

**FIRST TRANSPENNINE EXPRESS LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2020**



**Company Registered  
Number: 09111801**

COMPANIES HOUSE

**27 OCT 2021**

EDINBURGH MAILBOX

# **FIRST TRANSPENNINE EXPRESS LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS 2020**

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**STRATEGIC REPORT****For the year ended 31 March 2020**

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The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

**Principal activities**

The company operates intercity passenger railway services in the north of England and in Scotland, connecting Manchester and Manchester Airport with Liverpool, Leeds, York, Newcastle, Sheffield, Hull, Preston, Glasgow and Edinburgh.

**Coronavirus Pandemic response**

In line with the wider UK rail industry, passenger volumes in the business reduced substantially from the second half of March 2020 as government advice and regulations changed, with revenue materially lower than the same period last year. Following consultation with the DfT, the industry began operating a reduced timetable from 23 March 2020.

The UK Government acted swiftly to sustain the country's rail networks during the pandemic, ensuring services could continue to be operated for essential workers to travel by rail to perform their vital roles. In addition, throughout the Coronavirus pandemic, the company has continued to use its position as part of the essential fabric of the communities in which it operates to deliver support and assistance during this challenging time. It is a responsible partner with customers and communities, and it works with community organisations across the network.

Prior to the end of the year, the DfT confirmed that an Emergency Measures Agreement (EMA) would be put in place and would provide support from 1 March 2020 through to 20 September 2020. This agreement was formally signed at the end of March 2020. On 19 September 2020 the DfT confirmed that it had extended its ongoing funding for Train Operating Companies (TOCs) and that this funding would be in the form of Emergency Recovery Measures Agreements (ERMAs), which are similar in operation to the EMAs, but with the fixed fee and overall fee potential lower under the new ERMA and more heavily weighted to performance delivery. In addition, the ERMAs also introduced additional operational and customer service metrics. The ERMA for Transpennine Express was initially in place until 31 March 2021 and was then extended until the end of May 2021.

On 30 May 2021 the new National Rail Contract (NRC) commenced, and the ERMA terminated on the same day. National Rail Contracts are the successors to the previous Franchise Agreements, enabling the Secretary of State to appoint private sector operators to run rail services in line with its statutory duties.

The NRC contract has a two-year term to 28 May 2023, with the option to extend by up to two further years to May 2025 at the DfT's discretion. Under the NRCs, the DfT will retain all revenue risk and substantially all cost risk. The company will receive a fixed annual management fee, plus a performance fee.

Please refer to the post balance sheet events section of the Directors' Report and note 21 to the financial statements for further details of the accounting considerations.

**STRATEGIC REPORT (CONTINUED)****For the year ended 31 March 2020**

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**Coronavirus Pandemic response (continued)****Business review**

In the year, the company's operating profit was £nil (2019: loss of £98k) with turnover increasing to £290.2m (2019: £268.6m). Passenger receipts grew by 0.4% (2019: 7.1%) over the year (2021: £257.4m versus 2019: £256.4m). Like-for-like passenger revenue growth was 1.4% and reflects the impacts of engineering and other new initiatives. However, results were seriously affected by the Coronavirus Pandemic, as passenger volumes decreased very rapidly during the final weeks of the financial year due to the actions taken by governments to control the outbreak.

Although the company delivered growth and traded ahead of expectations during the first half of the year, in the second half it experienced difficult operating conditions due to the delayed delivery of the new trains and infrastructure issues affecting performance. In the final period of the year, as a result of the Covid pandemic, the company then entered into revised contractual arrangements (the Emergency Measures Agreement (EMA)) with the Department for Transport (DfT) that protected the company from the financial effects of the pandemic.

The company was able to achieve a major commitment by introducing a new direct Liverpool-Glasgow service in December 2019, although further key changes which were included in the original bid have not yet taken place due to industry-wide decisions not to alter timetables at the scale originally envisaged. Revised plans for transforming the TPE network are continuing and all of the company's new trains are now expected to be delivered within the next 12 months.

