

Merseytravel Statement of Accounts 2020/21



**LIVERPOOL
CITY REGION**
COMBINED AUTHORITY



METROMAYOR
LIVERPOOL CITY REGION

TABLE OF CONTENTS

	Page No.
Narrative Report by the Director of Corporate Services	3
Statement of Responsibilities for Merseytravel's Statement of Accounts	16
Annual Governance Statement	17
Independent Auditor's Report to the Members of Merseytravel	29
Primary Single Entity Financial Statements	
Movement in Reserves Statement	35-36
Comprehensive Income and Expenditure Statement	37
Balance Sheet	38
Cash Flow Statement	39
Notes to the Primary Statements	40
Group Accounts	80
Glossary of Financial Terms	95

NARRATIVE REPORT BY THE DIRECTOR OF CORPORATE SERVICES

Merseytravel is a corporate body under the Transport Act 1968. Merseytravel is the transport delivery body for the Liverpool City Region Combined Authority (LCRCA), providing transport services across Liverpool, Knowsley, St Helens, Sefton and the Wirral. Merseytravel also provides strategic transport advice to Halton. It also provides professional, strategic and operational advice on transport to LCRCA. Merseytravel receives its funding from LCRCA in the form of revenue and capital grants to fund its expenditure in order to carry out the functions as directed by the LCRCA.

The Statement of Accounts that follow demonstrates Merseytravel's financial performance for the financial year ending 31 March 2021. The purpose of this report is to provide a guide to Merseytravel's accounts and to summarise its financial and non-financial performance for the year. These accounts are completed in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

The following provides a brief overview of the various sections of the Annual Statement of Accounts.

Narrative Statement

Provides a summary of Merseytravel's financial and non-financial performance for the year.

Statement of Responsibility for the Statement of Accounts

This outlines the responsibilities of both Merseytravel and the Director of Corporate Services for the production and content of the Annual Statement of Accounts.

Annual Governance Statement

This explains the effectiveness of the governance framework in operation during the financial year.

Movement in Reserves Statement

This statement shows the movement in reserves held by Merseytravel during the financial year, splitting them into usable and unusable reserves. The Deficit/ (Surplus) on the Provision of Services shows the cost of providing Merseytravel's services under proper accounting practice which is different from the statutory amounts required to be charged to the General Fund Balance for levy setting purposes. The Net Increase/ (Decrease) before Transfer to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers (to)/ from earmarked reserves.

Comprehensive Income and Expenditure Statement (CIES)

This statement shows the cost of providing services in accordance with generally accepted accounting practices as opposed to the amounts to be funded from the levy. Merseytravel raises a levy to cover expenditure in accordance with regulation which is not necessarily the same as the accounting cost. Whilst the position detailed in the CIES will differ from that shown in Merseytravel's management reporting, the levy position is detailed through the Movement in Reserves and Expenditure and Funding Analysis.

Balance Sheet

This shows the value of Merseytravel's assets and liabilities at the Balance Sheet date. Net assets of Merseytravel are matched by the reserves (both usable and unusable) held by Merseytravel.

Cash Flow Statement

This statement summarises the actual flows of cash arising from Merseytravel's transactions during the financial year. This shows the changes in cash and cash equivalents during the year.

Notes to the Financial Statements

These include additional information on items included within the core financial statements and details on the organisation's main accounting policies.

Group Accounts

These reflect the full extent of Merseytravel's economic activities by reflecting Merseytravel's involvement with its group companies and organisations.

Financial Performance

Revenue Expenditure 2020/21

Merseytravel's budget was approved on 29 January 2020 and a levy of £97.4m was agreed for 2020/21. The grant to Merseytravel to support its provision of transport functions was set at £94.1m and a separate grant of £23.9m approved to support the operation of the Mersey Tunnels. Merseytravel is also the concessionaire for the Merseyrail network, for which it has a contractual relationship with Merseyrail Electrics as the concession holder and the Department for Transport (DfT) from whom funding for the concession is provided by way of a Special Rail Grant. Merseytravel received £97.8m in Special Rail Grant from the DfT towards the cost of the Merseyrail network. As a specific grant the income and associated expenditure is shown in the Rail Services line.

A revised budget was approved in September 2020 to reflect the impact of COVID-19 and the tunnels grant was reduced to £21.1m to reflect revised spend plans. The table below compares the actual spend against budget for 2020/21:

	Revised Budget 2020-21	Final Outturn 2020-21	Under/ (Overspend) against Budget 2020-21 £'000
	£'000	£'000	
Bus Services	18,798	17,857	941
Rail Services	4,694	6,210	(1,516)
Rolling Stock	1,831	1,189	642
Customer Delivery	4,306	3,795	511
Mersey Ferries	2,971	3,355	(384)
Mersey Tunnels	15,414	14,797	617
IT	4,267	4,061	206
Concessionary Travel	49,985	46,577	3,408
Policy and LTP	313	340	(27)
Asset Management	10,856	10,714	142
HR and Organisational Development	1,137	1,043	94
Corporate Management	735	617	118
Finance	1,102	1,043	59
Legal and Democratic Services	1,139	1,044	95
Internal Audit	438	410	28
Programme Management Office	482	436	46
Corporate Costs	733	799	(66)
Total Spend	119,201	114,287	4,914
Funded by			
Merseytravel Grant	(94,082)	(94,034)	(48)
Mersey Tunnels Grant	(21,080)	(19,887)	(1,193)
Contribution from Reserves	(2,208)	0	(2,208)
Contribution from CA	(1,831)	(1,189)	(642)
Sales Fees and Charges Income	0	(3,993)	3,993
Total Income	(119,201)	(119,103)	(98)
Net Transfer (to)/ from Reserves	0	(4,816)	4,816

The position detailed in the table above is based on actual cost against budget not proper accounting practice and to this end will differ from those costs detailed in the Comprehensive

Income and Expenditure Account. Within the main body of the Statement of Accounts, the levy position is detailed in the Movement in Reserves and Expenditure and Funding Statement.

Reserves and Balances

Based on the outturn position detailed above the resultant position in respect of the Group Revenue Reserve Balances is detailed below.

	2019/20	In Year Movement	2020/21
	£'000	£'000	£'000
Capital Reserves	5,746	0	5,746
Working Balances	49,566	(916)	48,650
Earmarked Usable Reserves	3,219	1,400	4,619
Total	58,531	484	59,015

A detailed list of balances and reserves are detailed in the Notes to the Core Financial Statements.

Capital Expenditure 2020/21

Merseytravel spent £83.24m on capital during 2020/21. This expenditure is summarised below.

	2019/20	2020/21
	£'000	£'000
Revenue Expenditure funded from Capital under Statute	51,945	47,640
Non-Current Assets (Property Plant and Equipment)	1,774	4,577
Assets under Construction	36,226	29,374
Intangible Assets	456	987
Non-Current Assets (Infrastructure)	577	662
Total	90,978	83,240

The table below details the funding of the capital programme.

	2019/20	2020/21
	£'000	£'000
Capital Grants	90,978	83,139
Application of Reserves	0	101
Total	90,978	83,240

As detailed above a significant proportion of the capital investment made by Merseytravel relates to Revenue Expenditure funded from Capital under Statute (REFCUS). REFCUS relates to capital expenditure incurred on assets that are not in the ownership of Merseytravel. The table below details the major schemes funded through the capital programme in 2020/21.

	£'000
Rolling Stock	33,729
Liverpool Central Redevelopment	1,605
Prescot Station - lifts and accessibility	3,116
Headbolt Lane - new station	2,184
Access for All - accessibility improvements	1,869

2020/21 Performance and Delivery of Objectives

Principal Activities

Merseytravel is the executive body responsible for providing professional, strategic and operational advice on transport to the LCRCA. To support it in its discharge of these responsibilities, Merseytravel receives an annual revenue grant from the LCRCA. Merseytravel also receives Special Rail Grant to support the operation of the devolved local rail franchise.

Merseytravel has a significant role in the direct provision of transport services across the city region including:

- Funding additional bus services in areas and at times not served by the commercial network and where a social need has been identified;
- Resourcing, administering and advising on the Merseyside Concessionary Travel scheme and providing a pre-paid ticket scheme;
- Providing services to aid the operation of the local bus service network, including maintaining bus infrastructure and operating travel centres across the city region;
- Letting and monitoring the Merseyrail concession;
- Operation of the Mersey Ferries;
- Operating the Mersey Tunnels on behalf of the LCRCA; and
- Fostering collaborative working through strategic and operational relationships with stakeholders and partners (such as safety across the network and planning for major events) and taking forward infrastructure developments.

Merseytravel's focus is on supporting the economic growth of the Liverpool City Region by maximising connectivity across the region and beyond, improving the customer experience, and supporting the integrated transport network. We work with local and national rail and bus operators to ensure that the Liverpool City Region has the best possible transport infrastructure enabling the efficient movement of people and goods. We work in partnership with government, local authorities, the Local Enterprise Partnership, public transport operators, Transport for the North, the business community, community groups and members of the public.

2020/21 Outturn Performance

The 2020/21 LCRCA corporate Business Plan was based on four priorities, with each Priority underpinned with Business Plan delivery activities and supporting Service Plans. The Priorities for 2020/21 were:

1. Economic Recovery: Moving in partnership beyond COVID-19
2. Restoring the Transport Network: Restoring the Liverpool City Region transport network to connect people, goods and services
3. Planning and delivering for the Future: A competitive, clean and inclusive city region
4. Developing our Organisation: Making the best use of our resources

As the delivery arm for the Combined Authority, Merseytravel plays a vital role in the achievement of the Combined Authority's objectives, specifically Priority Two - Restoring the Transport Network.

Merseytravel has developed a performance management framework which is driven by its key priorities for 2020/21. A focused set of performance indicators have been developed to measure progress against key priorities and objectives. Where possible, targets are set which are challenging and aimed at stretching the organisation to drive improvement.

Updates are collected and reported on a quarterly basis to the Delivery Panel. A RAG system is applied that is slightly more sophisticated than a regular three level system to facilitate managing the delivery of the activities/priorities which is shown below.

RED	Highly Problematic – Delivery at significant risk OR abandoned
AMBER / RED	Problematic – Delivery at risk but not significant
AMBER / GREEN	Manageable – Delivery at marginal risk
GREEN	Well Managed – No risk to delivery OR complete
Not Started	Not started or Support not requested – No expected risk to delivery

The table below details performance against transport key objectives detailed above. Only Q3 data is available for this document as the 2020/21 LCRCA Business Plan is reflecting the electoral year (June to July) to tie in with the Mayoral elections.

Business Plan Delivery Activities	RAG Rating (Q3)	Achievements
Develop and implement an Integrated Transport Recovery plan that balances service requirements, economic recovery and budget constraints	Amber	Public transport including the Mersey Tunnels continued to be delivered throughout the pandemic. ReThink Travel campaigns were delivered to assist those travelling during this period.
Continue to implement the LCR rolling stock fleet replacement programme	Amber	Merseytravel were not able to phase the introduction into service the new fleet of trains for the Merseyrail network due to ongoing challenges as a result of the Coronavirus pandemic. Despite the challenges, real progress was made in many areas with train testing on the Merseyrail network well advanced and delivery of power supply upgrades.
Implement the Transforming Cities Fund programme with necessary changes to assure delivery	Amber	A national monitoring and evaluation framework to be published and interviews have been held with national evaluator of TCF and project teams to understand the LCR programme that will help inform a national monitoring and evaluation framework. Parameters of trial for Rolling Stock IPEMU established. Planning permission received for all Wirral mast infrastructure. TCF workshop planned with operators to present implementation strategy and challenges for final 2 years of the programme.

Commission rail, bus and ferry infrastructure / modification projects	Amber	<p>Completed Black Bull, Orrell Lane, Spellow Lane bus improvement schemes and Green Bus Routes Outline Business Case approved.</p> <p>Headbolt Lane progressed to GRIP Stage 4 for completion in June 2021. Overall completion will be by March 2023. LCRCA approved funding of £66m from TCF budget construction of the new station.</p> <p>OBC for St James issued for comments with GRIP Stage 3 to be completed June 2021.</p> <p>Proposals for modifications to Sandhills Station developed.</p> <p>Delivery of improvements at Prescott Station including Lift Access and Car Park Improvements delivered.</p> <p>Spital station project and Bromborough construction works completed.</p> <p>Access for All schemes for St Michaels, Broad Green, Hunts Cross, Hillside, Birkenhead Park completed to GRIP 5 stage for a start on site early in 2021/22 with £9.8m (50% contribution) from LCRCA.</p> <p>Procurement of a feasibility study into Parkside SRF undertaken with commissioning of the work in January 2021.</p> <p>Lea Green P&R being developed as part of the Project ERIC work in conjunction with St Helens.</p> <p>A report detailing feasibility of transport schemes for enhanced access to serve John Lennon Airport was presented in January 2021.</p>
Examine options to use powers under the Bus Services Act to respond to COVID-19 and deliver the LCR recovery plans	Amber	<p>4 x business cases developed to 85% have been received for Bus Reform. Work on management case is ongoing.</p>
Continue work towards completing the options assessment under the Bus Services Act, recognising that COVID-19 has fundamentally changed finances within the bus industry and accelerated factors identified in the case for change	Amber	<p>Fleet strategy document produced linking work of the Hybus trial project. Route analysis methodology completed.</p> <p>HR work package to address LCRCA management and staffing arrangements and competencies developed.</p> <p>Transition strategy finalisation commenced.</p> <p>Work on finalising the alternative scheme for bus reform partnership continues and will be picked up in the revised programme for bus reform in 2021/22.</p>

Implement key interventions set out in the LCR Ferries Strategy	Red	Seacombe terminal landing stage was refurbished during the year and a July 2021 completion is expected. The linkspan bridges, which are over 130 years old and coming to the end of their operational life, were replaced and the landing stage underwent a major refurbishment, including upgrading the mooring bollards and installing new powered gangways Merseytravel has now determined that the procurement of two new Mersey Ferries be abandoned and that alternative solutions for the long-term future of the vessels be developed.
Implement a Liverpool City Centre bus re-routing plan in response to Liverpool City Council's City Centre Connectivity scheme	Green	Merseytravel completed all aspects Liverpool City Council's City Centre Connectivity scheme which commenced on 24th Jan 2021. The CA has contributed circa £40m to the City Centre Connectivity Programme. In the financial year 2020/21, good progress has been made in terms of the demolition of Churchill Way Flyovers, opening of the City Centre Bus Hub, and completion of a new City Centre Coach Park.
Develop and implement LCR key route network action plan	Green	The 'Virtual Management Centre' to assist the LCRCA and District authorities in monitoring and managing network disruption caused by on street works and incidents was introduced. 'Flood Risk Action Plan' for the KRN was developed and recommenced with support from the District authorities and the Environment Agency.
Deliver the Sustainable Transport Enhancement Programme and implement the Local Cycling and Walking Infrastructure Plan	Amber	The STEP funding deadline closed on 31st March 2021. Bikeability scheme was restarted during 2020/21, with sessions through the summer. The scheme, which trained 8,000 young people is usually given to classes of pupils in years 5, 6 and 7 but with schools having been closed to most students during the period due to Coronavirus, training was instead hosted at range of venues in Knowsley, Liverpool, Sefton, St Helens and Wirral. Construction on six new pop-up walking and cycling routes across all six boroughs of the Liverpool City Region was carried out during 2020/21. The 23km of new pop-up cycle lanes and expanded footpaths were funded by £2m from Department for Transport's

		<p>Emergency Active Travel Fund. The routes were also supplemented by traffic calming measures and new secure bike storage.</p> <p>Bike to work scheme was refreshed during 2020/21. Delivered in partnership with two city region social enterprises, the free package provided new employees with a fully refurbished bike and accompanying equipment. The intention was to help people overcome financial and access barriers to work, to ensure that they can get to work easily and cheaply.</p> <p>Emergency Active Travel Tranche 1 Schemes were delivered, and Tranche 2 Active Travel Fund was approx. £7.9m.</p>
Implement a Liverpool City Region smart ticketing programme working towards a long-term goal of a tap and go system with a daily/weekly fare cap	Amber	Support to the development of the LCR CA Ticketing Strategy is ongoing and Terms and Conditions for implementation of the Smart Ticketing Programme were finalised for operator consideration.
Complete outline business case for Liverpool Central Station improvements	Green	Outline Business Case for Liverpool Central Station improvements submitted to Department for Transport (DfT) in December 2020.
Develop a prioritised, medium-term pipeline of transport investment and economic infrastructure projects	Green	<p>Pool 1 of pipeline and discussions with LAs completed with £300k made available to support projects.</p> <p>Five schemes approved for initial pre-development funding are in Sefton: maritime corridor and Southport Eastern Access; Halton: East Runcorn Connectivity (A558) and Runcorn Busway; and Knowsley: M57 Junction 4.</p>

The Impact of COVID-19

The organisation's operations over the last twelve months have been influenced and directed by the COVID-19 pandemic and the consequential impact that this has had on the way in which Merseytravel provides its services and fulfils its key responsibilities.

