing to be in a phase of recovery, the directors do not propose a dividend payment for the period ended 8 January 2022 (53 weeks ended 9 January 2021 – £3.1m).

Future developments

Throughout FY 2023 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 battery-operated unit to enable class 777 services to be extended off the current Merseyrail network 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 in many areas with train testing on the Merseyrail network now well advanced, and power supply upgrades due for completion in FY 2023.

Merseyrail will continue its commitment to reaching a resolution with the RMT through negotiated discussions regarding the duties of the second person on the new trains.

Merseyrail also continues to work closely with Network Rail in maintaining and upgrading our infrastructure and the Access for All scheme which will continue throughout FY 2023.

Although the pandemic had a negative impact on our revenues and the business sought to cut costs, the business is now moving to a recovery phase which has so far been strong. We are seeing a positive trend in passengers returning to the network, revenues and cashflows are monitored daily and we anticipate impacts to EBIT as a result of consequences following the pandemic will be minimal during FY 2023.

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 28 May 2023 whilst considering a range of sensitivities for plausible downside scenarios due to the Covid-19 pandemic 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 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.

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:

Covid-19

- The potential long term impacts the pandemic has on the Company because of changes in customer behaviours and the move to hybrid working, customer financial pressures, local economic downturns, and disruption to suppliers.

Directors' report (continued)

- The Company's ability to maintain its liquidity position and covenants given the potential impacts of Covid-19.

Other Ongoing matters

- The Company's current financial position and prospects.
- The regulatory changes taking place in the rail industry e.g. The introduction of GB rail, and the changes to the rail franchising models.
- The long-term impact of technological changes and the introduction of the new fleet.
- The potential CP5 claim from Merseytravel.
- The potential impact on energy prices and wider cost base as a result of the Ukraine conflict
- Increased RPI rates (MEL are protected from increased rates under the NNLNNG arrangement)

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 28 May 2023.

Merseyrail does not have any external finance or borrowings. It does, under the concession 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 forecast dividend payments
- Removing or delaying all new projects in FY 2023 and FY 2024
- Changing the supplier payment terms with one key specific supplier
- Delay Accounts Payable spend in FY 2023 and FY 2024

A base case cash flow forecast has been prepared and assumes that, in line with current government guidelines no further lockdowns or restrictions will be required, with the main line of defence continuing to be vaccination. The base case also assumes that leisure travel will recover to 94% of pre pandemic levels in FY 2023 increasing to 100% in FY 2024. Commuter levels are expected to increase to 74% in FY 2023 and 77% in FY 2024. To support the above assumptions, total passenger revenues have recovered to an average of 90.4% of pre pandemic levels during the first two periods of FY 2023 and we expect the upwards trend to continue throughout the year following the lifting of all Covid-19 restrictions in February 2022.

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 worst case scenarios which include:

- Commuter revenues remaining flat in line with recovery rate seen in Q3 FY 2022
- Passenger revenues remain in line with FY 2022 values through to Q3 FY 2023

If commuter revenues were to remain flat and in line with recovery rates seen in Q3 FY 2022 being 68% of pre pandemic levels, head room remains positive, and the liquidity position is maintained. If passenger revenues where to reduce in line with revenues seen in FY 2022 this would result in negative headroom of £0.7m, therefore the liquidity maintenance test would be breached. This scenario is deemed highly unlikely to occur given recovery rates to date have surpassed forecasted values, however, to bring headroom up to the required levels a dividend of £1.3m proposed in Q3 FY 2023 could be cancelled, this action is very much within the Company's control.

In December 2021 Merseytravel sent a notice to Merseyrail claiming there had been an error in the Contract Payments for Control Period 5 resulting in an overpayment to Merseyrail. £11.46m was quoted as the sum requiring to be repaid by Merseyrail (see note 14 for further information). In line with the requirements under FRS 102 no provision has been recognised in these financial statements in respect of this amount as

Directors' report (continued)

payment is not deemed probable; this view is supported by our legal team. However, Merseyrail have performed sensitivity analysis on this outcome as a worst-case scenario.

If the claim was successful and Merseytravel requested the amount to be paid in full within any one period during FY 2023 Merseyrail would fail its liquidity test as headroom would fall to a negative value of £1.38m in Q2 FY 2024. The Company would therefore need to implement mitigating actions to avoid a breach of the liquidity maintenance covenant. Merseyrail have the option to change supplier payment terms for one supplier which if implemented would increase headroom to £2.1m in the required period. Implementing this one mitigating action alone provides sufficient leverage to enable the covenant to be met.