During the year, the company implemented "Delay Repay 15" giving passengers improved compensation when services are disrupted.

**Future outlook**

This National Rail Contract (NRC) with the (DfT) has a term of 2 years until 28 May 2023. After this period, the Secretary of State has the right to extend it for another 2 years.

The long-term ambition for the NRC is to enable the company to continue to evolve into the true intercity operator for the North. To that end, capacity has been significantly increased with the company introducing the first of 220 new carriages from late 2019, comprising Hitachi Intercity Express-type trains and a further intercity fleet from CAF.

**Going concern**

The directors are required to state whether they consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements and identify any material uncertainties to the company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

**STRATEGIC REPORT (CONTINUED)****For the year ended 31 March 2020**

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**Background for going concern**

First Transpennine Express Limited is a business that provides essential services to the communities it serves. Continuity of transport is proving essential to governments, local communities and many customers during the coronavirus pandemic. It will also be critical to the return to normal conditions when the present uncertain situation is overcome. The funding received from government to sustain services through the EMA and subsequently the ERMA / NRC, is testament to the importance of the offering to customers.

Government and stakeholders recognised the need to reduce services as passenger demand declined rapidly when lockdown orders were made. They also recognised that it was critical to provide funding to maintain essential services for key workers to get to their place of work, and to preserve the ability to restore services quickly when required. Since the nadir of service levels in March 2020, increased service levels have been reintroduced in stages with additional government support.

The impact of the Coronavirus on the business and the support being provided by government will continue to evolve throughout the coming months. The continued impact of the Coronavirus Pandemic on the wider economy and the transport sector within the market in which the business operates, remains unclear. Under the ERMA, and now the NRC, the government takes all revenue risk and substantially all cost risk and pays a fixed management fee with the potential for an additional performance fee.

**Going concern assessment**

The directors used the financial forecasts prepared for business modelling and liquidity purposes as the basis for their assessment of the company's ability to continue as a going concern for the twelve months from the date of approval of the financial statements.

The major assumptions and key areas of judgement incorporated in the modelling included:

- the likelihood of a coronavirus impact in the UK remaining in place for the foreseeable future;
- the terms of the NRC to 28 May 2023; and
- the timing of working capital flows.

These financial forecasts included the terms of the NRC with the business seeing a gradual return in passenger revenues.

Given the extent to which the current terms of the NRC underpins the business at the present levels of passenger demand and the fact the company bears no revenue risk and very limited cost risk under an annual budget agreed with the DfT, it was not felt necessary to run alternative stress tests.

**STRATEGIC REPORT (CONTINUED)****For the year ended 31 March 2020**

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**Going concern assessment (continued)**

As at 31 March 2020, the company had net current liabilities of £17.9m and net liabilities of £101.9m. As at 18 September 2021 (end of period 6), the company had net current liabilities of £10.6m and net liabilities of £41.5m based on the unaudited management accounts. At the date of signing these financial statements, a letter of support has been provided by the ultimate parent company, FirstGroup plc, stating that it will provide the company with funding up to the limit of the contingent commitments (for parent company support (£63.7m) and performance bond (£17.1m)) as set out in the Funding Deed, details of which are disclosed in note 19, Contingent liabilities. The directors have made enquiries and understand that the parent company has adequate resources to be able to provide this financial support for a period of at least twelve months from the date of approval of these financial statements.

**Going concern statement**

Based on their review of the financial forecasts and having regard to the risks and uncertainties to which the company is exposed the directors believe that the company has adequate resources to continue in operational existence for the twelve month period from the date on which the financial statements were approved. Accordingly, the financial statements have been prepared on a going concern basis.

**Key Performance Indicators**

The key non-financial performance indicators are as follows:

Train operating performance was 7.48% below targeted levels in 2019/20 with our industry standard public performance measure (PPM) moving average score standing at 76.50% (2019: 76.31%). PPM is determined by the number of trains which arrive at destination within the individual train operating company benchmark target.