Impact on Bus and Hubs Operations

As a response to the first lockdown in late March 2020, bus services across the city region were reduced to around 40% of pre Covid levels. Despite the near collapse in patronage a significant amount of effort went in to ensure the continued operation of the bus network and throughout the first lockdown, travel centres and bus stations were kept open. Whilst patronage and service levels increased over the summer as initial restrictions were eased, subsequent restrictions and lockdowns have meant that bus use throughout the year has remained below pre pandemic levels. During the second half of the year, patronage levels on

bus were higher than during the initial lockdown, despite the implementation of additional restriction. With social distancing measures in place, increased patronage necessitated additional capacity on the network. We have worked closely with operators to ensure capacity was added to support school return and general increases in demand safely and securely.

Throughout the year, Merseytravel has worked tirelessly with operators, government, national and regional bodies to inform and shape the response and policy formation to the bus response to the pandemic. In response to requests from DfT concessionary travel payments to operators have been retained at pre Covid levels, as part of the overall funding envelope provided to operators to support bus operations over the past twelve months. We have discharged £4.853m funding from government to support the bus network.

Merseytravel's bus revenues have been impacted by the COVID-19 pandemic in a number of ways. Reduced traffic flows have led to reductions to the levels of departures from bus stations and therefore income received from departure charges and lower patronage on supported bus services throughout the year have led to a reduction in income from fares against budget. Cost pressures have also emerged due to the requirement to provide additional capacity on the network to allow adherence to social distancing, additional cleaning requirements and from additional services becoming required due to network changes.

Impact on Rail Services

Over the last twelve months, patronage on the Merseyrail network has been substantially below pre pandemic levels. Unlike other major rail operators, Merseyrail was not offered an Emergency Measures Agreement (EMA) and thus has continued to operator without any financial support from central government. In recognition of the lack of support from government, Merseytravel has continued to pay concessionary travel at the full amount without reduction for reduced patronage and payments under the concession have been maintained per the Concession Agreement in line with the level of Special Rail Grant received from DfT

Throughout the pandemic Merseytravel has worked closely with Merseyrail and other operators to ensure the resilience of the network and to ensure that a safe service continued to operate. Timetables have been flexed to reflect the reduction in patronage but ensure that a service that supported the needs to key workers and ensure social distancing is maintained on the network.

Progress towards the introduction of the new Merseyrail trains has continued but has been frustrated by the COVID-19 pandemic. Acceptance of the first trains is expected in 2021. The significant programme of associated infrastructure upgrades has continued to deliver successfully despite the challenges of maintaining construction activity during the pandemic. Completion of train testing to ensure reliable operation, continuation of infrastructure upgrades and finalisation of the agreements between Merseyrail and their trade unions are the key challenges for 2021/22.

Impact on Other Transport Services

The most visible (and costly) impact of the COVID-19 pandemic on Mersey Tunnels operations has been the reduction in traffic through the tunnels and the consequential reduction in income. Between 23 March and 14 May 2020, all tolls were suspended, and staff removed from the tolls plaza. Whilst tolling and staff were reintroduced after this date usage of the tunnels was around 34% during April in the first lockdown. Whilst flow through the tunnels increased after the easing of restrictions in summer with average traffic flow at around 80% of pre Covid levels, subsequent restrictions and post-Christmas lockdown saw usage fall to 60%. Whilst Merseytravel operate the tunnels, as assets of the Combined Authority, revenue risk for the service sits with the CA, not Merseytravel and although income generated from tolls

was substantially lower than budgeted, the grant for operating the service was not reduced allowing Merseytravel to continue with all planned maintenance and capital works during the year.

The operation of the Ferries Service has faced perhaps some of the most significant operational challenges during the year. Pre pandemic, a substantial proportion of business and therefore income was generated through its leisure activities. Whilst services recommenced on 14 May 2020, this was for a very limited commuter service and no discernible leisure cruises have been possible during the year. The imposition of further local restrictions and subsequent lockdowns have also impacted on the ability to operate the service which has seen losses in income of £3m against the approved budget.

In recognition of the impact that COVID-19 has had on local and Combined Authorities' ability to generate revenue in key service areas (as a result of lockdown, local restrictions and social distancing), MHCLG introduced a one off income loss scheme aimed at compensating for irrecoverable and unavoidable losses in income.

The scheme, which was initially scheduled to run for the financial year 2020/21 only has been extended to the first quarter of 2021/22 and is based on a pain share reimbursement approach: eligible organisations face a 5% deductible rate whereby they stand the first 5% of all losses and subsequently MHCLG will reimburse losses at 75p in every £1 thereafter.

Having assessed eligibility to claim against this scheme, it was determined that losses in respect of tunnels, ferries and the Beatles Story (TBS) fell within the remit of the scheme. Whilst departure charges were eligible under the scheme, given the pain sharing mechanism in place, losses incurred were insufficient to make a claim in this area economic. The claim for income reimbursement was made through the Combined Authority with grant income passed through to Merseytravel in respect of ferries and the Beatles Story. Within the Income and Expenditure Statement, this grant is treated as non-specific grant income and is therefore disclosed as Taxation and Non-Specific Grant Income.

Risks and Uncertainties

Over the last 12 months, the COVID-19 pandemic has had a significant and deleterious effect on the city region and its economy. Whilst the country continues to emerge slowly from the restrictions of the last twelve months, the spectre of COVID-19 and a resurgence in cases looms large, both nationally and locally.

Full recovery in the transport sector is highly dependent upon restrictions regarding social distancing being lifted. While social distancing remains necessary, capacity on trains and buses is significantly reduced and whilst the government has outlined a roadmap which could see such restrictions eased in June 2021, there remains a risk that due to increased infection rates such restrictions are retained for longer. This will present a risk to our business both as direct operators of transport services but also potentially more significant risks from commercial operator failure on both rail and bus.

Whilst recovery plans for bus operations are being developed nationally through the Department for Transport, with the aim of transitioning back to a more commercially sustainable and viable funding approach, further restrictions or changes to the road map could place further pressure for continued increased levels of subsidy to maintain the bus network.

Throughout the pandemic, the Merseyrail network has operated without financial support from central government despite a number of Train Operating Companies (TOC's) being in receipt

of Emergency Funding Agreements (EMA's) with government. Given that discussions with other TOC's who are in receipt of such funding has now turned to recovery, it is very unlikely that any form of government funding will be forthcoming. Whilst the operator has managed to continue to operate within its prescribed liquidity levels as stipulated under the Concession, the operating environment remains challenging and a return to profitability will depend on the extent to which the commuters return to the network and the timing of any such return. Whilst there will be opportunities presented through leisure patronage due to reducing restrictions, there is still a great deal of uncertainty around timing and quantum.

Whilst a balanced budget has been set for 2021/22, this has been done against the backdrop of significant financial uncertainty. There is already a great deal of uncertainty around the timing of any upturn in the use of public transport and this impacts significantly on the Merseytravel budget. Whilst national restrictions have eased, revenues from bus services, ferries and The Beatles Story (TBS) income could be negatively impacted by further spikes in cases or a slow return in public confidence leading to lower levels of activity. Whilst budget setting has taken a prudent approach to addressing these concerns there will be a need for careful monitoring and timely reporting during the year.

Merseytravel has an ambitious programme of capital delivery and development planned for 2021/22, which involves the continued delivery of the Rolling Stock Programme and a number of significant transport interventions under the Transforming Cities programme, including a new rail station at Headbolt Lane, Hydrogen bus trial and infrastructure works on the ferries pontoons and landing stages.

Of all our operations the most significant and immediate risk is in the introduction of the new fleet of rolling stock. This project is highly dependent on increasing revenues to fund the additional cost of new trains and without this additional revenue there will be problems in financing the trains. We are working closely with MEL and DfT to find a resolution to this. The delivery of the Rolling Stock Project has also been negatively impacted by COVID-19 which has led to delays and cost pressures arising. As with all rail projects, there is a significant degree of risk associated with the programme where contracts for delivery are with Network Rail. Due to the emerging cost basis on which these contracts work, cost increases will flow back to Merseytravel as the contractor and any such increases that cannot be mitigated will put pressure on the overall capital cost of the scheme.

There is a risk that any significant restrictions or impediments to delivery in 2021/22 arising as a result of COVID-19 or other economic factors could lead to failure to deliver. Significant resources have been invested in ensuring delivery can be maintained through the development of a transport pipeline and additional resources however this will need careful management throughout the year to ensure objectives are achieved.

Future Developments

A new three year Corporate Plan, which coincides with the start of the new Mayoral term is in development. The Corporate Plan sets out how we will deliver our vision - for a **fairer, stronger, cleaner City Region where no one is left behind** - across five interlinked priority areas:

- A fairer City Region;
- A stronger City Region;
- A cleaner City Region;
- A connected City Region; and
- A vibrant City Region.

The Corporate Plan details key outcome measures and impact indicators that will be used to assess performance and delivery of key priorities during the financial year.



J Fogarty (CPFA)

Director of Corporate Services & Interim Director General

5 November 2021

STATEMENT OF RESPONSIBILITIES FOR MERSEYTRAVEL'S STATEMENT OF ACCOUNTS

Merseytravel is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this instance, that Officer is the Director of Corporate Services;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

Responsibilities of the Director of Corporate Services

The Director of Corporate Services is responsible for the preparation of Merseytravel's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom ("The Code"). The Statement of Accounts is required to present fairly the financial position of Merseytravel at the accounting date and its income and expenditure for the year end 31 March 2021. In preparing this statement of accounts, the Director of Corporate Services has:


- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- complied with the Local Authority Code;
- assessed the ability of Merseytravel to continue as a going concern; and
- used the going concern basis of accounting on the assumption that the functions of Merseytravel will continue in operational existence for the foreseeable future.

The Director of Corporate Services has also:

- kept proper accounting records which are up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Responsible Financial Officer's Certificate

I hereby certify that the Statement of Accounts presents a true and fair view of the financial position of Merseytravel as at 31 March 2021 and its income and expenditure for the year ended 31 March 2021.

A handwritten signature in blue ink, appearing to read 'J Fogarty', with a large circular flourish underneath.

J Fogarty (CPFA)
Director of Corporate Services & Interim Director General
5 November 2021

ANNUAL GOVERNANCE STATEMENT

1. Introduction

Merseytravel is required by law to review its governance arrangements at least once a year. Merseytravel is the Merseyside Passenger Transport Executive which operates as a transport delivery body for the Liverpool City Region Combined Authority.

Preparation and publication of this document, the Annual Governance Statement (AGS), in accordance with the CIPFA/SOLACE Delivering Good Governance in Local Government Framework (2016), fulfils this requirement.

The definition utilised by the CIPFA/SOLACE guidance states:

“Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.”

The AGS is a key corporate document, intended to provide an accurate representation of the corporate governance arrangements in place during the year, which have supported delivery of organisational objectives to stakeholders; reflecting where arrangements have been effective, and where any improvements are required.

The governance framework has been in place at Merseytravel for the year ended 31 March 2021 and up to the date of approval of the Statement of Accounts.

2. Scope of Responsibility

Merseytravel is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently, and effectively.

In discharging this overall responsibility, Merseytravel is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

Merseytravel has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government 2016. A copy of the Merseytravel Code of Corporate Governance is available to staff for reference via the Merseytravel Constitution.

This AGS explains how Merseytravel has complied with the Code of Corporate Governance and meets the requirements of Regulation 6 (1) (b) of the Accounts and Audit (England and Wales) Regulations 2015 which requires all relevant bodies to prepare an Annual Governance Statement.

3. Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values by which Merseytravel is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the organisation to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of organisational policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

4. Overall Governance Framework

Merseytravel was established under the 1968 Transport Act. It has a Board of Directors that are responsible for ensuring that the organisation has a robust governance framework however all key strategic and financial decisions are made by the Liverpool City Region Combined Authority.

The Combined Authority is led by Metro Mayor Steve Rotheram and brings together Liverpool City Region's six local authorities – Halton, Knowsley, Liverpool, Sefton, St Helens and Wirral.

The Liverpool City Region Combined Authority was established by the Halton, Knowsley, Liverpool, St Helens, Sefton and Wirral Combined Authority Order 2014, under the provisions of the Local Democracy, Economic Development and Construction Act 2009.

Merseytravel as a passenger transport executive pre-dates the Combined Authority and operates across the five local authority areas that form the County of Merseyside. Halton Council, although part of the Combined Authority, retains most of its direct transport operations although there is integration at a strategic level.

The Combined Authority sets the budget for Merseytravel and is responsible for key transport strategy. Merseytravel is responsible for the implementation of the policies of the Combined Authority and, under the Transport Act of 1968, retains its status as a distinct statutory body.

Despite its separate statutory status, for all practical purposes, there is no longer a distinction between the Combined Authority and Merseytravel. Directors of the Combined Authority are also Directors of Merseytravel and vice-versa. The statutory functions of Head of Paid Service, Monitoring Officer and Director of Finance are fulfilled on a joint basis between the two organisations.

The Merseytravel Board comprises the Director General (Head of Paid Service), the Director of Corporate Services, and the Director of Corporate Development and Delivery, appointed in accordance with the Transport Act 1968, Part 2, Section 9(2).

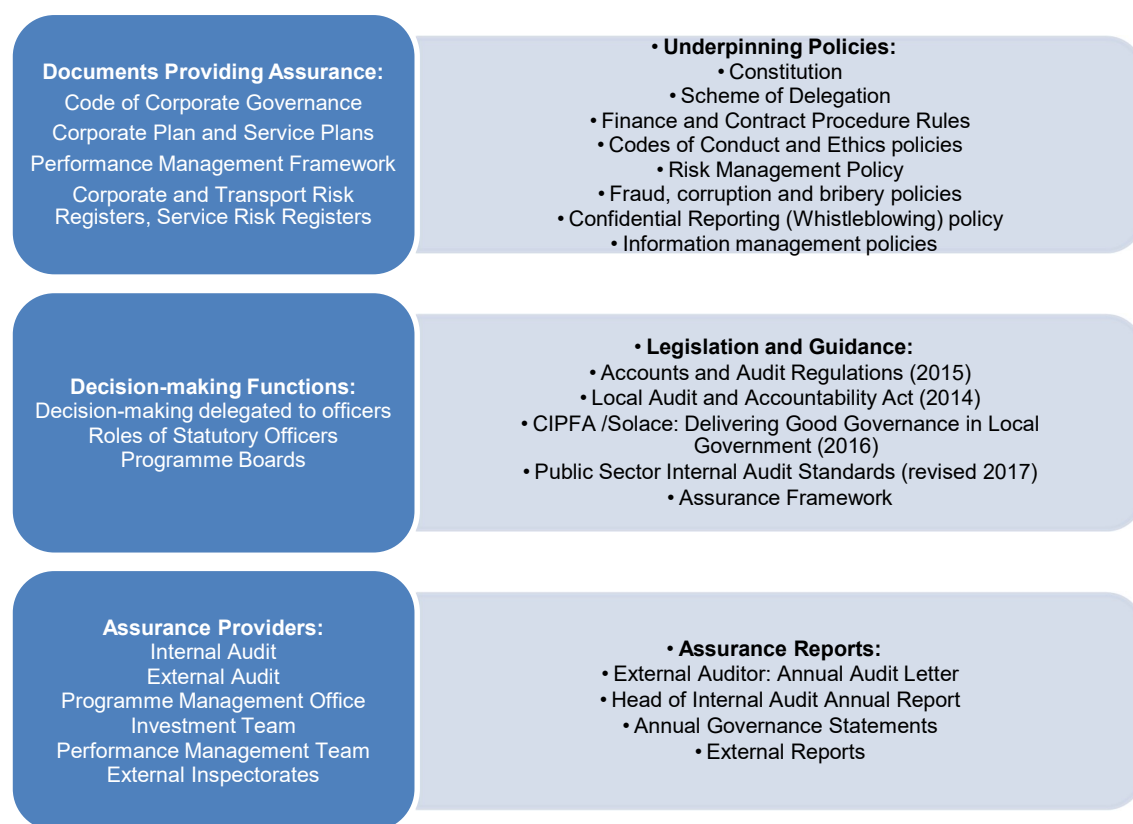
The Act requires members of the Merseytravel Board to be appointed by the Liverpool City Region Combined Authority after consultation with the Director General.