Similarly, if payment was requested from Merseytravel over four periods split into equal tranches, the liquidity test would fail. In line with the scenario above supplier payments could be delayed providing headroom of £2.0m.

The base case and sensitised cashflows demonstrate that sufficient cash resources exist in all scenarios with minimum cash position being £25.1m in the base case and £13.6m as the lowest point in the downside sensitivities. Although headroom falls below the required levels in some scenarios, mitigating actions are available and can be actioned immediately. It should be noted that the sensitivities relating to the CP5 claim are extremely unlikely to occur and are very much an illustration of a worst-case outcome, they are considered severe but not plausible.

Following this detailed exercise and considering the results of the base case forecast, downside scenarios and severe but plausible sensitivities, the directors are satisfied that the liquidity maintenance requirements will be met for the period covered by the forecast (up to 28 May 2023) therefore there will be no breach of the Concession Agreement with Merseytravel. The forecasts, under all four scenarios following mitigating actions when required show sufficient liquidity in the business.

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
G Nicoll – Appointed 7 December 2021
A Magielse
J Heron
J Whitehurst
A Dingwall – Resigned 7 December 2021

Indemnity provision for directors

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

Political and charitable contributions

During the period, the company made charitable donations and sponsorship payments of £25,378 (53 weeks ended 9 January 2021 – £24,639) principally to local charities and groups serving the communities in which the company operates.

Directors' report (continued)

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 2).. 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
- Twice yearly director 'blitz' of the network – everywhere in a day
- The use of a variety of communications channels; Merseyrail Facebook page, The Loop, Signal Briefing, Team Meetings and Snapshot Briefs and Staff Facebook Live Director Question and Answer sessions
- Weekly Wellbeing eshot 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
- Throughout Covid-19 in addition to the thanks our MD gives employees in his monthly update videos we have collated and shared two employee Thank You videos.
- To further support employees during Covid-19 we created and shared employee eLearning courses including Mental Health Awareness, Stress Management. Dealing with Covid-19 Anxiety, Mindfulness, and Inclusion training

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.

Directors' report (continued)

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

Director

D Booth
7 April 2022
Company registration no. 04620520

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 period ended 8 January 2022 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 23 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 8 January 2022 and of the group's profit for the period 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 28 May 2023.

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 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 period 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.

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.

Ernst & Young LLP

Elizabeth Jones (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Liverpool
Date: 7th April 2022

Group Statement of comprehensive income

for the period ended 8 January 2022

	Notes	52 weeks ended 8 January 2022 £000	53 weeks ended 9 January 2021 £000
Turnover	2	163,005	150,005
Cost of sales		(160,295)	(152,649)
Operating profit/(loss)	3	2,710	(2,644)
Interest receivable and similar income	5	20	74
Other finance income	19	21	33
Profit/(Loss) on ordinary activities before taxation		2,751	(2,537)
Tax	6	(178)	496
Profit/(loss) for the financial period	16	2,573	(2,041)
Other comprehensive income			
Actuarial gain relating to pension scheme	19	5,951	4,644
Deferred tax attributable to actuarial gain	7	(1,488)	(882)
Other comprehensive income		4,463	3,762
Total comprehensive income for the period		7,036	1,721

Group Statement of financial position

at 8 January 2022

	Notes	£000	2022 £000	£000	2021 £000
Fixed assets					
Intangible assets	8		1,037		1,191
Tangible assets	9		2,196		2,998
Deferred tax asset	6		256		340
			3,489		4,529
Current assets					
Stocks	11	78		79	
Debtors	12	11,642		9,384	
Cash at bank and in hand		28,861		22,477	
		40,581		31,940	
Creditors: amounts falling due within one year	13	(24,273)		(23,708)	
Net current assets			16,308		8,232
Total assets less current liabilities			19,797		12,761
Accruals and deferred income					
Deferred government grants			-		-
Net assets before pension liability			19,797		12,761
Pension liability	19		-		-
Net assets			19,797		12,761
Capital and reserves					
Called-up share capital	15		-		-
Profit and loss account	16		19,797		12,761
Shareholders' funds	16		19,797		12,761

The financial statements of Merseyrail Services Holding Company Limited were approved by the Board of Directors on 7 April 2022.