This figure was impacted by Network Rail engineering works across the network and the introduction of the December 2019 timetable change.

In the latest independent Transport Focus National Rail Passenger Spring Survey, the company saw a customer satisfaction year-on-year increase to 79% (2019: 73%) against a target of 85% (2019: 85%). The result was heavily influenced by the performance issues experienced in 2019.

The introduction of the new fleets and the roll out of new ticketing purchase channels will make the transformation of the TPE network a reality for our customers.

The company's average headcount in the year increased to 1,321 (2019: 1,175), an increase of 12.4%. This increase is mainly due to the recruitment of additional drivers and conductors to facilitate the December 2019 timetable.

The company measures employee engagement via 'Your Voice', its annual staff survey. The overall engagement level in 2020 was 64% (2019: 53%) against a target of 60%. This was a welcome improvement in employee engagement and a satisfactory result from the improvement plan that was implemented last year.

**STRATEGIC REPORT (CONTINUED)****For the year ended 31 March 2020**

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**Principal risks and uncertainties**

The company will be subject to the following principal risks and uncertainties over the NRC period.

**National Rail Contracts**

National Rail Contracts are a new contract structure for agreements between train operating companies and the DfT and the contract for TPE is amongst the first wave of NRCs to be announced. NRCs replace the previous revenue risk-based franchising system. The NRC has a primary two-year term to the end of May 2023, with an option to be extended by up to two further years at the DfT's discretion.

Under the NRC, the operating company bears no revenue risk and very limited cost risk under an annual budget agreed with the DfT. Contractual change mechanisms exist that allow the budget to be increased for items outside of the operating company's control or changes requested by the DfT.

Annual fees on NRCs consist of a fixed management fee plus performance fee based mainly on the delivery of customer-focused performance metrics. The punctuality and other operational targets required to achieve the maximum level of performance fee are designed to incentivise the highest level of performance for customers.

**Information Technology**

The company relies on information technology in all aspects of its business. Any significant disruption or failure, caused by external factors, denial of service, computer viruses or human error could result in a service interruption, accident or misappropriation of confidential information (including credit card and personal data).

Process failure, security breach or other operational difficulties may also lead to revenue loss or increased costs, fines, penalties or additional insurance arrangements, which under the National Rail Contract may potentially be a disallowable cost – and therefore not covered by the contractual funding terms. In serious cases this may also lead to a non-compliance with the NRC terms and associated contractual penalties. To mitigate this risk, the company has extensive security controls in place which, in conjunction with policy and procedures, are designed to enhance the resilience and security of the company's information technology systems and the data they contain.

**STRATEGIC REPORT (CONTINUED)****For the year ended 31 March 2020**

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**Legislation and regulation**

The business is subject to numerous laws regulating safety procedures, equipment specifications, employment requirements, environmental procedures, insurance coverage and other operating issues and considerations. These laws and regulations are constantly subject to change. The costs associated with complying with the adoption of new legislation, regulations or other laws could adversely impact the results of our operations. To help mitigate the risk of legislative or regulatory changes the company and FirstGroup plc have embedded operating policies and procedures to ensure compliance with existing legislation and regulation. FirstGroup plc actively engages with the relevant bodies and policy makers to ensure that we are properly positioned to respond to any proposed changes.

**Coronavirus Pandemic**

Coronavirus has impacted and will continue to impact some of the business's key risk areas, notably:

- The first priority from the start of the coronavirus outbreak was the health and safety of the company's employees, passengers and the communities in which it operates. The business, in conjunction with FirstGroup, took rapid action to apply the advice of governments and health authorities, including implementing additional cleaning regimes and the provision of advice to passengers. At the same time, steps were taken to ensure the business could continue to provide essential transport services so that key workers and people who needed to travel could still do so safely.
- The business worked closely with suppliers to ensure it had the appropriate equipment in place, in line with relevant public health authority guidance for operations. It followed, and in some cases developed, best practice in areas such as the cleaning and decontamination of trains, stations, depots and offices.
- Through the EMA and subsequently the ERMA, the government put in place comprehensive emergency measures in order to maintain continuity of critical rail services and support the ongoing recovery from the pandemic. This led to additional regulatory reporting requirements and the subsequent need for internal process to ensure compliance. The new NRC continues to embed enhanced reporting and compliance requirements, with the potential for contractual penalties in the case of non-compliance.
- Information technology professionals have been required to provide remote access to enable a significant proportion of office-based staff to work from home. This is expected to continue to some extent as working practices evolve.

**Customer service**

Although revenue risk does not sit with the company under the terms of the NRC, the company has an obligation to continue to drive customer revenue recovery and this is reflected in the criteria of the Performance Fee potential. Revenues are at risk if the company does not continue to provide the level of services expected by customers. Ongoing engagement with customers and community stakeholders takes place across the network, including through 'meet the manager' events, customer panels, consultations and local partnerships. The Board also monitors customer service KPIs to ensure that strict targets are being met.

**STRATEGIC REPORT (CONTINUED)****For the year ended 31 March 2020**

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**Data security**

All business sectors are targeted by increasingly sophisticated cyber security attacks. Across the business, there is increased use of website and internet sales channels which gather large amounts of data and therefore the risk of unauthorised access to, or loss of, data in respect of employees or customers is growing. A failure to comply with the General Data Protection Regulations, which came into force in May 2019, could result in significant penalties – potentially a disallowable cost under the terms of the NRC - and could have an adverse impact on consumer confidence in the business. There are threat detection systems across the business, and it continues to remain vigilant to security improvements when identified.

**Compliance, litigation and claims, health and safety**

The company's operations are subject to a wide range of legislation and regulation. Failure to comply can lead to litigation, claims, damages, fines and penalties. The company has three main risks: third party injury and other claims arising from general operations, employee injuries and property damage. A higher volume of litigation and claims can lead to increased costs and reputational impact. The financial risk under the terms of the NRC is for such costs to be determined as disallowable and therefore falling outside of the funding terms, as well as the risk of non-compliance with contractual terms. The company has a very strong focus on safety, and it is one of its five values. It self-insures third party and employee injury claims, up to a certain level commensurate with the historical risk profile. It purchases insurance above these limits from reputable global insurance firms and claims are managed by experienced claims handlers. Non-insured claims are managed by FirstGroup plc's dedicated in-house legal teams with external assistance as appropriate.

**Employee costs and relations**

Labour costs represent a significant component of the company's operating costs. Labour shortages, or low unemployment rates, could hinder the company's ability to recruit and retain qualified employees creating risk against operational delivery and the ability to deliver contractual commitments within the National Rail Contract. Industrial action could further adversely impact customer service.

To mitigate this risk, the company seeks to structure its recruitment and retention policies, training schemes and working practices. Employees are key to service delivery and therefore it is important that good employee relations are maintained.

Working practices include building communication and engagement with trade unions and the wider workforce. Examples of this engagement include regular leadership conferences, employee surveys and the presence of an Employee Director (voted for by the employees to represent them) on the company's board.

**Severe weather and natural disasters**

Across the network the business is experiencing greater and more frequent adverse weather disruption impacting service levels. It has severe weather action plans and procedures to manage the impact on operations.

**STRATEGIC REPORT (CONTINUED)****For the year ended 31 March 2020**

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**Terrorism**

The threat from terrorism is enduring and continues to exist. Public transport continues to be regarded as an attractive and viable target. Across the business, all reasonable steps are taken to help guard against such activity on the services operated.

An attack, or threat of attack, could lead to reduced public confidence in public transportation, and/or specifically in the company's security and safety record and could reduce demand for services, increase security requirements and cause operational disruption. The company has a Head of Security who is responsible for improved security awareness, the application of good practice in the implementation of security measures, and the development and training of employees so that they can respond effectively to any perceived threat or incident.