In light of the COVID-19 situation and to enable Merseytravel to continue to ensure continuity of decisions; resilience; and pursue the Combined Authority's objectives; the Director General proposed the following officers be appointed to the Board:

- Director of Commercial Development and Investment
- Assistant Director for Customer Delivery
- Interim Director of Integrated Transport
- Assistant Director of Policy and Strategic Commissioning

These appointments were approved by Liverpool City Region Combined Authority on 20 March 2020, with effect from 1 April 2020 and remained as Board members throughout 2020/21.

Documents Providing Assurance:

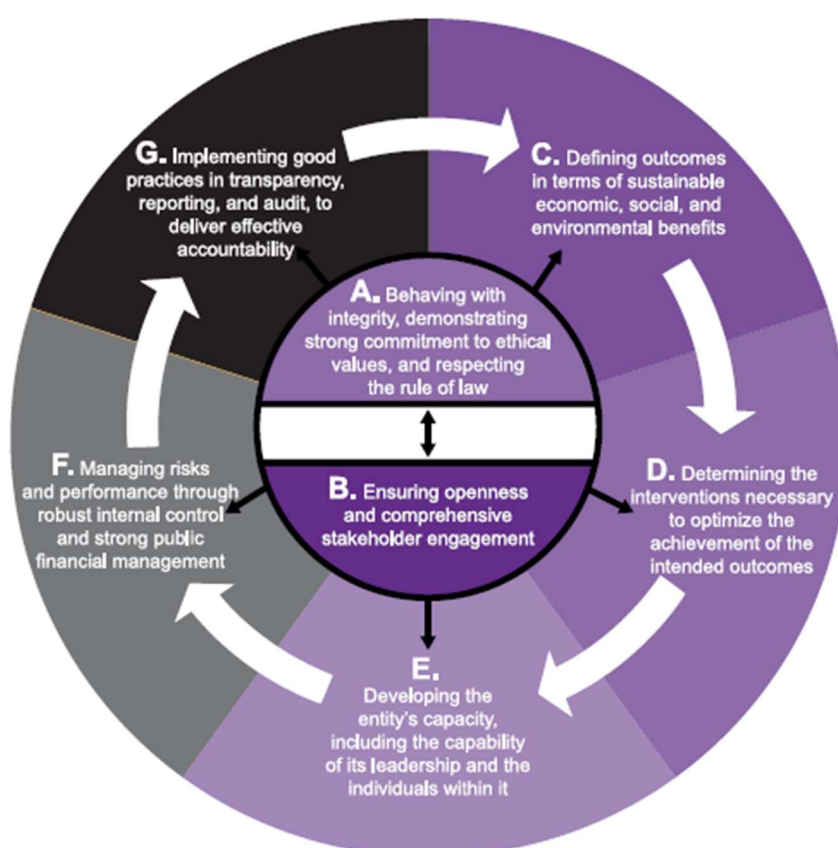


5. Review of Effectiveness

Merseytravel has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by Directors, Assistant Directors and Heads of Service within the organisation who have responsibility for the development and maintenance of the governance environment (including feedback and comments from the annual Governance Assurance Statement process; through which all relevant officers contributed); the Head of Internal Audit's Annual Report; and also by comments made by the external auditors and other review agencies and inspectorates.

Merseytravel aims to achieve good standards of governance by adhering to the seven core principles below, which form the basis of the Code of Corporate Governance.

The CIPFA/SOLACE guidance sets out seven key principles of good governance:



Merseytravel has assessed itself against each of the CIPFA/SOLACE principles – details are included below:

A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

Revised Merseytravel constitution approved in July 2020; Revised Officer Code of Conduct approved in February 2021.

A joint Code of Corporate Governance, detailing the Nolan Principles, was updated, approved and relaunched to all staff in June 2020. Understanding and awareness of the Nolan Principles, is inconsistent across the organisation.

Further guidance has been disseminated via the Code of Corporate Governance, and members of the Risk Group will raise awareness.

There were no legal challenges in 2020/21.

Section in Committee/Board reports to consider legal implications.

Legal sign off required for all delegated decisions and Committee/Board reports.

Legal support available at Committee/Board meetings and to officers generally.

Gifts, Hospitality & Declarations of Interest Procedure reviewed in November 2020 and issued to staff.

Gifts and hospitality policy and forms are available on One Place, however, inconsistencies exist in relation to how these are being monitored and recorded.

Similarly, policies and pro-forma related to Declarations of Interest are available remotely to staff. It was also the case that inconsistencies were identified in relation to how these are being monitored, utilised and recorded.

Completion rates for e-learning for the organisation as a whole require improvement and there is a lack of common understanding over which courses are mandatory. Significant steps are being taken by HR to facilitate monitoring and completion of e-learning and address this with the roll-out of a new system due in Summer 2021.

Organisational behaviours: LCR First; Action Focus; Respect; remain firmly in place.

B. Ensuring openness and comprehensive stakeholder engagement

Continued public and stakeholder engagement during 2020/21 has been challenging due to the pandemic however significant consultation was engaged in, albeit often remotely.

This has been particularly the case in respect of the new fleet of rolling stock.

Changes to travel patterns and changes to timetables due to COVID-19 in 2020/21 required significant consultation and communication and Merseytravel was engaged with key City Region emergency planning and recovery planning groups.

Merseytravel has also fed back directly to government in respect of COVID-19 and the implications for public transport and has had a role in shaping national policy in 2020/21

C. Defining outcomes in terms of sustainable economic, social and environmental benefits

Merseytravel shares the Combined Authority's vision for economic growth that was revised and approved this year, through the Growth Strategy and will be built upon in the Local Industrial Strategy.

Our approach to policy seeks to ensure that coherence exists across the range of policy themes with the express intention of maximising sustainable economic, social and environmental benefits.

Linking transport policy explicitly with policies for employment, skills, regeneration, housing, culture and planning provides the best mechanism for defining outcomes which will be expressed within the CA's overall Local Industrial Strategy.

Integration of evidence and policy teams has allowed better evidential decisions, and integration of decision-making and forward planning across policy teams.

The development of our Local Industrial Strategy will allow the SIF investment strategy – which includes significant investment in transport through the Transforming Cities Fund - to focus on outcomes and benefits from our investment activities.

This is particularly important as the City Region emerges from COVID restrictions and seeks to recover economically and socially.

The Metro Mayor has a clear vision and aims for how transport will contribute to the wider recovery agenda and this is communicated through regular briefings and communications.

Extensive work is being undertaken in relation to the Corporate Plan and will be disseminated across the organisation. The Corporate Plan will then be translated in Service Plans (and further still within Individual Performance Plans), which will need to be robustly monitored and reported against utilising appropriate measures.

D. Determining the interventions necessary to optimise the achievement of intended outcomes

Significant organisational change has been introduced to ensure that the organisation is focussed on delivery across the range of its activities.

These revised arrangements include new responsibilities for delivery at director level and significant investment in project and programme management capacity and skills.

2020/201 saw the arrival of a number of vehicles within the new fleet of trains for the Merseyrail Network.

Completion of the new fleet programme in 2020/21 was set back as a result of COVID-19 travel restrictions which impacted on acceptance testing. Once in service, this fleet will bring significant economic, social and environmental benefits for the City Region.

Merseytravel has continued to progress work that will show how the City Region can use new bus powers acquired through legislation and the devolution deal to capture and retain the social and environmental value of bus.

At all stages our data and analytic team are capturing outputs and measuring benefits and we are subject to annual review by government.

A key challenge for 2021/22 will clearly be managing recovery of the public transport network from COVID-19.

E. Developing Capacity and Capability

The budget provided for significant investment in transport pipeline development to augment the existing programme of investment through Transforming Cities Fund.

This has included providing in-house specialist resources for transport modelling and economic modelling that will greatly reduce our dependence on external consultants and speed up the delivery of key transport schemes.

Specific areas where capacity and capability have also improved include general programme and project management, management of the key route network, and stakeholder management.

The organisation is now much better placed to ensure that it can deliver across the range of its devolved responsibilities.

Having a credible pipeline of deliverable schemes and the organisational capacity to deliver will be critical as the Merseytravel and the Combined Authority lead the City Region's economic recovery after the disruption of the COVID-19 pandemic.

A constant challenge is that while capital funding is available, the revenue funding needed to manage this is scarce.

There is a corporate risk that staff resources are potentially inadequate to deliver service objectives and maintain adequate levels of internal control and that risk is being managed through the Corporate Risk Register.

Team meetings, in general, have continued and have evolved, due to the restrictions of the pandemic, by being held remotely e.g. via Teams.

The Chief Executive and Metro Mayor have held a number of sessions for staff via Teams, due to the restrictions of the pandemic, during the year. It has been stated the number of staff attending the sessions has been particularly positive.

Regular Heads of Service and Directors meetings have been held via Teams, due to the restrictions of the pandemic, and Management Conferences have also continued (via Teams) to take place.

Developing Our Organisation programme taking place including, for example, work in relation to Project governance and delivery; Investments – processes and delivery; and Leadership for Change Workshops.

A survey was undertaken with staff during the year, in order to better understand working arrangements, and the implications on staff, arising from the pandemic. A full staff survey is anticipated to take place during 2021/22.

Steps have been taken by the organisation to maintain the health, safety and wellbeing of its staff during the COVID-19 pandemic. New ways of working have been adopted; and assessments have been undertaken in relation to ensuring work areas have been deemed 'Covid secure', and requests for DSE Assessments to be completed for those having to work from home.

F. Managing Risks and Performance through robust internal control and strong public financial management

There has been significant investment in corporate risk during the year. This has been led by Directors and reflected in a fully updated Corporate Risk Registers and much greater organisational understanding of risk appetite.

A new post of Risk Manager was established in 2019/20 as part of a review which formalised risk management at the Combined Authority and Merseytravel as part of the role of its Head of Internal Audit. Responsibility for insurance was also transferred as part of this review and the impact of this new post and responsibilities has been very positive in 2020/21 with significant improvements made to our risk processes and the engagement of senior leadership with risk.

Work still required in some areas in relation to risks to the service not having been identified and Service Risk Registers not being up to date and subsequently reviewed and updated. Service risks to be reviewed following the publication of the Corporate Plan following the Mayoral election.

Standards of internal financial control are high and revisions to budget monitoring arrangements through the Agresso financial ledger system have strengthened this in 2020/21.

The arrangements put in place in March 2020 as a result of COVID-19 tested our business continuity arrangements to an unprecedented scale. The robustness of these arrangements was demonstrated by the organisation's ability to switch to remote working successfully and at relatively short notice and to maintain its IT security compliance at all times.

Internal Audit work identified that some service business continuity plans were not up to date, and this will be addressed in 2021/22. These plans and services did not have a material impact on overall business continuity in 2020/21.

More broadly, Merseytravel was able to maintain its key transport and other services throughout this period and has worked closely with transport providers and with government to inform transport recovery at a national as well as local level.

No fraud reports received by Internal Audit during 2020/21.

Fraud Awareness training was made available to all staff as an e-learning package.

A comprehensive suite of counter fraud policies is in place, having been reviewed and approved during the year and was issued to all staff remotely:

Internal Audit conduct proactive counter-fraud work and a Fraud Risk Register is in place.

Financial implications of decisions are included within all Committee/Board reports and Delegated Decisions, both of which require Finance sign off.

Self-assessment was undertaken in relation to the role of the Chief Financial Officer in Local Government reviewing assurance over compliance with the governance requirements detailed in CIPFA document 'The Role of the Chief Financial Officer in Local Government' 2016. Positive responses provided highlighting key controls have operated effectively during the course of the year.

The financial impact, and associated budgetary pressures, of the COVID-19 pandemic will need to be closely monitored, given the direct impact of reduction in revenue on transport directly operated services.

SIMO and SIRO arrangements are in place. Self-assessment undertaken in relation to the role of SIRO reviewing assurance over compliance with the governance requirements detailed in Local Public Services Data Handling Guidelines 5th Edition, April 2018. Positive responses provided highlighting key controls have operated effectively during the course of the year.

There is however a lack of clarity/understanding by some staff in some service areas as to how to report a data breach which will be addressed in 2021/22.

A review was undertaken of a number of key strands arising from Liverpool City Council Best Value Report that provided assurance that there is no transactional impact on the LCRCA, based upon the information released into the public domain.

Steps were taken during the pandemic, allied to many staff having to utilise laptops and working away from the normal office environment, to ensure robust levels of IT security were maintained; and that staff were equipped to fulfil their duties.

Compliance with the Financial Management Code (CIPFA, 2019) is being worked towards, and will continue in 2021/22.

G. Implementing good practices in transparency, reporting and audit to deliver effective accountability

Merseytravel follows good practice in providing clear and accurate information and has developed its reporting profile and its online presence with transparency in mind.

Merseytravel publishes its freedom of information requests and responses on its website. Work has been undertaken to provide as much information as possible on the Merseytravel website to reduce FOI requests. All FOI requests have been responded to within statutory deadlines.

Merseytravel's Audit and Risk Board met at key stages within 2020/21 reporting cycle. The composition of this Board has been reviewed and the number and proportion of independent members on that Board has increased.

Internal Audit opinions generally positive during year. No "major" organisational risk opinions.

A self-assessment was undertaken in relation to the role of the Head of Internal Audit in Public Sector Organisations over compliance with the governance requirements detailed in CIPFA document 'The role of the Head of Internal Audit in Public Sector Organisations' 2019 edition. Positive responses provided highlighting key controls have operated effectively during the course of the year.

The Head of Internal Audit's opinion in 2020/21 for Merseytravel was an overall opinion of Adequate with Reasonable capacity for improvement.

A Risk-based Internal Audit Plan of work was approved and delivered for 2020/21.

6. Evaluation/Update – Significant Governance Issues from AGS 19/20

No Significant Governance issues were reported in 2019/20.

7. Significant Governance Issues

This Annual Governance Statement identifies that Merseytravel has effective arrangements in place; however, the organisation realises the need to monitor its governance arrangements on an ongoing basis given the ever-changing environment within which it operates, and due to the organisation continuing to evolve.

Whilst the organisation has not identified any Significant Governance Issues, a number of areas for development have been outlined and appropriate action is being, or is due to be, taken to ensure the issue does not transpire in to one of significance.

8. Future Challenges

The impact of COVID-19 on the Liverpool City Region has had, and will continue to have, significant and long-lasting implications for Merseytravel.

The pandemic continues to present a number of key risks around the financial consequences for transport within the Combined Authority and to our local authorities, and to the City Region more widely.

Pertinent future challenges that exist in relation to the organisation:

- Transport funding model and budget pressures
- Developing Our Organisation
- Transport demand/operator liquidity
- Building Back Better challenges
- Brexit impacts
- Delivery of Major projects including the Rolling Stock suite
- New ways of working and health, safety and wellbeing

It remains that the organisation's governance remains appropriate so as to facilitate effective responses to these challenges.

9.Conclusion

Merseytravel is satisfied that appropriate governance arrangements are in place and that the governance arrangements in place in 2020/21 were appropriate to its resources and responsibilities in that year.

We propose, over the coming year, to take any necessary steps to address the issues highlighted within this Statement, to further enhance our governance arrangements.

The arrangements in place in 2020/21 continued to focus on CA functions while maintaining effective governance and delivery around Merseytravel's core activities.

COVID-19 continued to test our resilience and business continuity arrangements during 2020/21 and it is pleasing that these arrangements enable our key services to be maintained throughout. Nonetheless, the implications of COVID-19 on the City Region's economy and on public transport will be profound.

10.Certification

A handwritten signature in blue ink, appearing to read 'J. Fogarty', with a large, stylized loop at the end.

John Fogarty (CPFA)

Director of Corporate Services & Interim Director General

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERSEYTRAVEL

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of Merseytravel and its subsidiaries ('the Group') for the year ended 31 March 2021, which comprise the Merseytravel and Group Movement in Reserves Statements, the Merseytravel and Group Comprehensive Income and Expenditure Statements, the Merseytravel and Group Balance Sheets, the Merseytravel and Group Cash Flow Statements, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of Merseytravel and the Group as at 31st March 2021 and of Merseytravel's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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 section of our report. We are independent of Merseytravel and 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 Director of Corporate Services' 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 Merseytravel's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Corporate Services with respect to going concern are described in the relevant sections of this report.

Other information

The Director of Corporate Services is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements

does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Director of Corporate Services for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Director of Corporate Services is also responsible for such internal control as the Director of Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Corporate Services is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis, on the assumption that the functions of Merseytravel will continue in operational existence for the foreseeable future. The Director of Corporate Services is responsible for assessing each year whether or not it is appropriate for Merseytravel and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of Merseytravel and the Group, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21) the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, and we considered the extent to which non compliance might have a material effect on the financial statements.