Director

D Booth

Company no. 04620520

Company Statement of financial position

at 8 January 2022

	Notes	£000	2022 £000	£000	2021 £000
Fixed assets					
Investments	10		–		–
Current assets					
Debtors	12	–		–	
					–
Creditors: amounts falling due within one year	13		–		–
Net current assets			–		–
Total assets less current liabilities			–		–
Capital and reserves					
Called up share capital	15		–		–
Profit and loss account	16		–		–
Shareholders' funds	16		–		–

The financial statements of Merseyrail Services Holding Company Limited were approved by the Board of Directors on 7 April 2022.

Director

D Booth

Company no. 04620520

Group Statement of changes in equity

for the period ended 8 January 2022

	Called-up capital £000	Profit and loss account £000	Share-holders equity £000
At 5 January 2020	–	14,118	14,118
Loss for the period	–	(2,041)	(2,041)
Other comprehensive income	–	3,762	3,762
Total comprehensive income for the year	–	1,721	1,721
Equity dividends paid (note 7)	–	(3,078)	(3,078)
At 9 January 2021	–	12,761	12,761

	Called-up capital £000	Profit and loss account £000	Share-holders equity £000
At 10 January 2021	–	12,761	12,761
Profit 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)	–	-	-
At 8 January 2022	–	19,797	19,797

Company Statement of changes in equity

for the period ended 8 January 2022

	Called-up capital	*Profit and loss account*	*Share-holders equity*
	£000	*£000*	*£000*
At 5 January 2020	–	–	–
Profit for the period	–	3,078	3,078
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	3,078	3,078
Equity dividends paid (note 7)	–	(3,078)	(3,078)
At 9 January 2021	–	–	–

	Called-up capital	*Profit and loss account*	*Share-holders equity*
	£000	*£000*	*£000*
At 10 January 2021	–	–	–
Profit for the period	–	–	–
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	–	–
Equity dividends paid (note 7)	–	–	–
At 8 January 2022	–	–	–

Group Statement of cash flows

for the period ended 8 January 2022

	Note	8 January 2022 £000	9 January 2021 £000
Net cash inflow/(outflow) from operating activities	17	6,724	(13,513)
Investing activities			
Interest received		20	74
Purchase of tangible fixed assets		(360)	(907)
Net cash outflow from investing activities		(340)	(833)
Financing activities			
Equity dividends paid		-	(3,078)
Net cash outflow from financing activities		-	(3,078)
Increase/(decrease) in cash and cash equivalents		6,384	(17,424)
Cash and cash equivalents at 10 January 2021		22,477	39,901
Cash and cash equivalents at 8 January 2022		28,861	22,477

Notes to the finanical statements

for the period ended 8 January 2022

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 8 January 2022. 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 7 April 2022. 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 8 January 2022 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.

Notes to the finanical statements

At 8 January 2022

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. Discussions are ongoing between Merseyrail and Merseytravel as to the level of compensation that should be received in respect of our Network Rail fixed track access charges (FTAC) in respect of various control periods.

Merseyrail are currently receiving an interim adjustment, which reduces our expected CP6 franchise revenues whilst discussions are ongoing with Merseytravel, however it is unclear whether further revenues will be agreed as such no accrued income in respect of this aspect of CP6 has been recognised within the accounts.

Onerous contracts and impairment of fixed assets

The downturn in trading as a result of the impacts following pandemic has been seen as a potential indicator of impairment by the business and 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 6.34% 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, no further lockdowns or restrictions occur, steady recovery and growth with leisure travel recovering to 94% of pre pandemic levels in FY 2023 increasing to 100% in FY 2024. Commuter travel recovery is expected to reach 74% of pre pandemic levels in FY 2023 increasing to 77% in FY 2024. The ongoing cashflow forecast into perpetuity is based upon RPI growth of 3%. 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 to include payment of £11.5m under the CP5 claim. Combined with other sensitivities if payment is made this would indicate a reasonably possible impairment and onerous contract, however as the claim is not considered probable (see provisions section below) it does not at this point in time trigger an impairment or onerous contract.

Provisions

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.

As noted above, from April 2019 Merseyrail moved into control period 6 ("CP6"). Discussions are ongoing between Merseyrail and Merseytravel as to the level of compensation that should have been received in respect of our Network Rail fixed track access charges (FTAC) for the various control periods. The directors have considered any associated risk, after taking legal advice, to be remote.

Following the on-going discussions noted above in relation to the CP6 matter, on 23 December 2021, Merseytravel made a counter claim and served a "Notice of Overpayment" seeking reimbursement of £11,460,000 in respect of Control Period 5 ("CP5"). Merseyrail have sought legal advice in relation to the matter and that advice confirms that Contract Payments for CP5 have been previously settled, and economic outflows as a result of the claim whilst possible are not probable, accordingly no provision for any liability has been made in these financial statements instead a contingent liability has been disclosed see note 14.