**Companies Act 2006 Section 172 Statement**

The directors have a duty to promote the success of the company for the benefit of its members as a whole. The Board understands the need to act fairly between the members of the company when assessing the consequences of a decision over the longer term. The Board believes that its key stakeholders are:

- Customers
- Investors (First Rail Holdings and, ultimately, FirstGroup plc)
- Government and political stakeholders
- Our People
- Communities
- Strategic partners and suppliers

The Board believe that strong engagement, collaboration and dialogue are critical to the effectiveness of our long-term relationships with key stakeholders. The company Board has adopted the FirstGroup processes, policies and governance structures that are relevant to our business and contributes to their development and refinement. The company also has an independently chaired Advisory Board that consists of some key stakeholders and meets regularly over the year.

**Financial risk management objectives and policies**

The company's principal financial assets are the bank balance, trade debtors and amounts receivable from the DfT (amounts recoverable on contracts and EMA funding). The company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts. The company has no significant concentration of credit risk, with exposure spread over a large number of customers. The credit risk on liquid funds is limited because the counterparties are banks.

The company continues to have an acceptable level of liquidity as, in the rail industry, the vast majority of turnover transactions are paid for in advance and shortfalls in working capital are covered by the DfT as part of the EMA, ERMA and NRC agreements.

The company undertakes detailed regular cash re-forecasting processes and considers that the facilities it has access to, and the letter of support provided by FirstGroup plc detailed in the Going Concern Assessment on page 4, provide sufficient liquidity to meet its obligations.

**STRATEGIC REPORT (CONTINUED)****For the year ended 31 March 2020**

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**Engaging ethically**

In line with the company's values and the expectations of its customers and partners, it is committed to conducting relationships with stakeholders with high ethical and moral standards in all its interactions. Its values and ethical commitment shape not only what it does, but also how it does it.

The company has adopted the FirstGroup Code of Ethics which applies to everybody working for, or on behalf of, the company. The code sets out the standards that customers and stakeholders expects of it, and what is expected of each other. It is supported by detailed policies and procedures which are implemented and managed by the senior management team, including our Code of Conduct on Anti-Slavery and Human Trafficking Prevention and our Anti-Bribery Policy.

The company is committed to recognising human rights. It is committed to the prevention of modern slavery and human trafficking in all its forms, which extends to all business dealings and transactions in which it is involved. It has a zero-tolerance approach to any violations within the company or by business partners.

The company has a zero-tolerance approach to bribery, and never offers or accepts any form of payment or incentive intended to improperly influence a business decision. Equally, it supports free and open competition, gaining competitive advantage by providing the highest level of service, not through unethical or illegal business practices.

The company has internal control systems and procedures in place to counter bribery and corruption. Similarly, it respects and protects the privacy of its customers, employees and stakeholders, and is committed to conducting business in accordance with all applicable data protection legislation, including the General Data Protection Regulation and the UK Data Protection Act. It has an externally managed whistleblowing service for colleagues available with a helpline (online and phone-based) for the anonymous reporting of suspected wrongdoing or dangers at work. All reported issues or concerns to the hotline are taken seriously and investigated as appropriate, ensuring that confidentiality is respected at all times.

The primary methods in which the company engages with its stakeholders are outlined below:

**Customers**

- Regular customer and passenger satisfaction surveys to identify what is done well and where it can improve
- Robust customer feedback processes through online and traditional channels
- Customer panels and events
- Ongoing dialogue with customer representative groups

**Investors**

- Alignment of strategy and the governance structure to deliver the strategy
- Agreement on budgets and forecasts and the reporting of actual performance

**Government and political stakeholders**

- Engagement with industry forums
- Direct engagement with policymakers
- Strong links with national and regional governments
- Surveys of political stakeholders

**STRATEGIC REPORT (CONTINUED)**

**For the year ended 31 March 2020**

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**Engaging ethically (continued)**