We evaluated the Director of Corporate Services' incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks related to posting manual journal entries to manipulate

financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit and Governance Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by Merseytravel and the Group which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit and Governance Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit and Governance Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Director of Corporate Services' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

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

Report on Merseytravel's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matters on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that Merseytravel has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on Merseytravel's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on Merseytravel's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Responsibilities of Merseytravel

Merseytravel is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that Merseytravel has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of Merseytravel's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the members of Merseytravel, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of Merseytravel 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 members of Merseytravel, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have:

- received confirmation that Merseytravel is not required to complete a Whole of Government Accounts consolidation pack; and

- completed the work necessary to satisfy ourselves that Merseytravel has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.



Mark Dalton, Key Audit Partner
For and on behalf of Mazars LLP
5th Floor
3 Wellington Place
Leeds
LS1 4AP

5 November 2021

MERSEYTRAVEL SINGLE ENTITY ACCOUNTS

MOVEMENT IN RESERVES STATEMENT

The Movement in Reserves Statement (MiRS) shows the movement from the start of the year to the end on the different reserves held by Merseytravel analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of Merseytravel's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return the amounts chargeable to the revenue reserve for the year. The Net Increase/ (Decrease) line shows the statutory General Fund Balance movements in the year following those adjustments.

	Usable Reserves £'000			Unusable Reserves £'000					Total Reserves £'000
	General Fund Balance	Other Earmarked Reserves	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pension Reserve	Accumulated Absences Account	Total Unusable Reserves	
As at 1st April 2020	3,219	53,873	57,091	28,806	264,092	(84,229)	(372)	208,297	265,388
Comprehensive Income and Expenditure Statement	26,099	0	26,099	0	0	(3,273)	0	(3,273)	22,826
Adjustments to the revenue resources *									
Pensions costs	4,562	0	4,562	0	0	(4,562)	0	(4,562)	0
Holiday pay	206	0	206	0	0	0	(206)	(206)	0
Charges for depreciation and amortisation of non-current assets	6,352	0	6,352	0	(6,352)	0	0	(6,352)	0
Capital expenditure financed from revenue balances	(101)	0	(101)	0	101	0	0	101	0
Revenue expenditure funded from capital under statute	47,640	0	47,640	0	(47,640)	0	0	(47,640)	0
Capital grants and contributions credited to the CIES	(83,134)	0	(83,134)	0	83,134	0	0	83,134	0
Total adjustments to revenue resources	(24,475)	0	(24,475)	0	29,243	(4,562)	(206)	24,475	0
Adjustments to capital resources									
Difference between fair value and historical cost depreciation	0	0	0	(787)	787	0	0	0	0
Total adjustments to capital resources	0	0	0	(787)	787	0	0	0	0
Transfer between reserves	(213)	213	0	0	0	0	0	0	0
Net Increase/(Decrease) in 2020/21	1,411	213	1,624	(787)	30,030	(7,835)	(206)	21,202	22,826
Balance as at 31st March 2021	4,630	54,086	58,715	28,019	294,122	(92,064)	(578)	229,499	288,214

*Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements

MOVEMENT IN RESERVES STATEMENT

The 2019/20 Movement in Reserves statement has been amended to provide a more detailed analysis.

	Usable Reserves £'000			Unusable Reserves £'000					Total Reserves £'000
	General Fund Balance	Other Earmarked Reserves	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pension Reserve	Accumulated Absences Account	Total Unusable Reserves	
As at 1st April 2019	2,562	52,126	54,688	25,336	230,612	(97,054)	(372)	158,522	213,210
Comprehensive Income and Expenditure Statement	27,034	0	27,034	4,274	0	20,871	0	25,145	52,179
Adjustments to the revenue resources *									
Pensions costs	8,045	0	8,045	0	0	(8,045)		(8,045)	0
Holiday pay	0	0	0	0	0	0	0	0	0
Charges for depreciation and amortisation of non-current assets	6,131	0	6,131	0	(6,131)	0	0	(6,131)	0
Amount of non current assets written off on disposal or sale as part of gains/losses on disposal	210	17	227	0	(227)	0	0	(227)	0
Revenue expenditure funded from capital under statute	51,945	0	51,945	0	(51,945)	0	0	(51,945)	0
Capital grants and contributions credited to the CIES	(90,978)	0	(90,978)	0	90,978	0	0	90,978	0
Total adjustments to revenue resources	(24,647)	17	(24,630)	0	32,675	(8,045)	0	24,630	0
Adjustments to capital resources									
Difference between fair value and historical cost depreciation	0	0	0	(804)	804	0	0	0	0
Total adjustments to capital resources	0	0	0	(804)	804	0	0	0	0
Transfer between reserves	(1,730)	1,730	0	0	0	0	0	0	0
Net Increase/(Decrease) in 2019/20	657	1,747	2,404	3,470	33,479	12,826	0	49,775	52,179
Balance as at 31st March 2020	3,219	53,873	57,091	28,806	264,092	(84,229)	(372)	208,297	265,388

*Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

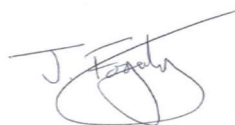
This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Merseytravel raise taxation to cover expenditure in accordance with Regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2019/20				2020/21			
Gross Expenditure £'000	Gross Income £'000	Net Spend £'000		Gross Expenditure £'000	Gross Income £'000	Net Spend £'000	Notes
31,354	(8,333)	23,021	Bus Services	35,071	(10,247)	24,823	
157,485	(153,932)	3,553	Rail Services	158,581	(146,446)	12,135	
10,243	(2,681)	7,563	Customer Delivery	10,463	(2,816)	7,646	
73,388	(21,724)	51,664	Travel Concession	57,060	(8,894)	48,166	
4,041	(3,295)	746	Policy	2,109	(1,512)	598	
10,207	(814)	9,393	Corporate Management and other Corporate Costs	5,312	(713)	4,599	
3,617	0	3,617	Net Cost of Mersey Ferries	7,065	0	7,065	
14,990	(14,256)	734	Mersey Tunnels	14,680	(14,311)	368	
305,325	(205,035)	100,289	Net Cost of Service	290,341	(184,940)	105,401	
		113	Other Operating Expenditure			109	6
		2,286	Financing and Investment Income			2,018	7
		(129,723)	Taxation and Non Specific Grant Income			(133,627)	9
		(27,035)	(Surplus) or Deficit on the Provision of Services			(26,099)	
		(20,871)	Remeasurement Gains/ Losses on Pension Assets/ Liabilities			3,273	
		(4,274)	(Surplus)/Deficit on Revaluation Non Current Assets			0	
		(25,145)	Other Comprehensive Income and Expenditure			3,273	
		(52,180)	Total Comprehensive Income and Expenditure			(22,826)	

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by Merseytravel. The net assets of Merseytravel (assets less liabilities) are matched by the reserves held by Merseytravel. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that Merseytravel may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that Merseytravel is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Restated As at 31 March 2020 £'000		As at 31 March 2021 £'000	Note
291,114	Property, Plant and Equipment	319,540	15
326	Heritage Assets	326	
1,258	Intangible Assets	2,078	17
2,747	Loan to Subsidiary Company	2,569	18
295,445	Long-term Assets	324,513	
592	Inventories	569	
108,347	Short-term Debtors	101,210	19
12	Cash and Cash Equivalents	23	
108,951	Current Assets	101,802	
(30,475)	Short-term Creditors	(29,311)	20
(1,304)	Provisions	(546)	21
(19,286)	Grant Receipts in Advance	(12,645)	9
(51,065)	Current Liabilities	(42,502)	
(2,747)	Loan from Group Company	(2,569)	
(966)	Provisions	(966)	21
(84,229)	Pension Liability	(92,064)	8
(87,942)	Long-term Liabilities	(95,599)	
265,389	Net Assets	288,214	
57,092	Usable Reserves	58,715	5
208,297	Unusable Reserves	229,499	4
265,389	Total Reserves	288,214	



John Fogarty (CPFA)
Director of Corporate Services & Interim Director General
5 November 2021

CASHFLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of Merseytravel during the reporting period. The statement shows how Merseytravel generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of Merseytravel are funded by way of taxation and grant income or from the recipients of services provided by Merseytravel. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to Merseytravel's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to Merseytravel.

2019/20 £'000		2020/21 £'000	Note
27,034	Net surplus/(deficit) on provision of services	26,099	
5,173	Adjustments to net surplus on the provision of services for non-cash movements	22,233	25
(39,050)	Adjustments to net surplus on the provision of services for items which are investing and financing activities	(35,599)	25
(6,843)	Net cash inflows/(outflows) from operating activities	12,733	
6,762	Investing activities	(12,722)	25
(81)	Net increase/(decrease) in cash and cash equivalents	11	
93	Cash and cash equivalents as at 1 April	12	
12	Cash and cash equivalents as at 31 March	23	

NOTES TO THE PRIMARY FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

General Principals

The Statement of Accounts summarises Merseytravel's transactions for the financial year 2020/21 and its position as at 31 March 2021. Merseytravel is required to prepare an Annual Statement of Accounts in accordance with the Accounts and Audit (England) Regulations 2015, which require the accounts to be completed in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted by the statement is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Statement of Accounts has been completed on a going concern basis.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Agency Transactions

Transactions are excluded from Merseytravel's financial statements for all agency relationships. As stipulated by the Code, Merseytravel is acting as an agent in situations when Merseytravel does not control the specified goods or services being provided by another party, before they are transferred to the customer. All services are reviewed to determine who controls the right to the underlying goods or services and when this is not deemed to be Merseytravel, the transactions have been excluded from the financial statements.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in 90 days or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of Merseytravel's cash management.

Changes in Accounting Policies, Estimations, Errors and Prior Period Adjustments

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on Merseytravel's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Charges to Revenue for Non-Current Assets

Services are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- Amortisation of intangible assets attributable to the service.

Merseytravel is not required to raise levy to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by Merseytravel in accordance with statutory guidance (known as the Minimum Revenue Provision (MRP)). Depreciation, revaluation losses and amortisation are therefore replaced by the MRP in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to Merseytravel. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by Merseytravel to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement at the earlier of when Merseytravel can no longer withdraw the offer of those benefits, or when Merseytravel recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by Merseytravel to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment Benefits

Employees of Merseytravel are members of a Local Government Pensions Scheme, administered by Merseyside Pension Fund. This is a defined benefit pension scheme.

The liabilities of the Merseyside Pension Fund attributable to Merseytravel are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds.

The assets of Merseyside Pension Fund attributable to Merseytravel are included in the Balance Sheet at their fair value.

The change in the net pension liability is analysed into the following components:

Service cost comprising:

- Current service cost – the increase in liabilities as a result of years of service earned this year. These costs are allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years. The costs are debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
- Net interest on the net defined benefit liability, i.e. the change during the period in the net defined benefit liability that arises from the passage of time. The net interest is charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

Remeasurements comprising:

- The return on plan assets – (excluding amounts included in net interest above) charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Employer's contributions paid to Merseyside Pension Fund – not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by Merseytravel to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund Balance of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

Merseytravel also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Fair Value Measurement

Merseytravel measures some of its non-financial assets such as surplus assets at fair value at each reporting date. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset takes place either:

- In the principal market for the asset, or
- In the absence of a principal market, in the most advantageous market for the asset.

Merseytravel measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, Merseytravel takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Merseytravel uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available making use of relevant observable inputs and minimising the use of unobservable inputs.

Financial Instruments

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- Amortised cost
- Fair value through profit or loss (FVPL), and
- Fair value through other comprehensive income (FVOCI)

Merseytravel's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost.

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when Merseytravel becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by Merseytravel, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Where Merseytravel has made loans at less than market rates (soft loans) a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the lender, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year. This is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains or losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

Merseytravel recognises expected credit losses on all its financial assets held at amortised cost either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets.

Impairment losses are calculated to reflect the expectation that future cash flows may not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when Merseytravel becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that Merseytravel has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. Merseytravel has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to Merseytravel when there is reasonable assurance that:

- Merseytravel will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to Merseytravel are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Group Accounts

The financial statements comprise the accounts of Merseytravel and its subsidiary and associated undertakings as at 31 March 2021. Merseytravel has interests in a number of entities.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. The financial performance of those subsidiaries that are considered material are fully consolidated on a line-by-line basis from the date that Merseytravel obtains control, until the date that such control ceases. Uniform accounting policies are used in the preparation of the group accounts. For those active subsidiaries for which the financial performance is not deemed to be material, further information on these is included within note 14.

All intra-group trading, balances and unrealised gains and losses as at the end of each period, are eliminated in full as part of the consolidation process.

In Merseytravel's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

Goodwill

Business combinations have been accounted for under IFRS 3 using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the Statement of Financial Position as goodwill and is not amortised.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at operating segment level or, if smaller, statutory company level. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it.

Merseytravel has taken advantage of the option under the first time adoption provisions of The Code to use the brought forward value of goodwill as at 1 April 2009 as an appropriate approximation of fair value.

Heritage Assets

Merseytravel holds statues and artworks, which are held and maintained as a contribution to knowledge and culture.

Heritage assets are recognised and measured in accordance with Merseytravel's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed where it is not practicable to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements. In these circumstances heritage assets are measured at historical cost (less any accumulated depreciation and impairment losses).

Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by Merseytravel (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to Merseytravel. Intangible assets are measured at cost and the balance is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement on a straight-line basis. An asset is tested for impairment whenever there is an indication that the asset may be impaired – any losses recognised are posted to the relevant service line in the Comprehensive Income and Expenditure Statement (CIES). Any gain or loss arising on the disposal or

abandonment of an intangible asset is posted to the Other Operating Expenditure line in the CIES.

Amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. These entries are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

Business combinations have been accounted for under IFRS 3 using the purchase method. Any excess over the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is initially recognised in the Comprehensive Income and Expenditure Statement and is not amortised. After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

Interests in Companies and Other Entities

Merseytravel has material interests in companies and other entities that have the nature of subsidiaries which require it to prepare group accounts. In Merseytravel's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

Inclusion in Merseytravel group is dependent upon the extent of Merseytravel's interest and power to influence an entity. An assessment of all Merseytravel's interests is carried out each financial year to determine the relationships that exist and whether they should be included within Merseytravel's group accounts.

This assessment determines whether the entity is accounted for as:

- A subsidiary – Merseytravel controls the entity and has the power to govern its financial and operating policies so as to benefit from its activities; or
- An associate – Merseytravel has significant influence over the entity and has the power to participate in its financial and operating policies; or
- A jointly controlled entity – Merseytravel is party to the contractually and binding agreed sharing of control over the organisation such that strategic financial and operating decisions require the unanimous consent of all parties sharing control.

Inventories and Long-term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value determined on a first in first out basis.

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

Leases

Leases are classed as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or

equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and building elements are considered separately for classification.

Merseytravel as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial indirect costs of Merseytravel are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this shorter than the asset's estimated useful life.

Statutory requirements mean that depreciation, revaluations and impairment losses are not a proper charge against the General Fund Balance. Instead a prudent annual contribution is made from revenue funds towards the deemed capital investment. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent free period at the commencement of the lease).

Merseytravel as Lessor

Finance Leases

Where Merseytravel grants a finance lease over a property or an item of plant and equipment the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) as part of the gain or loss on disposal. A gain, representing Merseytravel's net investment in the lease, is credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the

carrying value of the asset at the time of disposal), matched by a lease (long term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor; and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the CIES).

The gain credited to the CIES on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where the amount due in relation the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written off value of disposals is not a charge against the levy, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where Merseytravel grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the CIES. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Overheads and Support Services

In line with best practice, charges for the cost of central support services are fully charged or apportioned to those that benefit from the supply of service using time recording and other appropriate methods.

Property Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to Merseytravel and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits

or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price; and
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Merseytravel does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of Merseytravel). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by Merseytravel.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income and Expenditure line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure and assets under construction – depreciated historical cost;
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective; and
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); or
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction).

Depreciation on all Property, Plant and Equipment assets is calculated by allocating the asset value over the period expected to benefit from their use on a straight-line basis. All assets are assessed individually in relation to their asset lives for the purpose of calculating depreciation. Conditions relative to each asset are considered in arriving at this determination.

Where an item of property, plant and equipment asset has major component whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposal and Non- Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts and can then only be used for new capital investment or set aside to reduce Merseytravel's underlying need to borrow (the Capital Financing Requirement England and Wales). Receipts are appropriated to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against the levy, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives Merseytravel a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

- Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that Merseytravel becomes aware of the obligation, and are measured at the best

estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if Merseytravel settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives Merseytravel a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of Merseytravel. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives Merseytravel a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of Merseytravel. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Reserves

Merseytravel sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are shown in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for Merseytravel – these reserves are explained in the relevant policies.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where Merseytravel has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of levy.

Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

2. Accounting Standards Issued but not yet Adopted

As at the Balance Sheet date there are a number of accounting standards that have been published but not yet adopted by the Code.

- i. Definition of a Business: Amendments to IFRS 3 Business Combinations
- ii. Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 and;
- iii. Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

It has been assessed that none of these changes will have a material impact on the accounts.

3. Significant Accounting Estimates and Assumptions

In applying accounting policies set out in Note 1, Merseytravel had to make certain judgements about complex transactions or those involving uncertainty about future events, the critical judgements made in the statements of accounts are:

- Merseytravel have examined all its significant lease agreements to establish whether these should be classed as operational or finance leases. Where the application of IAS 17 does not provide a definitive solution, judgement is applied in determining whether the lease is operational or financial. Based on this assessment all Merseytravel's leases have been assessed to be operational.
- Group Accounts: Merseytravel has a number of interests in other entities which fall within the group boundary. Whilst some of these are deemed to be material are therefore consolidated into the group accounts, others are considered not sufficiently material to warrant full group account disclosures. To ensure there is sufficient visibility on these arrangements. Narrative disclosures on these arrangements are included on Note 14.

The statement of accounts contains estimated figures that are based on assumptions made by Merseytravel about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from assumptions and estimates.

The items in Merseytravel balance sheet 31st March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- Pension benefits: the cost of defined benefit pension plans is determined using an independent actuarial valuation, involving the use of assumptions about discount rates, returns on assets, future salary increases, mortality rates and future pension increases. Such assumptions are reviewed at each period end and determined jointly between the pension fund management and the actuaries.
- Impairment losses on financial assets: As at 31st March 2021 Merseytravel has £101m short term debtors. Merseytravel recognises expected credit losses on all of its financial assets held at amortised costs either on a 12 month or lifetime

basis. Impairment losses are reviewed annually and calculated to reflect the expectation that future cashflow may not take place because the borrower could default on their obligations.

- Property revaluation: Merseytravel carries its non-infrastructure land and buildings at fair value. Periodically, external surveyors are used, and the most recent full independent survey was carried out as at 31 March 2019. Between independent surveys, desk top based annual reviews are carried out by qualified surveyors. Such valuations and any attached estimates are subject to some judgement. The carrying value of land and buildings at 31st March 2021 was £86.4m.
- Expected Credit Loss: as at 31 March 2021 Merseytravel has £101m short term debtors. The recoverability of debts are reviewed annually and provision is made for any debts over 12 months old or those either on a repayment plan with legal or we have concerns about financially.

4. Unusable Reserves

2019/20 £'000		2020/21 £'000
28,806	Revaluation Reserve	28,019
264,092	Capital Adjustment Account	294,122
(84,229)	Pension Reserve	(92,064)
(372)	Accumulated Absences Account	(578)
208,297	Total	229,499

The movements in unusable reserves can be found in the Movement in Reserves Statement.

Revaluation Reserve

The Revaluation Reserve contains the gains made by Merseytravel arising from increases in the value of its property, plant and equipment (and intangible assets). The balance is reduced when assets with accumulated gains are:

- Re-valued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is charged with the cost of acquisition, construction or enhancement, as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by Merseytravel as finance for the costs of acquisition, construction and enhancement.

The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Pensions Reserve

2019/20 £'000		2020/21 £'000
(97,054)	Balance as at 1 April	(84,229)
20,871	Remeasurements of the net defined benefit liability	(3,273)
(15,276)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(8,692)
4,212	Employers pension contributions and direct payments to pensioners payable in the year	4,130
3,018	Recognition of pension deficit prepayment	0
(84,229)	Balance as at 31 March	(92,064)

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. Merseytravel accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as Merseytravel makes employer's contributions to pensions funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore represents a substantial shortfall in the benefits earned by past and current employees and the resources Merseytravel has set aside to meet them. The Statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the Revenue Reserve Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the Revenue Reserves Balance is neutralised by transfers to or from the Account.

5. Revenue and Earmarked Reserves

This note sets out the amounts set aside from the Revenue Reserve balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2020/21.

	Note	Balance at 1 April 2019	Transfers In 2019/20	Balance at 31 March 2020	Transfers Out 2020/21	Transfers In 2020/21	Balance at 31 March 2021
General Fund Reserve	a	2,562	657	3,219	0	1,410	4,629
Total General Fund Reserves		2,562	657	3,219	0	1,410	4,629
Capital Reserve	b	5,746	17	5,763	0	0	5,763
Rail Franchise Agreement Reserve	c	27,783	1,730	29,513	(3,194)	0	26,319
Restructuring Reserve	d	4,368	0	4,368	0	0	4,368
OLR Reserve	e	2,000	0	2,000	0	0	2,000
Concessionary Travel	f	3,231	0	3,231	0	1,400	4,631
Bus Operations Reserves	f	1,500	0	1,500	0	2,007	3,507
Sustainable Transport Reserve	g	225	0	225	0	0	225
JVC P&L Reserve	h	1,386	0	1,386	0	0	1,386
Modernisation Fund	i	5,887	0	5,887	0	0	5,887
Total Earmarked Reserves		52,126	1,747	53,873	(3,194)	3,407	54,086
Total		54,688	2,404	57,092	(3,194)	4,817	58,715

- (a) The general fund is general balances held to protect Merseytravel's financial position from unforeseen events.
- (b) The capital reserves are used to support the funding of the capital programme.
- (c) The rail franchise agreement (benefit share) reserve is used to support development of strategic transport initiatives.
- (d) The restructuring reserve is utilised to provide support to staffing cost implications of service transformation programmes.
- (e) The OLR (Operator of Last Resort) reserve has been created to provide funding should the incumbent rail operator experience difficulties in running the MEL franchise. In this instance Merseytravel has step in rights to allow it to take over the running of the franchise until a new operator can be found.
- (f) Operational reserves are used to support the current transport network and ticketing initiatives.
- (g) The sustainable transport reserve supports the Local Growth Fund initiatives surrounding the STEP programme.
- (h) The JVC P&L Reserve was established to protect Merseytravel from any potential losses arising from subsidiary activities.
- (i) The modernisation fund has been created to support organisational change and development and to invest to save.

6. Other Operating Expenditure

2019/20 £'000		2020/21 £'000
113	Pension Administration Costs	109
113	Total	109

7. Financing and Investment Income

2019/20 £'000		2020/21 £'000
9,270	Interest on Pension Liabilities	8,346
(6,985)	Pension Interest on Plan Assets	(6,374)
151	Interest Payable on Intercompany Loan	144
(151)	Interest Receivable on Intercompany Loan	(144)
0	Loss Allowance	45
1	Other Interest payable	1
2,286	Total	2,018

8. Pensions

As part of the terms and conditions of employment of its officers, Merseytravel makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, Merseytravel has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement. Merseytravel participates in Merseyside Pension Fund administered locally by Wirral Council – this is a funded defined benefit final salary scheme, meaning that Merseytravel and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Transactions Relating to Post Employment Benefits

The following transactions have been made in the Comprehensive Income and Expenditure Statement within the Surplus or Deficit on the Provision of Services to comply with the reporting requirements of IAS 19 in respect of defined benefits schemes.

2019/20 £'000		2020/21 £'000
	Net Cost of Service	
7,645	Current service cost	6,611
5,233	Past service cost	0
	Other Operating Expenditure	
113	Administration expenses	109
	Financing and Investments Income	
2,285	Net interest expense	1,972
15,276	Total Post Employment Benefits Charged to the CIES	8,692

The following transactions are then recognised in the Movement in Reserves as adjustments between the accounting basis and funding basis under Regulation.

2019/20 £'000		2020/21 £'000
(15,276)	Reversal of net charges made to the Surplus or Deficit on the Provision of Services	(8,692)
4,212	Employers contribution payable to the Scheme	4,130

Pension Assets and Liabilities recognised in the Balance Sheet

The amount included in the Balance Sheet arising from Merseytravel's obligation in respect of its defined benefit plans is as follows:

2019/20 £'000		2020/21 £'000
(353,554)	Benefit obligation at end of the period	(399,917)
269,325	Fair Value of plan assets at end of the period	307,853
(84,229)	Deficit as at 31 March	(92,064)

Reconciliation of the movement in the Fair Value of Scheme (Plan) Assets

2019/20 £'000		2020/21 £'000
295,182	Balance brought forward 31 March	269,325
6,985	Interest on plan assets	6,374
(24,464)	Remeasurement	39,742
(113)	Administration expenses	(109)
4,212	Employers contributions	4,130
1,587	Members contributions	1,530
(14,064)	Benefits/ transfers paid	(13,139)
269,325	Balance carried forward 1 April	307,853

Reconciliation of Present Value of Scheme Liabilities (Defined Benefit Obligations)

2019/20 £'000		2020/21 £'000
(389,218)	Balance brought forward 31 March	(353,554)
(7,645)	Current service cost	(6,611)
(5,233)	Past service cost	0
(9,270)	Interest on pension liabilities	(8,346)
(1,587)	Member contribution	(1,530)
45,335	Remeasurement (liabilities)	(43,015)
14,064	Benefits/ transfers paid	13,139
(353,554)	Balance carried forward 1 April	(399,917)

As at 31 March the assets comprised:

2019/20					2020/21			
Quoted £'000	Unquoted £'000	Total £'000	% of total		Quoted £'000	Unquoted £'000	Total £'000	% of total
40,228	6,001	46,229	17	<u>Equities</u>	46,058	7,073	53,131	17
65,001	28,553	93,554	35	UK	73,122	33,363	106,485	35
				Global				
5,491	0	5,491	2	<u>Bonds</u>	3,722	0	3,722	1
13,954	0	13,954	5	UK Government	10,121	0	10,121	3
17,105	0	17,105	6	UK Corporate	24,305	0	24,305	8
0	0	0	0	UK Index Linked	0	1,679	1,679	1
				Overseas Corporate	0	(1,071)	(1,071)	0
				Derivative Contracts				
0	14,444	14,444	5	<u>Property</u>	0	14,114	14,114	5
615	4,079	4,694	2	UK Direct Property	581	5,491	6,072	2
0	6,202	6,202	2	UK Managed Property	0	7,235	7,235	2
				Global Managed Property				
28	2,934	2,962	1	<u>Private Equity</u>	0	5,394	5,394	2
0	15,115	15,115	6	UK	0	16,892	16,892	5
				Global				
5,124	0	5,124	2	<u>Cash</u>	0	0	0	0
0	0	0	0	Cash Instruments	7,421	0	7,421	2
				Cash Accounts				
643	4,191	4,834	2	<u>Other</u>	484	1,227	1,711	1
1,062	7,068	8,130	3	Private Equity UK	0	12,112	12,112	4
447	9,276	9,723	4	Private Equity Global	452	11,692	12,144	4
0	7,907	7,907	3	Infrastructure UK	0	9,108	9,108	3
726	6,454	7,180	3	Infrastructure Global	129	5,458	5,587	2
251	6,426	6,677	2	Opportunities UK	484	11,207	11,691	3
				Opportunities Global				
150,675	118,650	269,325	100		166,879	140,974	307,853	100

Actuarial Assumptions

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The Local Government Pension Scheme liabilities have been assessed by Mercers, an independent firm of actuaries, estimates being based on the latest full valuation of the scheme. The main assumptions used in their calculations are detailed in the table below.

	2019/20	2020/21
<u>Base Assumptions</u>		
Rate of CPI inflation	2.10%	2.70%
Rate of increase in salaries	3.60%	4.20%
Rate of increase in pensions	2.20%	2.80%
Discount Rate	2.40%	2.10%
<u>Mortality Assumptions</u>		
Life expectancy of male future pensioner aged 65 in 20 years' time	22.5	22.6
Life expectancy of female future pensioner aged 65 in 20 years' time	25.9	26
Life expectancy of male current pensioner aged 65	20.9	21
Life expectancy of female current pensioner aged 65	24.0	24.1

A sensitivity analysis has been provided by Mercers which provides an illustrative impact of marginal changes to the assumptions used in respect of the long-term discount rate, inflation and life expectancy. The results of this sensitivity analysis are detailed below.

	Central	+0.1% p.a. discount rate	+0.1% p.a. inflation	+0.1% p.a. pay growth	1 year increase in life expectancy	+1% change in 20/21 investment returns	-1% change in 20/21 investment returns
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Liabilities	(399,917)	(394,044)	(405,878)	(400,828)	(412,320)	(399,917)	(399,917)
Assets	307,853	307,853	307,853	307,853	307,853	310,894	304,812
Surplus/ (Deficit)	(92,064)	(86,191)	(98,025)	(92,975)	(104,467)	(89,023)	(95,105)
Projected service cost next year	8,251	8,051	8,461	8,251	8,528	8,251	8,251
Projected net interest cost for next year	1,906	1,867	2,036	1,930	2,171	1,842	1,969

Impact on Merseytravel's Cashflows

The objectives of the scheme are to keep employer's contributions at as constant and affordable rate as possible. Merseyside Pension Fund has agreed a strategy with the scheme's actuary which was approved by the Pensions Committee in March 2017. Funding levels are monitored on an annual basis. The most recent triennial valuation took place in the financial year and rates applied from 1 April 2020.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or services after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

Merseytravel anticipates paying £2.648m in contributions to the scheme in 2021/22.

9. Grant Income

The following grants and contributions have been credited to the Comprehensive Income and Expenditure Statement during the period.

2019/20 £'000	Credited to Services	2020/21 £'000
(96,215)	Special Rail Grant	(97,842)
(1,516)	Bus Special Operator Grant	(1,516)
(13,694)	Mersey Tunnels Operating Grant	(14,099)
(6,026)	Rolling Stock	(1,189)
(51,946)	REFCUS	(47,535)
0	Covid Restart Grants	(4,853)
(15)	Cycling and Walking to Work	0
(1,958)	Other Grants	(1,691)
(171,371)	Total	(168,725)

2019/20 £'000	Credited to Taxation and Non Specific Grant Income	2020/21 £'000
(90,690)	Merseytravel Grant	(94,034)
0	MHCLG Income Compensation Scheme	(3,994)
(39,033)	Capital grants	(35,599)
(129,723)	Total	(133,629)

Merseytravel has received a number of grants and contributions that have conditions attached to them. These have not yet been recognised as income and will only be credited to the Comprehensive Income and Expenditure Statement once all conditions are met. The balances at the year-end are as follows:

2019/20 £'000		2020/21 £'000
(16,109)	Rolling Stock	(10,033)
(107)	Better Bus Area	(107)
0	Better Deal for Bus	(1,114)
0	Smart Ticketing	(252)
0	Clean Bus Grant	(847)
(2,901)	DfT	(193)
(170)	Other	(100)
(19,286)	Total	(12,645)

10. Officers' Remuneration

Senior Officers Remuneration

The table below details the remuneration of the directors of Merseytravel.

- (i) Chief Executive & Director General was appointed as Head of Paid Service for the Combined Authority on a fixed term contract with effect from 16 November 2018. Under the terms of this contract, the post holder continues to fulfil the role of Chief Executive for Merseytravel and consequently the salary costs are split between the two organisations.
- (ii) Director of Corporate Services was appointed as LCRCA Director of Corporate Services 17 November 2017. Under the contract the post holder is required to fulfil the role of Director of Corporate Services for Merseytravel and consequently the salary costs are split between the two organisations.
- (iii) The Director of Corporate Development and Delivery has a remit which spans both Merseytravel and Combined Authority services, consequently the cost of her salary has been split between the two organisations accordingly in 2020/21.

		Salary (incl Allowances)	Employers Pension Contribution	Total Remuneration
		£'000	£'000	£'000
Chief Executive & Director General (i)	2020/21	102	17	119
	2019/20	95	14	109
Director of Corporate Services (ii)	2020/21	64	9	73
	2019/20	63	9	72
Director of Corporate Development & Delivery (iii)	2020/21	45	8	53
	2019/20	113	17	130
Interim Director of Integrated Transport - appointed 7th October 2019	2020/21	112	19	130
	2019/20	44	6	50
Director of Integrated Transport - resigned 31st July 2019	2020/21	0	0	0
	2019/20	44	6	50

Employee Remuneration

The number of employees (excluding Merseytravel's directors) in receipt of remuneration for the year of £50,000 or more is detailed below. For the purpose of this note remuneration includes allowances, bonuses and severance pay but excludes employer' pension contributions.