Notes to the finanical statements

At 8 January 2022

1. Accounting policies (continued)

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 28 May 2023 whilst considering a range of sensitivities for plausible downside scenarios due to the Covid-19 pandemic 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 in 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 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.

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:

Covid-19

- The potential long term impacts the pandemic has on the Company because of changes in customer behaviours and the move to hybrid working, customer financial pressures, local economic downturns, and disruption to suppliers.
- The Company's ability to maintain its liquidity position and covenants given the potential impacts of Covid-19.

Other Ongoing matters

- The Company's current financial position and prospects.
- The regulatory changes taking place in the rail industry e.g., the introduction of GB rail, and the changes to the rail franchising models.
- The long-term impact of technological changes and the introduction of the new fleet.
- The potential CP5 claim from Merseytravel.
- The potential impact on energy prices and wider cost base as a result of the Ukraine conflict
- Increased RPI rates (MEL are protected from increased rates under the NNLNNG arrangement)

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 28 May 2023.

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.

Notes to the finanical statements

At 8 January 2022

1. Accounting policies (continued)

- Cancellation of proposed dividend payments
- Removing or delaying all new projects in FY 2023 and FY 2024
- Changing the supplier payment terms with one key specific supplier
- Delay Accounts Payable spend in FY 2023 and FY 2024

A base case cash flow forecast has been prepared and assumes that, in line with current government guidelines no further lockdowns or restrictions will be required, with the main line of defence continuing to be vaccination. The base case also assumes that leisure travel will recover to 94% of pre pandemic levels in FY 2023 increasing to 100% in FY 2024. Commuter levels are expected to increase to 74% in FY 2023 and 77% in FY 2024. To support the above assumptions, total passenger revenues have recovered to an average of 85% of pre pandemic levels during the first half of Q1 FY 2023 and we expect the upwards trend to continue throughout the year following the lifting of all covid restrictions in February 2022.

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 worst case scenarios which include:

- Commuter revenues remaining flat in line with recovery rate seen in Q3 FY 2022
- Passenger revenues remain in line with FY 2022 values through to Q3 FY 2023

If commuter revenues were to remain flat at 68% of pre pandemic levels, head room remains positive, and the liquidity position is maintained. If passenger revenues where to reduce in line with revenues seen in FY 2022 this would result in negative headroom of £0.7m, therefore the liquidity maintenance test would be breached. This scenario is deemed highly unlikely to occur given recovery rates to date have surpassed forecasted values, however, to bring headroom up to the required levels a dividend of £1.3m proposed in Q3 FY 2023 could be cancelled, this action is very much within the Company's control.

In December 2021 Merseytravel sent a notice to Merseyrail claiming there had been an error in the Contract Payments for Control Period 5 resulting in an overpayment to Merseyrail. £11.46m was quoted as the sum requiring to be repaid (see note 14 for further information). In line IAS 37 no provision has been recognised in these financial statements in respect of this amount as payment is not deemed probable, this view is supported by our legal team. However, Merseyrail have performed sensitivity analysis on this outcome as a worst-case scenario.

If a payment was made and Merseytravel requested the amount in one full payment Merseyrail would fail its liquidity test as headroom would fall to a negative value of £1.38m in Q2 FY 2024. The Company would therefore need to implement mitigating actions to increase the levels of headroom. Merseyrail have the option to change supplier payment terms for one supplier which if implemented would bring headroom up to £2.1m in the required period. Implementing this one mitigating action alone provides sufficient leverage to enable the covenant to be met.

Similarly, if payment was requested from Merseytravel over four periods split into equal tranches, the liquidity test would fail. In line with the scenario above supplier payments could be delayed bringing head room up to the required levels.

The base case and sensitised cashflows demonstrate that sufficient cash resources exist in all scenarios with minimum cash position being £25.1m in the base case and £13.6m as the lowest point in the downside sensitivities. Although headroom falls below the required levels in some scenarios, mitigating actions are available and can be actioned immediately. It should be noted that these sensitivities are extremely unlikely to occur and are very much an illustration of a worst-case outcome.

Following this detailed exercise and considering the results of the base case forecast and downside and worst-case sensitivities, the directors are satisfied that the liquidity maintenance requirements will be met for the period covered by the forecast (up to 28 May 2023) therefore there will be no breach of the Concession Agreement with Merseytravel. The forecasts, under all four scenarios following mitigating actions when required show sufficient liquidity in the business.