**Our People**

- Regular 'Your Voice' employee engagement surveys
- Dialogue with employee representatives, including with our Employee Director and the trade unions
- Inductions, onboarding sessions and employee handbooks
- Multiple internal communications channels, including the company intranet, briefings, newsletters and company employee mobile apps
- Individual performance reviews and development discussions or Time with Your Manager meetings

**Communities**

- Targeted engagement plans and activities
- Regular dialogue, events and direct engagement activities
- Stakeholder reports and surveys
- Community investment, charitable engagement and employee volunteering

**Strategic partners and suppliers**

- Regular dialogue with key partners
- Collaboration in cross-industry forums
- Certified systems for collaborative supplier relationships
- Clear ethical and sustainability standards

Below we describe the effect of having regard to Section 172 on First Transpennine Express Limited's decisions and strategies during the financial year with further details included in the strategic report section:

- During March 2020 and continuing to the date of this report the company engaged with the DfT, union leaders, employee representatives and FirstGroup to establish a revised timetable which provided ongoing rail access to key workers to allow them to get to work. The revised timetable also allowed the company to minimise ongoing exposure to the virus for the company's on-train employees through a reduction of the onboard services being provided.
- In addition, new cleaning regimes were established in stations, on trains and in offices to lower the risk of infection for both passengers and employees. The company also procured additional IT equipment to enable office-based staff to work from home to help mitigate the risk of the infection spreading within the office environments.
- Further details of the contractual changes agreed with the DfT are disclosed in the Coronavirus Pandemic response section above.

Approved by the Board of Directors  
And signed on behalf of the Board

8<sup>th</sup> Floor  
The Point  
37 North Wharf Road  
London  
W2 1AF



Carolann James  
Director  
25 October 2021

**DIRECTORS' REPORT****For the year ended 31 March 2020**

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The directors have pleasure in submitting their annual report and financial statements for the year ended 31 March 2020.

**Matters included in the strategic report**

In accordance with s414C (11) of the Companies Act, included in the Strategic Report is information relating to the future developments and going concern of the business which would otherwise be required by Schedule 7 of the 'Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008' to be contained in a Directors' Report.

In accordance with section 414C (11) the directors have opted to disclose certain components in the Strategic Report which otherwise would be required to be disclosed in the Directors' Report under section 416.

**Results and dividends**

The results for the year are given in the profit and loss account on page 18.

No dividends were declared during, or after the year (2019: £nil).

**Directors**

The directors, who held office throughout the year and to date, unless otherwise stated, are as follows:

Clive Burrows	
Hugh P Clancy	
Darren C Higgins	
Leo D Goodwin	(resigned 03 March 2020)
Elizabeth A Collins	(resigned 01 June 2021)
Kevin Gardner	(resigned 29 May 2020)
Michael J Nelson	(appointed 01 June 2020)
Matthew L Golton	(appointed 01 June 2021)
Alan A Watkins	(appointed 05 September 2019)
Stephen Montgomery	
Carolann James	(appointed 10 September 2020)

**Employee consultation**

Communication with employees is undertaken mainly through regular briefing and negotiating meetings between the directors, the senior management and employee representatives on the company council committees. The briefing meetings enable senior management to consult employees and to ascertain their views on matters likely to affect their interests. The company also holds regular focus groups on pertinent issues. The annual employee survey allows the company to receive direct feedback from the employees in terms of their engagement with the business. This then leads into action plans to build on strengths and to address any weaknesses. The company Reward & Recognition schemes also seeks to increase employee engagement.

Additional information about employee numbers and costs is found in note 4.

**DIRECTORS' REPORT (CONTINUED)****For the year ended 31 March 2020**

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**Disabled persons**

The company recognises its obligations to give disabled people full and fair consideration for all vacancies within the statutory medical requirement, which have to be met for certain grades of staff. Wherever reasonable and practicable, the company will retain newly disabled employees and at the same time provide full and fair opportunities for the career development of disabled people.