Remuneration Range	2019/20	2020/21
£50,000 to £54,999	19	22
£55,000 to £59,999	12	16
£60,000 to £64,999	1	8
£65,000 to £69,999	2	3
£70,000 to £74,999	2	2
£75,000 to £79,999	0	1
£80,000 to £84,999	5	0
£85,000 to £89,999	0	1
£90,000 to £94,999	1	1
£95,000 to £99,999	0	2
£100,000 to £104,999	0	1
£105,000 to £109,999	0	0
£110,000 to £114,999	0	0
£115,000 to £129,999	1	0
£130,000 to £139,999	1	1
£140,000 to £154,999	0	0
£155,000 to £159,999	1	0
Total	45	58

11. Exit Packages

Merseytravel Exit Package Cost Band	No. of Compulsory Redundancies		No. of other Departures agreed		Total No. of Exit Packages by Cost Band		Total Cost of Exit Packages in each Band	
	19/20	20/21	19/20	20/21	19/20	20/21	19/20 £'000	20/21 £'000
£0 - £20,000	0	0	3	1	3	1	19	7
£20,001 - £40,000	0	0	0	0	0	0	0	0
£40,001 - £60,000	0	0	0	0	0	0	0	0
£60,001 - £80,000	1	0	1	0	2	0	139	0
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	0	0	0	0
£150,001 - £200,000	0	0	0	0	0	0	0	0
TOTAL	1	0	4	1	5	1	158	7

12. Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources by Merseytravel in comparison to those resources consumed or earned by Merseytravel in accordance with generally accepted accounting practices. It also shows how the expenditure is allocated between Services. Income and expenditure accounted for under generally accepted accounting practice is presented more fully in the Comprehensive Income and Expenditure Statement.

2019/20				2020/21		
Net Expenditure Chargeable to the General Fund	Adjustments between funding and accounting basis	Net Expenditure in the CIES		Net Expenditure Chargeable to the General Fund	Adjustments between funding and accounting basis	Net Expenditure in the CIES
£'000	£'000	£'000		£'000	£'000	£'000
19,564	3,457	23,021	Bus	21,758	3,065	24,823
2,270	1,283	3,553	Rail	10,872	1,263	12,135
6,594	969	7,563	Customer Delivery	7,264	382	7,646
51,664	0	51,664	Travel Concession	48,166	0	48,166
568	178	746	Policy	507	91	598
3,911	5,482	9,393	Corporate Management & Other Services	2,469	2,130	4,599
1,320	2,297	3,617	Mersey Ferries	5,322	1,743	7,065
(624)	1,358	734	Tunnels	0	368	368
85,267	15,023	100,290	Net Cost of Services	96,358	9,043	105,401
(87,670)	(39,654)	(127,324)	Other Income & Expenditure	(97,981)	(33,518)	(131,500)
(2,403)	(24,631)	(27,034)	(Surplus) or deficit	(1,624)	(24,475)	(26,099)
(54,688)			Opening General Fund Balance at 1 April	(57,091)		
(2,403)			Less/plus Surplus or Deficit on General Fund in Year	(1,624)		
(57,091)			Closing General Fund Reserves at 31 March	(58,714)		

Note to the EFA 2020/21

Adjustments from General Fund to arrive at the CIES	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
Bus	2,894	171	0	3,065
Rail	1,160	104	0	1,263
Customer Delivery	68	314	0	382
Travel Concessions	0	0	0	0
Policy	20	71	0	91
Corporate Management & Other Services	620	1,304	206	2,130
Mersey Ferries	1,593	149	0	1,743
Mersey Tunnels		368	0	368
Net Cost of Services	6,356	2,481	206	9,043
Other Income & Expenditure from the Funding Analysis	(35,599)	2,081	0	(33,518)
Difference between General Fund surplus or deficit and CIES surplus or deficit	(29,243)	4,562	206	(24,475)

Note to the EFA 2019/20

Adjustments from General Fund to arrive at the CIES	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
Bus	2,835	622	0	3,457
Rail	1,007	276	0	1,283
Customer Delivery	68	901	0	969
Travel Concessions	0	0	0	0
Policy	20	158	0	178
Corporate Management & Other Services	662	4,820	0	5,482
Mersey Ferries	1,765	532	0	2,297
Tunnels	0	1,358	0	1,358
Net Cost of Services	6,357	8,666	0	15,023
Other Income & Expenditure from the Funding Analysis	(39,033)	2,398	(3,019)	(39,654)
Difference between General Fund surplus or deficit and CIES surplus or deficit	(32,677)	11,064	(3,019)	(24,631)

Adjustments for capital purposes

This column adds in depreciation, impairment and revaluation gains and losses in the service line, adjusts for the statutory charge for Minimum Revenue Provision and other income contributions that are not chargeable under proper accounting practice.

Net Changes for Pension Adjustments

Net changes for the removal of pension contributions and additions of IAS 19 Employee Benefits pension related income and expenditure. For services this represents the removal of the employer pension contributions made by the Authority Group as allowed under statute and replaced with current service cost and past service cost. For financing and investment income this is the net interest on the defined benefit liability charged to the CIES.

Other Differences

These are the amounts debited or credited to the CIES and amounts payable/receivable to be recognised under statute in respect of premiums and discounts and adjustments in respect of accumulating absences.

Expenditure Analysed by Type

2019/20 £'000		2020/21 £'000
	Expenditure	
34,903	Employee benefits expenses	30,260
274,782	Other services expenses	263,321
6,132	Depreciation, amortisation, impairment	6,352
152	Interest payable	145
315,969	Total expenditure	300,078
	Income	
(39,592)	Fees, charges and other service income	(23,581)
(151)	Interest and investment income	(144)
(303,259)	Government grants and contributions	(302,452)
(343,002)	Total income	(326,177)
(27,034)	(Surplus) or deficit on the Provision of Services	(26,099)

13. Audit Fees

The table below details the fees paid to the external auditors, Mazars.

Restated 2019/20 £'000		2020/21 £'000
41	External Audit fees in respect of Merseytravel	38
41	Total	38

The 2019/20 disclosure has been restated to reflect fees charged in relation to additional work undertaken.

14. Related Party Transactions

Merseytravel is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence or to be controlled or influenced by Merseytravel. The following is an analysis of the organisations or individuals deemed to meet these criteria.

Liverpool City Region Combined Authority (LCRCA).

Merseytravel is required to implement and administer transport policies determined by the LCRCA which means that Merseytravel is Merseytravel's parent and ultimate controlling party. Merseytravel provides Merseytravel with revenue and capital grants in support of its transport activities, be that revenue or capital. The revenue grant that is received by Merseytravel is funded through the transport levy made by LCRCA on the district councils in Merseyside. Details on all of these items are included in note 9.

Group banking arrangements exist for LCRCA and Merseytravel with all investments made in the name of the LCRCA. As at 31 March 2021 Merseytravel had short term deposits of £90.728m (£79.282m 2019/20) with LCRCA. Balances are unsecured, interest free and settlement occurs in cash. No guarantees have been provided or received in respect of these sums.

A variety of support functions were provided by Merseytravel to the LCRCA, primarily IT, Financial, HR and Internal Audit support. As this support was provided by Merseytravel staff a charge was made to the LCRCA of £583k for 2020/21, (£399k 2019/20). In addition to this, LCRCA contributed £1,215k in 2020/21 (£578k in 2019/20) to Merseytravel for additional capacity staff posts and a further £500k to Bus Services for work on Mayoral transport priorities.

Subsidiary Companies

Merseytravel has interests in several companies, some of which are active, some of which are dormant or in the process of being wound up. The table below details the principal undertakings.

Name	Parent	Holding	Nature of Business	% Equity Interest
Mersey Ferries Ltd	Merseytravel	Company limited by guarantee	Passenger transport	N/A
Merseyside Passenger Transport Services Ltd	Merseytravel	25 £1 ordinary shares 375 £1 5% non-cumulative preference shares	Leasing	100%
Real Time Information Group Ltd	Merseytravel	1x £1 ordinary shares	Real Time Information systems	100%
Accrington Technologies Ltd	Merseytravel	500 £1 ordinary shares	Smartcards	50.10%
The Beatles Story Ltd	Mersey Ferries Ltd	290,000 £1 ordinary shares	Tourism	100%

Certain directors of Merseytravel are also directors of the above companies. Whilst these individuals are paid a salary by Merseytravel as detailed in note 10, no additional remuneration is received in respect of these directorships.

Under the relevant accounting standards all of the above fall to be classed as subsidiary undertakings and as such the financial performance of each should be consolidated into the financial statements of Merseytravel on an equity basis however as the financial performance of RTIG and Accrington Technologies is not considered material the financial performance has not been consolidated into the Merseytravel group. A brief summary of the financial performance of Accrington Technologies and Real Time Information Group (RTIG) is included below.

Accrington Technologies - during the last three financial years the company has not traded and has received no income and incurred no expenditure. As at 31 March 2021 the company had net assets of £5k and reserves of £5k.

Real Time Information Group (RTIG) - the disclosed profit after taxation for 2020/21 was £12k (£19k in 2019/20). As at 31 March 2021 the company had net assets of £13k.

15. Property Plant and Equipment

	Infrastructure Assets	Freehold Property	Leasehold Property	Vehicles Plant and Machinery	Vessels	Surplus Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation								
As at 1 April 2020	38,438	16,760	68,377	6,554	2,895	1,139	180,812	314,974
Additions	662	3,045	698	601	160	72	29,374	34,613
Reclassification	0	0	0	2,278	0	0	(2,367)	(89)
As at 31 March 2021	39,100	19,805	69,075	9,433	3,055	1,211	207,819	349,498
Depreciation and Impairment								
As at 1 April 2020	21,036	0	18	2,527	280	0	0	23,861
Depreciation	2,892	571	1,855	488	290	0	0	6,097
As at 31 March 2021	23,928	571	1,873	3,015	570	0	0	29,957
Net Book Value								
As at 31 March 2021	15,172	19,233	67,202	6,418	2,485	1,211	207,819	319,540
As at 31 March 2020	17,402	16,760	68,359	4,027	2,615	1,139	180,812	291,113

	Infrastructure Assets	Freehold Property	Leasehold Property	Vehicles Plant and Machinery	Vessels	Surplus Assets	Assets Under Construction	Held for Sale	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation									
As at 1 April 2019	37,861	16,067	66,435	4,151	2,801	1,139	146,297	13	274,764
Additions	577	464	186	1,030	94	0	36,226	0	38,577
Revaluation inc/(dec) recognised in the Revaluation Reserve	0	229	1,756	0	0	0	0	0	1,985
Reclassification	0	0	0	1,712	0	0	(1,712)	0	0
Derecognition disposals	0	0	0	(339)	0	0	0	(13)	(352)
As at 31 March 2020	38,438	16,760	68,377	6,554	2,895	1,139	180,812	0	314,974
Depreciation and Impairment									
As at 1 April 2019	18,181	0	19	2,127		0	0	0	20,327
Depreciation	2,855	546	1,741	524	280	0	0	0	5,946
Depreciation written out to the Revaluation Reserve	0	(546)	(1,742)	0	0	0	0	0	(2,289)
Disposals	0	0	0	(125)	0	0	0	0	(125)
As at 31 March 2020	21,036	0	18	2,505	280	0	0	0	23,860
Net Book Value									
As at 31 March 2020	17,402	16,760	68,359	4,049	2,615	1,139	180,812	0	291,114
As at 31 March 2019	19,680	16,067	66,416	2,024	2,801	1,139	146,297	13	254,437

Depreciation

The following useful lives have been used in the calculation of depreciation:

- Infrastructure assets useful lives are determined on acquisition and considered thereafter as part of the annual impairment review. The current maximum useful life is 50 years.
- Freehold and Leasehold property useful lives are based on estimated remaining life as provided by the valuer as part of the valuation process. The maximum useful life in this category is 51 years.
- Vehicles, plant and machinery useful lives are determined on acquisition and considered thereafter as part of the annual impairment review. The current maximum useful life is 19 years.
- Vessels useful lives are based on estimated remaining life as provided by the valuer as part of the valuation process. The maximum useful life in this category is 8 years.

Revaluations

Merseytravel carries out a revaluation process which ensures that all property, plant and equipment required to be measured at current value is revalued at least every five years. All valuations are carried out externally. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The significant assumptions applied in estimating the current values of property, plant and equipment are:

- That no deleterious material was used in the construction of any property and that none has been subsequently incorporated.
- That the properties are not subject to any unusual or especially onerous restrictions, encumbrances or outgoing and that good titles can be shown.
- That the properties and their values are unaffected by any matters which would be revealed by a local search or inspection of any register and that the use and occupation are both legal.
- That inspection of those parts which have not been inspected would not cause alteration to the opinion of value.
- That the land and properties are not contaminated nor adversely affected by radon gas, hazardous substances and other adverse environmental impacts.

Infrastructure assets (gross book value £39.099m), assets under construction (gross book value £207.819m), short life plant, machinery and vehicles (gross book value £12.488m) are carried at historical cost. The remaining categories of property, plant and equipment (gross book value £90.091m) are carried at current value with the last full valuation being undertaken at 31 March 2019.

A full valuation exercise was undertaken at 31 March 2019. In the 2019/20 financial year a desktop valuation was undertaken on 74% by value of the property portfolio. The percentage increase arising from this valuation exercise was applied across the remainder of the portfolio as an estimate of the movement in property values in the financial year. In the 2020/21 financial year an estimate of the movement in values was calculated making use of indices. These estimates did not indicate a material movement and therefore the properties have not been revalued in the 2020/21 financial year.

Capital Commitments

As at 31 March 2021, Merseytravel has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2021/2022 and future years budgeted to cost £161.683m. Similar commitments at 31 March 2020 were £176.466m.

The major commitments are:

- Rolling Stock - £113.464m
- Access for All - £15.872m
- St Helens Southern Gateway - £9.858m
- Birkenhead Central Gateway - £8.215m
- Headbolt Lane Gateway - £5.233m

16. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by Merseytravel, the expenditure results in an increase in the Capital Finance Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2020/21 £'000	2019/20 £'000
Opening Capital Financing Requirement	(381)	(381)
Capital investment		
PPE	34,613	38,577
Intangible assets	987	456
Revenue Expenditure Funded from Capital Under Statute	47,640	51,946
Sources of Finance		
Government grants and other contributions	(83,139)	(90,979)
Use of Reserves	(101)	0
Closing Capital Financing Requirement	(381)	(381)
Movement in Capital Financing Requirement	0	0

17. Intangible Assets

2019/20 £'000		2020/21 £'000
	Cost or valuation:	
	Opening balance:	
1,748	Gross carrying amount	2,204
(762)	Accumulated amortisation	(946)
986	Opening net carrying amount	1,258
	Additions, amortisation, reclassification:	
456	Additions	987
(184)	Amortisation	(256)
0	Reclassifications	89
0	Disposals	0
1,258	Net carrying amount at end of year	2,078
	Comprising:	
2,204	Gross carrying amount	3,280
(946)	Accumulated amortisation	(1,202)
1,258		2,078

Intangible assets relate to licenses acquired by Merseytravel.

18. Long Term Debtors – loan to subsidiary company

2019/20 £'000		2020/21 £'000
2,747	Intercompany debtor	2,569
2,747	Total	2,569

The debtor relates to a loan to Mersey Ferries Limited for the acquisition of the Beatles Story. This is repayable in equal instalments of principal and interest until 2032/33.

19. Short Term Debtors

2019/20 £'000		2020/21 £'000
1,784	Trade Receivables	1,727
2,871	Prepayments	2,773
103,692	Other	96,710
108,347	Total	101,210

20. Short Term Creditors

2019/20 £'000		2020/21 £'000
(1)	Trade Payables	(4,770)
(30,474)	Other Payables	(24,541)
(30,475)	Total	(29,311)

21. Provisions

	As at 31 March 2020 £'000	Expenditure charged to provision in year £'000	Increase/ (decrease) in provision £'000	As at 31 March 2021 £'000
Employment Related Provision	(66)	59	(187)	(194)
Contractual Provisions	(2,204)	915	(29)	(1,318)
Total	(2,270)	974	(216)	(1,512)

Employment related provisions relate to pension obligations and provisions arising from job evaluation/ employment harmonisation.

Contractual provisions relate to insurance claims and payments to bus operators.

Provisions have been analysed by management between those likely to be settled in less than one year and those that have a longer duration. The table below provides an analysis of the closing balances between long and short term provisions.

	As at 31 March 2020 £'000	As at 31 March 2021 £'000
Short Term Provisions	(1,304)	(546)
Long Term Provisions	(966)	(966)
Total	(2,270)	(1,512)

22. Leases

Merseytravel as Lessor

Merseytravel has a number of operating leases where it acts as the lessor. The table below details the minimum future lease payments receivable under non-cancellable leases in future years.