Notes to the finanical statements

At 8 January 2022

1. Accounting policies (continued)

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

Statement of cash flows

The company has elected to take advantage of the reduced disclosures for subsidiaries under FRS102 (FRS 102 paragraph 1.11 and 1.12) and has opted out of including a cash flow statement in its financial statements as it is a wholly owned subsidiary of Merseyrail Services Holding Company Limited, a company incorporated in the United Kingdom, which has included a group statement of cash flows in its 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 9) are amortised over the life of the concession (25 years).

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

Tangible fixed assets

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

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its estimated useful life at the following annual rate:

Leasehold land and buildings	–	2%-10% per annum
Plant and machinery, motor vehicles and fixtures and fittings	–	4%-50% per annum

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

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

Turnover

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

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

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

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

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.

Notes to the finanical statements

At 8 January 2022

1. Accounting policies (continued)

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.

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.

Notes to the finanical statements

At 8 January 2022

1. Accounting policies (continued)

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

2. Turnover and segmental analysis

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

Area of activity

	52 weeks ended 8 January 2022	*53 weeks ended 9 January 2021*
	£000	*£000*
Group turnover		
Continuing operations:		
Total sales of goods	912	951
Rendering of services	162,093	149,054
Sales to third parties	163,005	150,005

Notes to the finanical statements

At 8 January 2022

3. Operating profit/(loss)

This is stated after charging / (crediting):

	52 weeks ended 8 January 2022 £000	53 weeks ended 9 January 2021 £000
Fees payable to the company and subsidiary's auditors for the audit of the financial statements	257	226
Fees payable to the company's auditors and their associates for other services to the group:		
– other audit related assurance services	25	28
Loss on disposal of fixed assets	256	5
Government grant released	(71)	(146)
Depreciation and amortisation – intangible fixed assets	154	156
– owned tangible fixed assets	906	1,111
Access charges payable to Network Rail (operating leases)	19,834	18,808
Other operating lease rentals – plant and machinery	12,706	12,943
– land and buildings	9,792	9,753

Audit fees for the group are borne in entirety by the trading entity, Merseyrail Electrics 2002 Limited (2021 – same)

4. Staff costs

	53 weeks ended 8 January 2022 £000	53 weeks ended 9 January 2021 £000
Wages and salaries	44,609	46,585
Social security costs	4,588	4,852
Pension costs – defined benefit schemes	8,775	7,575
Pension costs – personal pension schemes	-	1
	57,972	59,013

The staff costs include the directors' salaries.

Notes to the finanical statements

At 8 January 2022

4. Staff costs (Continued)

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

	52 weeks ended 8 January 2022 No.	*53 weeks ended 9 January 2021 No.*
Operational	1,027	1,050
Engineering and maintenance	30	29
Administration and support	76	86
	1,133	1,165

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

	52 weeks ended 8 January 2022 £000	*53 weeks ended 9 January 2021 £000*
Bank interest	2	35
Other interest	18	39
	20	74

6. Tax

(a) Tax on profit/(loss) on ordinary activities

The tax (charge)/credit is made up as follows:

	52 weeks ended 8 January 2022	*53 weeks ended 9 January 2021*
Current tax:		
UK corporation tax on the profit/(loss) for the period	(1,701)	(476)
Adjustment in respect of prior periods	119	73
Total current tax	(1,582)	(403)
Deferred tax:		
Origination and reversal of timing differences	(15)	(18)
Adjustment in respect of prior periods	(69)	35
Pension cost charge in excess of pension relief	1,488	882
Deferred tax	1,404	899
Tax on profit/(loss) on ordinary activities	(178)	496

Notes to the finanical statements

At 8 January 2022

6. Tax (continued)

(b) Factors affecting tax charge for the period:

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 19% (53 weeks ended 9 January 2021 – 19%). The differences are explained below:

	52 weeks ended 8 January 2022	*53 weeks ended 9 January 2021*
	£000	*£000*
Profit/(loss) on ordinary activities before tax	2,751	(2,537)
Tax on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (53 weeks ended 9 January 2021 – 19%)	(523)	482
Effects of:		
Expenses not deductible for tax purposes	(105)	(135)
Adjustment in respect of prior periods	50	107
Impact on deferred tax of change in tax rate	400	42
Total tax (charge)/credit	(178)	496

(c) Deferred tax

	£000
Deferred tax asset:	
At 10 January 2021	340
Deferred tax credit in the profit and loss account	1,404
Debited to statement of comprehensive income	(1,488)
At 8 January 2022	256

	52 weeks ended 8 January 2022	*53 weeks ended 9 January 2021*
	£000	*£000*
Deferred tax asset included in fixed assets	256	340

Analysis of deferred tax balance

	52 weeks ended 8 January 2022	*53 weeks ended 9 January 2021*
	£000	*£000*
Depreciation in excess of capital allowances	178	261
Short term timing difference	78	79
Deferred tax asset	256	340

Notes to the finanical statements

At 8 January 2022

6. Tax (continued)

Deferred tax (continued)

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 2023 at which point it will then rise to 25%. The deferred tax asset at 8 January 2022 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.

7. Dividends

	8 January 2022	*9 January 2021*
	£000	*£000*
Equity dividends paid of £nil per share (53 weeks ended 9 January 2021 – £1,539,000)	-	3,078

8. Intangible fixed assets

Group	*Concession costs* *£000*	*Franchise Intangible* *£000*	*Total* *£000*
Cost:			
At 10 January 2021 and 8 January 2022	726	3,190	3,916
Amortisation:			
At 10 January 2021	505	2,220	2,725
Charge for the period	28	126	154
At 8 January 2022	533	2,346	2,879
Net book value:			
At 8 January 2022	193	844	1,037
At 9 January 2021	221	970	1,191

Notes to the finanical statements

At 8 January 2022

9. Tangible fixed assets

Group	*Leasehold land and buildings* *£000*	*Assets in the course of construction* *£000*	*Plant and machinery* *£000*	*Fixtures and fittings* *£000*	*Total* *£000*
Cost:					
At 10 January 2021	1,114	272	9,337	7,464	18,187
Additions	–	313	13	34	360
Disposals	–	(256)	(6)	–	(262)
Transfers	–	(178)	126	52	–
At 8 January 2022	1,114	151	9,470	7,550	18,285
Accumulated depreciation:					
At 10 January 2021	686	–	8,189	6,314	15,189
Charge for the period	48	–	488	370	906
Disposals	–	–	(6)	–	(6)
At 8 January 2022	734	–	8,671	6,684	16,089
Net book value:					
At 8 January 2022	380	151	799	866	2,196
At 9 January 2021	428	272	1,148	1,150	2,998

The cost of assets held by the company under finance leases at 8 January 2022 was £1,863,000. (9 January 2021 – £1,863,000). The accumulated depreciation provided for on those assets at 8 January 2022 was £1,863,000 (9 January 2021 – £1,863,000). The assets are held for continuing use in the business with an annual peppercorn rent made.

The cost of assets held by the company financed by a government grant at 8 January 2022 was £2,846,000 (9 January 2021 – £2,846,000). The accumulated depreciation provided for on those assets at 8 January 2022 was £2,575,000 (9 January 2021 – £2,504,000).

10. Investments

Company	*Subsidiary undertakings* *£*
Cost:	
At 9 January 2021 and 8 January 2022	2

The investment in the subsidiary relates to 100% of the issued share capital of Merseyrail Electrics 2002 Limited, a company incorporated in England which operates passenger railway services. The registered office of this company is Rail House, Lord Nelson Street, Liverpool, L1 1JF.

Notes to the finanical statements

At 8 January 2022

10. Investments (Continued)

Group

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

Company name	*Capital*	*Proportion held*	*Activities*
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

Group	*8 January 2022 £000*	*9 January 2021 £000*
Raw materials and consumables	78	79

Stocks recognised as an expense in the period were £223,000 (9 January 2021 – £106,000).

12. Debtors

	Group		*Company*	
	8 January 2022 £000	*9 January 2021 £000*	*8 January 2022 £000*	*9 January 2021 £000*
Trade debtors	3,807	5,414	–	–
VAT	2,278	1,701	–	–
Other debtors	890	877	–	–
Corporation Tax debtor	-	131	–	–
Prepayments and accrued income	4,667	1,261	–	–
	11,642	9,384	–	–

Notes to the finanical statements

At 8 January 2022

13. Creditors: amounts falling due within one year

	Group		Company	
	8 January 2022	*9 January 2021*	*8 January 2022*	*9 January 2021*
	£000	*£000*	*£000*	*£000*
Trade creditors	7,461	9,184	–	–
Corporation tax payable	924	–	–	–
Other creditors	3,867	5,719	–	–
Other taxation and social security costs	1,067	1,067	–	–
Accruals and deferred income	10,954	77,38	–	–
	24,273	23,708	–	–

14. Contingent Liabilities

On 23 December 2021 Merseytravel sent a notice to The Company claiming there had been an error in the Contract Payments for Control Period 5 resulting in an overpayment. A formal counter claim was received from Merseytravel on 19 January 2022.