2019/20 £'000		2020/21 £'000
32	Not later than one year	34
82	Between one and five years	85
56	Over five years	40
170	Total	159

23. Financial Instruments

Categories of Financial Instruments

31 March 2020			31 March 2021	
Current £'000	Non Current £'000		Current £'000	Non Current £'000
		Financial Assets at Amortised Cost:		
170	2,747	Loan to Subsidiary Company	178	2,569
80,976	0	Amount deposited with LCRCA Group	90,728	0
24,330	0	Debtors	7,531	0
105,476	2,747	Total Financial Assets	98,437	2,569
		Financial Liabilities at Amortised Cost:		
(170)	(2,747)	Loan from Group Company	(178)	(2,569)
(30,305)	0	Creditors	29,489	0
(30,475)	(2,747)	Total Financial Liabilities	29,311	(2,569)

Income and Expenses through the CIES

During the year, Merseytravel paid interest of £144k (£151k in 2019/20) and received interest of £144k (£151k in 2019/20). This relates to interest payable on the loan from the LCRCA to Merseytravel and subsequently on to Mersey Ferries Group in respect of the Acquisition of the Beatles Story and is recognised in the Comprehensive Income and Expenditure Statement.

Fair Values of Assets and Liabilities

Merseytravel's financial liabilities and financial assets are represented by loans, intercompany balances with LCRCA and its debtors and creditors. As Merseytravel's financial assets and liabilities are predominantly trade payables and receivables and amounts deposited with the LCRCA, fair value is taken as the amount invoiced or billed.

Nature and Extent of Risk Arising from Financial Instruments

Merseytravel's activities expose it to a variety of financial risks. The key risks are:-

- Credit risk - the possibility that other parties might fail to pay amounts due;
- Liquidity risk - the possibility that Merseytravel might not have funds available to meet its commitments to make payments; and
- Market risk - the possibility that financial loss might arise for Merseytravel as a result of changes in such measures as interest rates.

Credit risk

Merseytravel's credit risk arises from credit exposures to Merseytravel's customers. Merseytravel also holds intercompany balances with the LCRCA which are interest free and are available to the LCRCA to make investments. These investments are governed by the LCRCA's Treasury Management policy.

Liquidity risk

Through LCRCA, Merseytravel has ready access to borrowings from the Public Works Loans Board, and therefore there is no significant risk that it will be unable to raise finance to meet its commitments.

All undiscounted financial liabilities are payable within 1 year with the exception of a loan from LCRCA amounting to £2.569m payable by instalments until 2032/33.

Market risk

Borrowings are carried at amortised cost so nominal gains and losses on fixed rate borrowings would not affect the Statement of Income and Expenditure or Movement in Reserves Statement.

Price risk: Merseytravel does not generally invest in equity shares but the Group Accounts do reflect shareholdings in a number of subsidiaries, therefore exposure to price risk is limited.

Foreign exchange risk: Merseytravel has no material financial assets or liabilities denominated in foreign currencies, and thus have no exposure to loss arising from movements in exchange rates.

Hedging Instruments: Merseytravel holds no financial instruments that would be classified as hedging instruments.

24. Contingent Liabilities

The Department for Transport provides an annual Special Rail Grant to Merseytravel in support of the Merseyrail Electrics Network. This funding is subsequently paid by Merseytravel to the operator of the network, Merseyrail Electrics 2002 Limited.

The funding paid and to be paid in support of the Merseyrail Electrics Network is currently under review following internal assurance processes undertaken by the Department for Transport.

The relevant parties are seeking a resolution of a number of issues concerning funding and further disclosure at this stage is not possible given the uncertain outcome of the ongoing process.

25. Note to the Cashflow Statement

The surplus or deficit on provision of services has been adjusted for the following non-cash movements:

2019/20 £'000		2020/21 £'000
6,131	Depreciation and amortisation	6,353
0	Revaluation losses	0
(2,256)	Increase/(decrease) in creditors and provisions	3,980
(9,452)	Increase/(decrease) in debtors	7,315
(541)	(Increase)/decrease in inventories	23
11,065	Movement in pension liability	4,562
227	Carrying amount of non-current assets derecognised	0
5,174	Total	22,233

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2019/20 £'000		2020/21 £'000
(39,033)	Grants received for the financing of capital expenditure	(35,599)
(17)	Proceeds from the sale of PPE	0
(39,050)	Total	(35,599)

Cashflow Statement Investing Activities

2019/20 £'000		2020/21 £'000
(48,144)	Purchase of property, plant and equipment and intangible assets	(40,567)
54,906	Other receipts from investing activities	27,845
6,762	Total	(12,722)

MERSEYTRAVEL GROUP ACCOUNTS

The Accounting Code of Practice requires that where an entity has material financial interests and a significant level of control over one or more entities, it should prepare Group Accounts. The aim of these statements is to give an overall picture of the entity's financial activities and the resources employed in carrying out those activities.

The Group Accounts comprise the following key financial statements (with appropriate disclosures):

- Group Movement in Reserves Statement;
- Group Comprehensive Income and Expenditure Statement;
- Group Balance Sheet; and
- Group Cash Flow Statement

Please refer to the explanation of statements on page 3-4 for further description of the purpose of each statement.

Consistent accounting policies are applied to both Merseytravel's group and single entity accounts. For details of the accounting policies, refer to those disclosed on pages 36-51.

For completeness, the following entities results have been consolidated into the Merseytravel group accounts:

- Mersey Ferries Group (including the Beatles Story, Spaceport and U534)
- Merseytravel Passenger Transport Services Limited

Where figures in the group accounts differ materially from the Merseytravel accounts, the relevant explanatory notes have been prepared on a consolidated basis. The notes below give information on the areas that have materially changed on consolidation of the group entities into the Merseytravel's accounts.

GROUP MOVEMENT IN RESERVES STATEMENT

The Movement in Reserves Statement (MiRS) shows the movement from the start of the year to the end on the different reserves held by Merseytravel analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of Merseytravel's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return the amounts chargeable to the revenue reserve for the year. The Net Increase/ (Decrease) line shows the statutory General Fund Balance movements in the year following those adjustments.

	Usable Reserves £'000			Unusable Reserves £'000					Total Reserves £'000
	General Fund Balance	Other Earmarked Reserves	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pension Reserve	Accumulated Absences Account	Total Unusable Reserves	
As at 1st April 2020	3,219	55,312	58,531	29,016	264,092	(84,229)	(372)	208,507	267,038
Comprehensive Income and Expenditure Statement	24,959	0	24,959	0	0	(3,273)	0	(3,273)	21,686
Adjustments to the revenue resources *									
Pensions costs	4,562	0	4,562	0	0	(4,562)	0	(4,562)	0
Holiday pay	206	0	206	0	0	0	(206)	(206)	0
Charges for depreciation and amortisation	6,352	0	6,352	0	(6,352)	0	0	(6,352)	0
Capital expenditure financed from revenue balances	(101)	0	(101)	0	101	0	0	101	0
Revenue expenditure funded from capital under statute	47,640	0	47,640	0	(47,640)	0	0	(47,640)	0
Capital grants and contributions credited to the CIES	(83,134)	0	(83,134)	0	83,134	0	0	83,134	0
Total adjustments to revenue resources	(24,475)	0	(24,475)	0	29,243	(4,562)	(206)	24,475	0
Adjustments to capital resources									
Difference between fair value and historical cost depreciation	0	0	0	(787)	787	0	0	0	0
Total adjustments to capital resources	0	0	0	(787)	787	0	0	0	0
Transfer between reserves	927	(927)	0	0	0	0	0	0	0
Net Increase/(Decrease) in 2020/21	1,411	(927)	484	(787)	30,030	(7,835)	(206)	21,202	21,686
Balance as at 31st March 2021	4,630	54,385	59,015	28,229	294,122	(92,064)	(578)	229,709	288,724

* Amounts by which income and expenditure included in the CIES are different from revenue in the year calculated in accordance with statutory requirements

GROUP MOVEMENT IN RESERVES STATEMENT

	Usable Reserves £'000			Unusable Reserves £'000					Total Reserves £'000
	General Fund Balance	Other Earmarked Reserves	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pension Reserve	Accumulated Absences Account	Total Unusable Reserves	
As at 1st April 2019	3,945	52,125	56,070	25,546	230,613	(97,055)	(372)	158,732	214,802
Comprehensive Income and Expenditure Statement	27,091	0	27,091	4,274	0	20,871	0	25,145	52,236
Adjustments to the revenue resources *									
Pensions costs	8,045	0	8,045	0	0	(8,045)		(8,045)	0
Holiday pay	0	0	0	0	0	0	0	0	0
Charges for depreciation and amortisation	6,131	0	6,131	0	(6,131)	0	0	(6,131)	0
Amount of non current assets written off on disposal or sale as part of gains/losses on disposal	210	17	227	0	(227)	0	0	(227)	0
Revenue expenditure funded from capital under statute	51,945	0	51,945	0	(51,945)	0	0	(51,945)	0
Capital grants and contributions credited to the CIES	(90,978)	0	(90,978)	0	90,978	0	0	90,978	0
Total adjustments to revenue resources	(24,647)	17	(24,630)	0	32,675	(8,045)	0	24,630	0
Adjustments to capital resources									
Difference between fair value and historical cost depreciation	0	0	0	(804)	804	0	0	0	0
Total adjustments to capital resources	0	0	0	(804)	804	0	0	0	0
Transfer between reserves	(3,170)	3,170	0	0	0	0	0	0	0
Net Increase/(Decrease) in 2019/20	(726)	3,187	2,461	3,470	33,479	12,826	0	49,775	52,236
Balance as at 31st March 2020	3,219	55,312	58,531	29,016	264,092	(84,229)	(372)	208,507	267,038

* Amounts by which income and expenditure included in the CIES are different from revenue in the year calculated in accordance with statutory requirements

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Merseytravel raises taxation to cover expenditure in accordance with Regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

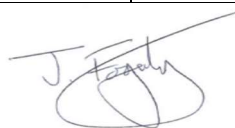
Restated 2019/20				2020/21		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Spend
£'000	£'000	£'000		£'000	£'000	£'000
31,354	(8,333)	23,021	Bus Services	35,071	(10,247)	24,823
168,895	(165,342)	3,553	Rail Services	168,505	(156,370)	12,135
10,243	(2,355)	7,889	Customer Delivery	10,463	(2,597)	7,866
73,388	(21,724)	51,664	Travel Concession	57,060	(8,894)	48,166
4,041	(3,295)	746	Policy	2,109	(1,512)	597
10,207	(595)	9,612	Corporate Management and other Corporate Costs	5,312	(494)	4,818
14,420	(11,557)	2,863	Mersey Ferries	9,229	(1,867)	7,362
14,990	(14,256)	734	Mersey Tunnels	14,680	(14,311)	368
327,538	(227,457)	100,082	Net Cost of Service	302,428	(196,293)	106,135
		113	Other Operating Expenditure			109
		2,437	Financing and Investment Income/expenditure			2,424
		(129,723)	Taxation and Non Specific Grant Income			(133,627)
		(27,091)	(Surplus) or Deficit on the Provision of Services			(24,959)
		(20,871)	Remeasurement Gains/ Losses on Pension Assets/ Liabilities			3,273
		(4,274)	(Surplus)/ Deficit on Revaluation Non Current Assets			0
		(25,145)	Other Comprehensive Income and Expenditure			3,273
		(52,236)	Total Comprehensive Income and Expenditure			(21,686)

The 2019/20 comparators have been restated to consolidate the results of the Mersey Ferries. There is no impact on gross expenditure, gross income or the net cost of service.

GROUP BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by Merseytravel. The net assets of Merseytravel (assets less liabilities) are matched by the reserves held by Merseytravel. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that Merseytravel may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that Merseytravel is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

As at 31 March 2020		As at 31 March 2021	Note
£'000		£'000	
292,396	Property, Plant and Equipment	320,705	4
711	Heritage Assets	711	
2,953	Intangible Assets	3,773	5
296,060	Long-term Assets	325,189	
1,036	Inventories	990	
111,653	Short-term Debtors	103,461	6
38	Cash and Cash Equivalents	34	
112,727	Current Assets	104,485	
(32,127)	Short-term Creditors	(31,182)	7
(1,498)	Provisions	(563)	
(20,182)	Grant Receipts in Advance	(13,606)	
(53,807)	Current Liabilities	(45,351)	
(2,747)	Loan from Group Company	(2,569)	9
(966)	Provisions	(966)	
(84,229)	Pension Liability	(92,064)	
(87,942)	Long-term Liabilities	(95,599)	
267,038	Net Assets	288,724	
58,531	Usable Reserves	59,015	1
208,507	Unusable Reserves	229,709	
267,038	Total Reserves	288,724	



John Fogarty (CPFA)
Director of Corporate Services & Interim Director General
5 November 2021

GROUP CASHFLOW STATEMENT

2019/20		2020/21	Note
£'000		£'000	
27,091	Net surplus/(deficit) on provision of services	24,959	
5,085	Adjustments to net surplus on the provision of services for non-cash movements	23,356	11
(39,050)	Adjustments to net surplus on the provision of services for items which are investing and financing activities	(35,599)	11
(6,874)	Net cash (outflows)/inflows from operating Activities	12,716	
6,643	Investing activities	(12,720)	11
(231)	Net increase/(decrease) in cash and cash equivalents	(4)	
269	Cash and cash equivalents as at 1 April	38	
38	Cash and cash equivalents as at 31 March	34	

NOTES TO THE PRIMARY STATEMENTS

1. Earmarked and Usable Reserves

This note sets out the amounts set aside from the Revenue Reserve balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet Revenue Reserve expenditure in 2020/21. Details of the Merseytravel Single Entity reserves are included in note 5 of the single entity accounts

	Balance at 31 March 2019	Transfers Out 2019/20	Transfers In 2019/20	Balance at 31 March 2020	Transfers Out 2020/21	Transfers In 2020/21	Balance at 31 March 2021
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Single Entity Reserves	54,688	0	2,403	57,091	(3,194)	4,817	58,714
Subsidiary Reserves	1,384	0	56	1,440	(1,139)	0	301
Total	56,072	0	2,459	58,531	(4,333)	4,817	59,015

2. Tax

Included within the Group CIES is estimated corporation tax refunds on the Beatles Story losses of £112k (£186k corporation tax payable 2019/20).

3. Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources by Merseytravel Group in comparison to those resources consumed or earned by Merseytravel Group in accordance with generally accepted accounting practices. It also shows how the expenditure is allocated between Services. Income and expenditure accounted for under generally accepted accounting practice is presented more fully in the Comprehensive Income and Expenditure Statement.

2019/20				2020/21		
Net Expenditure Chargeable to the General Fund	Adjustments between funding and accounting basis	Net Expenditure in the CIES		Net Expenditure Chargeable to the General Fund	Adjustments between funding and accounting basis	Net Expenditure in the CIES
£'000	£'000	£'000		£'000	£'000	£'000
19,564	3,457	23,021	Bus	21,758	3,065	24,823
2,270	1,283	3,553	Rail	10,872	1,263	12,135
6,920	969	7,889	Customer Delivery	7,483	382	7,866
51,664	0	51,664	Travel Concessions	48,166	0	48,166
568	178	746	Policy	506	91	597
4,130	5,482	9,612	Corporate Management & Other Corporate Costs	2,688	2,130	4,818
566	2,297	2,863	Mersey Ferries	5,619	1,743	7,362
(624)	1,358	734	Mersey Tunnels	0	368	368
85,059	15,023	100,082	Net Cost of Services	97,092	9,043	106,135
(87,519)	(39,654)	(127,173)	Other Income & Expenditure	(97,576)	(33,518)	(131,094)
(2,460)	(24,631)	(27,091)	Surplus or deficit	(484)	(24,475)	(24,959)
(56,071)			Opening General Fund Balance at 1 April	(58,531)		
(2,460)			Less/plus Surplus or Deficit on General Fund in Year	(484)		
(58,531)			Closing General Fund Reserves at 31 March	(59,015)		

Note to EFA 2020/21

Adjustments from General Fund to arrive at the CIES	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
Bus	2,894	171	0	3,065
Rail	1,160	104	0	1,263
Customer Delivery	68	314	0	382
Travel Concessions	0	0	0	0
Policy	20	71	0	91
Corporate Management & Other	620	1,304	206	2,130
Corporate Costs	1,593	149	0	1,743
Mersey Ferries	0	368	0	368
Net Cost of Services	6,356	2,481	206	9,043
Other Income & Expenditure from the Funding Analysis	(35,599)	2,081	0	(33,518)
Difference between General Fund surplus or deficit and CIES surplus or deficit	(29,243)	4,562	206	(24,475)

Note to EFA 2019/20

Adjustments from General Fund to arrive at the CIES	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
Bus	2,835	622	0	3,457
Rail	1,007	276	0	1,283
Customer Delivery	68	901	0	969
Travel Concessions	0	0	0	0
Policy	20	158	0	178
Corporate Management & Other	662	4,820	0	5,482
Corporate Costs	1,765	532	0	2,297
Mersey Ferries	0	1,358	0	1,358
Net Cost of Services	6,357	8,666	0	15,023
Other Income & Expenditure from the Funding Analysis	(39,033)	2,398	(3,019)	(39,654)
Difference between General Fund surplus or deficit and CIES surplus or deficit	(32,677)	11,064	(3,019)	(24,631)

Expenditure and Income Analysed by Type

2019/20 £'000		2020/21 £'000
	Expenditure	
38,628	Employee benefits expenses	33,558
290,044	Other services expenses	271,281
6,380	Depreciation, amortisation, impairment	6,572
152	Interest payable	145
335,204	Total expenditure	311,556
	Income	
(59,032)	Fees, charges and other service income	(33,295)
0	Interest and investment income	(1)
(303,262)	Government grants and contributions	(303,219)
(362,294)	Total income	(336,515)
(27,090)	(Surplus) or deficit on the Provision of Services	(24,959)

4. Property Plant and Equipment

Movement on Balances 2020/21

	Infrastructure Assets	Freehold Property	Leasehold Property	Plant, Machinery and Vehicles	Vessels	Surplus Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation								
As at 1 April 2020	38,438	16,761	69,499	9,520	2,895	1,139	180,812	319,063
Additions	662	3,045	698	602	160	72	29,374	34,613
Reclassification	0	0	0	2,278	0	0	(2,367)	(89)
Derecognition disposals	0	0	0	(268)	0	0	0	(268)
As at 31 March 2021	39,100	19,806	70,197	12,132	3,055	1,211	207,819	353,319
Depreciation and Impairment								
As at 1 April 2020	21,036	0	594	4,756	280	0	0	26,666
Depreciation	2,892	571	1,905	558	290	0	0	6,216
Disposals	0	0	0	(268)	0	0	0	(268)
As at 31 March 2021	23,928	571	2,499	5,046	570	0	0	32,614
Net Book Value								
As at 31 March 2021	15,172	19,235	67,698	7,086	2,485	1,211	207,819	320,705
As at 31 March 2020	17,402	16,761	68,905	4,764	2,615	1,139	180,812	292,396

Movement on Balances 2019/20

	Infrastructure Assets	Freehold Property	Leasehold Property	Plant and Machinery and Vehicles	Vessels	Surplus Assets	Assets Under Construction	Held for Sale	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation									
As at 1 April 2019	37,861	16,068	67,557	7,005	2,801	1,139	146,297	13	278,741
Additions	577	464	186	1,150	94	0	36,226	0	38,697
Revaluation inc/(dec) recognised in the Revaluation Reserve	0	229	1,756	0	0	0	0	0	1,985
Reclassification	0	0	0	1,712	0	0	(1,712)	0	0
Derecognition disposals	0	0	0	(347)	0	0	0	(13)	(360)
As at 31 March 2020	38,438	16,761	69,499	9,520	2,895	1,139	180,812	0	319,063
Depreciation and Impairment									
As at 1 April 2019	18,181	0	595	4,216	0	0	0	0	22,992
Depreciation	2,855	546	1,741	673	280	0	0	0	6,096
Depreciation written out to the Revaluation Reserve	0	(546)	(1,742)	0	0	0	0	0	(2,289)
Disposals	0	0	0	(132)	0	0	0	0	(132)
As at 31 March 2020	21,036	0	594	4,756	280	0	0	0	26,666
Net Book Value									
As at 31 March 2020	17,402	16,761	68,905	4,764	2,615	1,139	180,812	0	292,396
As at 31 March 2019	19,680	16,068	66,962	2,789	2,801	1,139	146,297	13	255,749

As Merseytravel applies consistent policies for both its single entity and group accounts, please refer to note 15 in the single entity account for further information on accounting for non-current assets.

5. Intangible Assets

Goodwill of £1.7m relates to the acquisition by Mersey Ferries Limited of The Beatles Story. For impairment testing purposes, this goodwill has been allocated to the wholly owned subsidiary, which forms part of the Mersey Ferries Group. This represents the lowest level within the LCRCA at which goodwill is monitored for internal management purposes.

Merseytravel has performed its annual impairment test as at 31 March 2021. The recoverable amount of The Beatles Story is determined on a value in use basis using discounted cash flow projections based on historical financial outturns and consideration of the likely impact of COVID-19.

Some sensitivity analysis was then applied to these assumptions resulting in little change to the original values. The resultant calculation showed the value of implied goodwill was consistent with that shown in the group balance sheet and no impairment was required for 2020/21.

6. Short Term Debtors

2019/20 £'000		2020/21 £'000
1,982	Trade Receivables	2,075
3,096	Prepayments	3,020
106,575	Other	98,366
111,653	Total	103,461

7. Short Term Creditors

2019/20 £'000		2020/21 £'000
(43)	Trade Payables	(4,817)
(32,084)	Other Payables	(26,365)
(32,127)	Total	(31,182)

8. Leases

Merseytravel Group as Lessee

The future minimum lease payments due under non-cancellable leases in future years are shown in the following table:

2019/20 £'000		2020/21 £'000
8,179	Not later than one year	9,698
4,965	Between one and five years	6,698
0	Over five years	0
13,144	Total	16,396

Merseytravel's subsidiary company MPTS has an operating lease for the rental of Merseyrail rolling stock. There is a back to back lease with Merseyrail Electrics Limited (MEL) who fully reimburses the cost of this lease. The lease with Angel expired in December 2018. An extension to the lease until 2023/24 was agreed in the 2019/20 financial year.

Merseytravel Group as Lessor

The table below details the future minimum lease payments in respect of Merseytravel's leases in future years:

2019/20 £'000		2020/21 £'000
(8,323)	Not later than one year	(9,844)
(5,497)	Between one and five years	(7,233)
(656)	Over five years	(640)
(14,476)	Total	(17,717)

Within the group, Mersey Ferries Limited holds several operating leases with external parties, leasing out various properties under operational leases. These include interchange sites and ferry terminals.

9. Long Term Loan from Group Company

2019/20 £'000		2020/21 £'000
(2,747)	Long Term Loan from Group Company	(2,569)
(2,747)	Total	(2,569)

The long term loan on the Merseytravel Group Balance Sheet relates to a loan from Liverpool City Region Combined Authority to Merseytravel to fund the acquisition of the Beatles Story. This loan is payable in equal instalments of principal and interest until 2032/33. Principal repayments in 2020/21 were £170k (£162k 2019/20).

10. Contingent Assets and Liabilities

Contingent liabilities are disclosed in note 24 in the single entity accounts. There are no further contingent liabilities for the group.

11. Note to Cashflow Statement

Cash Flow Statement Operating Activities

The surplus or deficit on provision of services has been adjusted for the following non-cash movements:

2019/20 £'000		2020/21 £'000
6,279	Depreciation and amortisation	6,472
(508)	Increase/(decrease) in creditors and provisions	4,086
227	NBV of disposals	0
(11,483)	(Increase)/Decrease in debtors	8,191
(495)	(Increase)/decrease in inventories	45
11,064	Movement in pension liability	4,562
5,085	Total	23,356

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2019/20 £'000		2020/21 £'000
(39,050)	Grants received for the financing of capital expenditure	(35,599)
(39,050)	Total	(35,599)

Cash Flow Statement Investing Activities

2019/20 £'000		2020/21 £'000
(48,262)	Purchase of property, plant and equipment and intangible assets	(40,567)
54,905	Other receipts from investing activities	27,847
6,643	Total	(12,720)

GLOSSARY OF FINANCIAL TERMS

Accounting Policies

Those specific principles, bases, conventions, rules and practices applied that specify how the effects of transactions and other events are to be reflected in the financial statements.

Accruals

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Agent/Agency

Where the organisation is acting as an intermediary, as opposed to on its own behalf.

Amortisation

The accounting technique of recognising a cost or item of income in the Comprehensive Income and Expenditure Statement or the Movement in Reserves Statement over a period of years rather than when the initial payment is made.

Its purpose is to charge/credit the cost/income over the accounting periods that gain benefit for the respective item.

The technique is supported by relevant accounting policies and practices.

Amortised Cost

A method of determining the Balance Sheet carrying amount and periodic charges to the Comprehensive Income and Expenditure Statement of a financial instrument based on the expected cash flows of that instrument.

Capital Expenditure

Expenditure on the acquisition or enhancement of a non-current asset or capital advances and loans to other individuals or other third parties.

Capital Financing Requirement (CFR)

Introduced as a result of the Prudential Framework for Capital Accounting and measures the underlying need of the organisation to borrow for expenditure of a capital nature.

Capital Receipts

The proceeds from the sale of capital assets or repayment of capital advances.

Carrying Amount

The amount at which an asset is recognised after deducting any accumulated depreciation and impairment losses.

Cash Equivalents

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

Cash Flows

Inflows and outflows of cash and cash equivalents.

Community Assets

Assets that the organisation intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples include parks and public open spaces.

Contingent Asset

An asset arising from past events where its existence can only be confirmed by one or more uncertain events not wholly within the control of the organisation.

Contingent Liability

A condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events. Where a material loss can be estimated with reasonable accuracy a contingent liability is accrued in the financial statements. If, however, a loss cannot be accurately estimated or the event is not considered sufficiently certain, it will be disclosed in a note to the balance sheet.

Creditors

Financial liabilities arising from the contractual obligation to pay cash in the future for goods or services or other benefits that have been received or supplied.

Credit Risk

The possibility that one party to a financial instrument will fail to meet their contractual obligations, causing a loss to the other party.

Current Replacement Cost

The cost the organisation would incur to acquire the asset on the reporting date.

Current Service Cost (Pensions)

The increase in the present value of liabilities resulting from employee service in the period.

Curtailment (Pensions)

An event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- (i) termination of employees' services earlier than expected, for example as a result of closing or discontinuing a segment of a business; and
- (ii) termination of, or amendment to the terms of, a defined benefit plan so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

Debtors

Financial assets arising from the obligation to future cash receipt for goods or services or other benefits that have been delivered or provided.

Defined Benefit Plan

A pension or other retirement benefit plan other than a defined contribution plan. Usually, the plan rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the plan. The plan may be funded or un-funded (including notionally funded).

Depreciated Replacement Cost (DRC)

A method of valuation which provides the current cost of replacing an asset with its modern equivalent less deductions for all physical deterioration and all relevant forms of obsolescence.

Depreciation

The measure of the wearing out, consumption or other reduction in the useful life of a non-current asset over its useful economic life.

Discretionary Benefits

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the organisation's discretionary powers.

Existing Use Value (EUV)

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion assuming that the buyer is granted vacant possession of all parts of the property and disregarding potential alternative uses and any other characteristics that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

Fair Value

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction, less, where applicable, any grants receivable towards the purchase or use of the asset.

Financial Instrument

A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term covers both financial assets and financial liabilities and includes both the most straightforward financial assets such as trade receivables (debtors) and trade payables (creditors) and the most complex ones such as derivatives.

Typical financial instruments are:-

(i) Liabilities

- Trade payables
- Borrowings
- Financial Guarantees

(ii) Assets

- Bank deposits
- Trade receivables
- Loans receivable
- Investments

Finance Lease

A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee, with the asset then recognised the lessee's Balance Sheet.

Financing Activities

Activities that result in changes to the size and composition of the principal, received from or repaid to external providers of finance.

Going Concern

An assumption that the functions of Merseytravel will continue in operational existence for the foreseeable future.

Government Grants and Contributions

Assistance in the form of cash or transfers of resources to an Authority in return for past or future compliance with certain conditions relating to the operation of activities of Merseytravel.

Heritage Assets

The Heritage Assets are assets that are held by the organisation principally for their contribution to knowledge understanding and appreciation of the Borough's history and/or culture.

Historical Cost

Deemed to be the carrying amount of an asset as at 1 April 2007 or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment (if applicable).

IAS19

This International Accounting Standard (IAS) is based on the principle that an organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future.

Impairment

A reduction in the value of a non-current asset below its carrying amount on the balance sheet.

Infrastructure Assets

A class of non-current assets that are inalienable. Examples of infrastructure assets are bridges, roads and footpaths.

Intangible Fixed Asset

"Non-financial" fixed assets that do not have physical substance but are identifiable and are controlled by the organisation through custody or legal rights e.g. software licences.

Interest on Plan Assets (Pensions)

The annual investment return on the fund assets based on an average of the expected long-term return.

Interest on Plan Liabilities (Pensions)

The expected increase during the period in the present value of liabilities as the benefits move one year closer to being paid.

Inventories

The amount of unused or unconsumed stocks held in expectation of future use or resale.

Investing Activities

The acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Liquidity Risk

The possibility that one party will be unable to raise funds to meet its commitments associated with financial instruments.

Market Risk

The possibility that the value of a financial instrument will fluctuate because of changes in interest rates, market prices, foreign currency exchange rates, etc.

Market Value

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Material/Materiality

Omissions or misstatements are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Net Book Value

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amount provided for depreciation.

Net Realisable Value

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

Non-Current Assets

Assets that yield benefits to the organisation and the services it provides for a period of more than one year.

Non-Operational Assets

Non-current assets held by an organisation but not directly occupied, used or consumed in the delivery of services, or for the service or strategic objectives of the organisation.

Operating Activities

Activities of the organisation that are not investing or financing activities.

Operating Leases

A lease that does not transfer substantially all of the risks and rewards of ownership of a non-current asset to the lessee. The asset is recognised on the lessor's Balance Sheet. Expenditure financed by operating leasing does not count against capital allocations.

Past Service Cost/Gain (Pensions)

The increase or reduction in the present value of liabilities arising from decisions in the period whose effect relates to years of service earned in earlier periods.

Plan Liabilities (or plan defined benefit obligations)

The liabilities of a defined benefit plan for outgoings due after the valuation date. Plan liabilities measured using the projected unit credit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Price Risk

The risk that the value of financial instruments will fluctuate as a result of changes in market prices.

Projected Unit Credit (Actuarial Cost) Method

An accrued benefits valuation method in which the plan's liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the plan liabilities at the valuation date relate to:-

- (i) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and
- (ii) the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the method is given in the Guidance Note GN26 issued by the

Faculty and Institute of Actuaries. Under this method, the current service cost will increase as members of the plan approach retirement.

Provisions

A liability of uncertain timing or amount.

Refcus (Revenue Expenditure Financed From Capital Under Statute)

Expenditure that is classified as revenue in accordance with proper accounting practices, but which statute determines may be financed by Capital sources of funding.

Related Parties

Related parties are those individuals and entities that the organisation either has the potential to influence or control (or be influenced or controlled by). Related include central government, other bodies, its members and its chief officers.

Related Party Transaction

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. Related party transactions include the provision of services to a related party.

The materiality of related party transactions should be judged not only in terms of their significance to Merseytravel, but also in relation to its related party.

Re-Measurement (Pensions)

The changes in estimated assets and liabilities, assessed by the actuary and arising because:

- (i) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- (ii) the actuarial assumptions have changed.

Remuneration

The *Accounts and Audit Regulations 2015* require the disclosure of amounts paid to Officers and define remuneration as: -

‘.....all amounts paid to or receivable by a person, and includes sums due by way of expense allowance (so far as those sums are chargeable to United Kingdom income tax), and the estimated money value of any other benefits received by an employee otherwise than in cash.’

Retirement Benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either: -

- (i) an employer's decision to terminate an employee's employment before the normal retirement date; or
- (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Revenue Expenditure

This is money spent on the day-to-day running costs of providing services and includes salaries, goods and services.

It is usually of a constantly recurring nature and produces no permanent asset.

Senior Employees

Senior employees are defined under the Local Government and Housing Act 1989, however within Merseytravel this is deemed to be the Directors and Chief Executive.

Settlement (Pensions)

An irrevocable action that relieves the employer of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to affect the settlement. Settlement includes the transfer of scheme assets and liabilities relating to a group of employees leaving Merseytravel's scheme.

Termination Benefits

Amounts payable as a result of either:

- (i) an employer's decision to terminate an employee's employment before the normal retirement date; or
- (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits.

Useful Life

The period over which the organisation will derive benefits from the use of a non-current asset.