It has been estimated by Merseytravel that the liability, should the claim be successful is £11,460,000. It should be noted that Merseyrail disputes this amount based on the reliability of the calculation mechanism used.

The Company has been advised by Counsel that Contract Payments for Control Period 5 are settled, and economic outflows as a result of the claim are possible but not probable, accordingly no provision for any liability has been made in these financial statements. This issue forms part of the ongoing CP6 dispute, the outcome of this will be determined as part of the wider settlement.

15. Issued share capital

		8 January 2022		*9 January 2021*
Allotted, called up and fully paid	*No.*	*£*	*No.*	*£*
Ordinary A shares of £1 each	1	1	1	1
Ordinary B shares of £1 each	1	1	1	1
		2		2

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

Notes to the finanical statements

At 8 January 2022

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 £nil (9 January 2021 – £3,078,000) is derived from dividend income of £nil (9 January 2021 – £3,078,000). Retained profit of the company for the period was £nil (9 January 2021 Retained profit – £nil).

	8 January 2022	*9 January 2021*
Group	*£000*	*£000*
Profit/(Loss) for the financial period	2,573	(2,041)
Dividends paid (note 7)	-	(3,078)
Other recognised gains and losses relating to the period (net of deferred tax)	4,463	3,762
Net profit/ (loss) in shareholders' funds	7,036	(1,357)
Opening shareholders' funds	12,761	14,118
Closing shareholders' funds	19,797	12,761

Company		
	£000	*£000*
Profit for the financial period	–	3,078
Dividends paid (note 7)	–	(3,078)
Net change in shareholders' funds	–	–
Opening shareholders' funds	–	–
Closing shareholders' funds	–	–

17. Notes to the statement of cash flows

Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	8 January 2022	*9 January 2021*
	£000	*£000*
Group profit/(loss) for the year	2,710	(2,644)
Depreciation of tangible assets	906	1,111
Amortisation of intangible assets	154	156
Loss on disposal of fixed assets	256	5
Decrease in stocks	1	9
(Increase)/decrease in debtors	(2,388)	5,674
Decrease in creditors	(359)	(20,253)
Decrease in deferred government grants	–	(58)
Difference between pension charge and cash contributions	5,972	4,678
Corporation tax paid	(528)	(2,191)
Net cash inflow/(outflow) from operating activities	6,724	(13,513)

Notes to the finanical statements

At 8 January 2022

18. Capital commitments

	8 January 2022 *£000*	*9 January 2021* *£000*
Contracted for but not provided in the financial statements	-	2

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 £3,192,000 (including Brass) in the period (9 January 2021 – £3,286,000). The expected employer contributions for the next financial period are estimated at £3,368,000 (9 January 2021 – £3,175,000).

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 3.0% p.a. has been assumed at 8 January 2022.

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

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 8 January 2022, 9 January 2021 and 4 January 2020 by a qualified actuary, using the following assumptions in relation to future experience:

	8 January 2022	*9 January 2021*	*4 January 2020*
Discount rate	1.70%	1.55%	2.15%
Rate of increase in salaries	3.00%	2.40%	2.20%
Rate of increase in deferred pensions	3.00%	2.40%	1.90%
Rate of increase in pensions in payment	3.00%	2.40%	1.90%
Inflation assumption	3.50%	2.90%	2.70%
Long term rate of return expected	1.70%	1.55%	2.15%

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

Notes to the finanical statements

At 8 January 2022

19. Pensions (Continued)

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 2011 onwards has been made in line with the 2017 version of the "CMI core projection" model published by the Institute and Faculty of Actuaries, assuming a long-term improvement rate for the period to 8 January 2022 of 1.25% p.a. (9 January 2021 – 1.25% p.a.).

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

	8 January 2022 Value £000	*9 January 2021 Value £000*	*4 January 2020 Value £000*	*6 January 2019 Value £000*	*7 January 2018 Value £000*
Total market value of assets	280,852	233,804	218,615	193,349	192,159
Present value of scheme liabilities	(414,715)	(398,358)	(312,310)	(257,027)	(265,506)
Members' share of deficit	53,545	65,822	37,478	25,471	29,339
Franchise adjustment	80,318	98,732	56,217	38,207	44,008
Deficit in scheme	–	–	–	–	–
Related deferred tax asset	–	–	–	–	–
Net pension asset/ (liability)	–	–	–	–	–

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:

	8 January 2022 %	*8 January 2022 Value £000*	*9 January 2021 %*	*9 January 2021 Value £000*
Equities	66.7	187,328	69.4	162,191
Bonds/Gilts	7.0	19,660	6.3	14,710
Property	9.8	27,523	8.7	20,273
Cash and other	16.5	46,341	15.6	36,630
	100%	280,852	100%	233,804

Notes to the finanical statements

At 8 January 2022

19. Pensions (Continued)

	8 January 2022	*9 January 2021*
	£000	*£000*
Amounts included within operating profit/(loss):		
Current service cost	8,669	7,452
Brass contributions	106	123
Total included within operating profit/(loss)	8,775	7,575
Amounts included as other finance (income)/costs:		
Expected return on scheme assets	(2,160)	(2,813)
Interest cost on scheme liabilities	3,669	3,989
Interest on franchise adjustment	(1,530)	(1,209)
Net finance return	(21)	(33)

Taken to other comprehensive income:

	8 January 2022	*9 January 2021*
	£000	*£000*
Return on plan assets	(46,566)	(13,382)
Effect of changes in financial assumptions	4,229	85,739
Effect of experience adjustments	-	(10,038)
Effect of changes in demographic assumptions	(822)	(1,216)
Loss/(Gain) from change in members share	17,264	(24,441)
Loss/(Gain) on franchise adjustment	19,944	(41,306)
Remeasurement gains and losses recognised in other comprehensive income	(5,951)	(4,644)

Analysis of the change in benefit obligation during the period:	*8 January 2022*	*9 January 2021*
	£000	£000
Benefit obligation at beginning of the period	398,358	312,310
Current service cost – Employer (including Brass)	8,775	7,575
Current service cost – Employee	5,779	4,968
Effect of experience adjustments	-	(10,038)
Interest cost – Employer	3,669	3,989
Interest cost – Employee	2,446	2,659
Effect of changes in financial assumptions	4,229	85,739
Effect of changes in demographic assumptions	(822)	(1,216)
Benefits paid (including Brass)	(7,719)	(7,628)
Benefit obligation at end of period	414,715	398,358

Notes to the finanical statements

At 8 January 2022

19. Pensions (Continued)

Analysis of the change in plan assets during the period:

	8 January 2022 £000	9 January 2021 £000
Fair value of plan assets at beginning of the period	233,804	218,615
Interest income – Employer	2,160	2,813
Interest income – Employee	1,440	1,875
Return on plan assets	46,566	13,382
Administrative expenses paid from plan assets	(648)	(648)
Employer contribution	3,086	3,163
Employer Brass matching contributions	106	123
Member contributions	2,057	2,109
Benefits paid (including Brass)	(7,719)	(7,628)
Fair value of plan assets at end of period	280,852	233,804

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

20. Obligations under leases

At 8 January 2022 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		*8 January 2022*		*9 January 2021*
	Land and buildings £000	*Other £000*	*Land and buildings £000*	*Other £000*
Amounts payable:				
Within one year	9,533	37,639	9,738	30,271
Within two to five years	38,134	120,369	38,954	56,227
Over five years	2,910	38,741	12,584	–
	50,577	196,749	61,276	86,498

Notes to the finanical statements

At 8 January 2022

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

	8 January 2022	*9 January 2021*
	£000	*£000*
Executive salaries and expense recharges (including non-directors)	-	70
Dividends paid and proposed	-	1,539
Other trading transaction costs	7	60

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 (9 January 2021 – £nil). At the period end, the company was owed £nil by Serco Group plc (9 January 2021 – £nil).

NV Nederlandse Spoorwegen

	8 January 2022	*9 January 2021*
	£000	*£000*
Other trading transaction income including salary recharges	(50)	(109)
Executive salaries and expense recharges (including non-directors)	-	66
Dividends paid and proposed	-	1,539
Other trading transaction costs	385	283

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 £5,747 (9 January 2021 – £12,306) At the period end, the company was owed £2,574 by NV Nederlandse Spoorwegen (9 January 2021 – £6,278).

22. Financial Instruments

Group	*8 January 2022*	*9 January 2021*
	£000	*£000*
Financial assets that are debt instruments measured at amortised cost		
– trade and other debtors	4,697	6,291
Financial liabilities measured at amortised cost		
– trade creditors	3,867	9,184
– other creditors	7,462	5,719
– accruals excluding deferred income	9,310	6,312

Notes to the finanical statements

At 8 January 2022

22. Financial Instruments (Continued)

Company	*8 January 2022 £000*	*9 January 2021 £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. Ultimate parent undertaking and controlling party

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