**Directors' Indemnities**

The Company's ultimate parent company, FirstGroup plc, has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

**Post Balance sheet events**

The company entered into two Settlement Agreements with DfT in May 2021 that finalised the Franchise premium adjustments relating to the period before the start of the Emergency Measures Agreement on 1 March 2020. These Settlement Agreements were negotiated after 31 March 2020 and are treated as non-adjusting events.

The Emergency Measures Agreement (EMA), effective from 1 March 2020, transferred all revenue and cost risk to the government for an initial period to 20 September 2020. The EMA was replaced with an Emergency Recovery Measures Agreement (ERMA) that expired at 01.59 on 30 May 2021. At 02.00 on 30 May 2021 the National Rail Contract (NRC) with the DfT commenced.

Under the NRC the government takes revenue risk and a level of cost and contingent capital risk that is capped (subject to contractual changes) and pays a fixed management fee with the potential for an additional performance fee. This provides the company ongoing protection from the continuing loss of revenues resulting from Coronavirus.

The company has an onerous contract provision of £52.2m as at 31 March 2020, as described in note 15, to cover future unavoidable losses under the original Franchise Agreement and has been measured based on the contractual terms in existence at that date. The termination of the Franchise Agreement on 30 May 2021 and Termination Sum of £nil agreed with the DfT removes the expectation of future unavoidable losses under the contract and this has resulted in the subsequent release of the onerous contract provision of £52.2m.

The company has also agreed amounts recoverable on contracts (as detailed in note 13) and franchise related accruals (as detailed in note 14) as part of the Settlement Agreements with the DfT in May 2021, the net impact of which was a subsequent credit to the profit and loss account of £7.9m.

The company has concluded that the termination of the ERMA-amended Franchise Agreement and the Settlement Agreements constitute non-adjusting post balance sheet events and has therefore not reflected the financial impact of these Settlement Agreements in the financial statements for year ended 31 March 2020. Please refer to note 21.

**DIRECTORS' REPORT (CONTINUED)**

**For the year ended 31 March 2020**

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**Audit information**

Each of the directors at the date of approval of this report confirms that:

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

**Auditor**

The Company has passed an elective resolution dispensing with the requirement to appoint an auditor annually. During the year a new audit firm has been selected to succeed Deloitte LLP, who have been the auditors of the Company since 2017. As a result, PricewaterhouseCoopers LLP has indicated their willingness to act as auditor to the Company from the date of these Accounts and are therefore deemed appointed.

Approved by the Board of Directors  
And signed on behalf of the Board

8<sup>th</sup> Floor  
The Point  
37 North Wharf Road  
London  
W2 1AF



Carolann James  
Director  
25 October 2021

**DIRECTORS' RESPONSIBILITIES STATEMENT**

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The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

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

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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST  
TRANSPENNINE EXPRESS LIMITED**

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**Report on the audit of the financial statements**

**Opinion**

In our opinion the financial statements of First Transpennine Express Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (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**

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST TRANSPENNINE EXPRESS LIMITED (CONTINUED)**

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**Other information**

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, 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 respect of these matters.

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST  
TRANSPENNINE EXPRESS LIMITED (CONTINUED)**

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**Report on other legal and regulatory requirements**

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

**Matters on which we are required to report by exception**

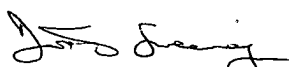
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

**Use of our report**

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



David Sweeney CA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Statutory Auditor  
Glasgow, United Kingdom

27 October 2021

**PROFIT AND LOSS ACCOUNT**  
**For the year ended 31 March 2020**

	Note	2020 £000	2019 £000
Turnover	2	290,248	268,616
Operating costs			
– General	3	(290,036)	(268,532)
– Intangible asset amortisation		(212)	(182)
<b>Total operating costs</b>	3	<u>(290,248)</u>	<u>(268,714)</u>
<b>Operating loss</b>		-	(98)
Net interest payable	7	(3,531)	(1,749)
<b>Loss before taxation</b>	8	<u>(3,531)</u>	<u>(1,847)</u>
Tax	9	<u>(3,054)</u>	<u>710</u>
<b>Loss for the financial year</b>		<u><u>(6,585)</u></u>	<u><u>(1,137)</u></u>

All activities relate to continuing operations.

**STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 31 March 2020**


	Note	2020 £000	2019 £000
Loss for the financial year		(6,585)	(1,137)
Actuarial gain/(loss) due to scheme assets and liabilities	20	36,024	(18,591)
Actuarial (loss)/gain due to rail franchise adjustment	20	<u>(36,024)</u>	<u>18,591</u>
Total other comprehensive income for the year		<u>-</u>	<u>-</u>
Total comprehensive expense for the year		<u><u>(6,585)</u></u>	<u><u>(1,137)</u></u>

**BALANCE SHEET**  
**At 31 March 2020**

	Note	2020		2019	
		£000	£000	£000	£000
<b>Fixed assets</b>					
Intangible assets	10		2,226		2,438
Tangible assets	11		<u>24,863</u>		<u>22,951</u>
			27,089		25,389
<b>Current assets</b>					
Stock	12	114		132	
Debtors	13	108,636		103,951	
Cash at bank and in hand		<u>55,968</u>		<u>82,654</u>	
		164,718		186,737	
<b>Creditors: amounts falling due within one year</b>	14	(181,907)		(177,657)	
<b>Provisions for liabilities: amounts falling due within one year</b>	15	(680)		(30,380)	
<b>Net current liabilities</b>			<u>(17,869)</u>		<u>(21,300)</u>
<b>Total assets less current liabilities</b>			<u>9,220</u>		<u>4,089</u>
<b>Creditors: amounts falling due after more than one year</b>	14		(59,009)		(22,267)
<b>Provisions for liabilities: amounts falling due after more than one year</b>	15		<u>(52,155)</u>		<u>(77,181)</u>
<b>Net liabilities excluding pension liability</b>			(101,944)		(95,359)
Pension liability	20		-		-
<b>Net liabilities</b>			<u>(101,944)</u>		<u>(95,359)</u>
<b>Capital and reserves</b>					
Called up share capital	17		-		-
Profit and loss account			(101,944)		(95,359)
<b>Shareholder's deficit</b>			<u>(101,944)</u>		<u>(95,359)</u>

The accompanying notes on pages 21 to 43 are an integral part of these financial statements.

The financial statements of First Transpennine Express Limited (Company Number: 09111801) on pages 18 to 43 were approved by the Board of Directors on 25 October 2021 and were signed on its behalf by:

  
Carolann James  
Director

**STATEMENT OF CHANGES IN EQUITY**  
**At 31 March 2020**

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	<b>Called up share capital £'000</b>	<b>Profit and loss account £'000</b>	<b>Total £'000</b>
<b>Balance at 1 April 2018</b>	-	(94,435)	(94,435)
Loss for the financial year		(1,137)	(1,137)
Capital contribution arising from interest on loan (note 14)	-	115	115
Share-based payments (note 6)	-	98	98
	<hr/>	<hr/>	<hr/>
<b>Balance at 31 March 2019</b>	-	(95,359)	(95,359)
Loss for the financial year		(6,585)	(6,585)
	<hr/>	<hr/>	<hr/>
<b>Balance at 31 March 2020</b>	-	(101,944)	(101,944)
	<hr/>	<hr/>	<hr/>

**1 Principal accounting policies**

The following accounting policies have been applied consistently throughout the current and preceding year:

**(a) General information**

First Transpennine Express Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act and registered in England and Wales. The registered office address is 8<sup>th</sup> Floor, The Point, 37 North Wharf Road, London, W2 1AF.

The functional currency of the company is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

**(b) Basis of preparation**

The financial statements have been prepared under a historical cost convention and on a going concern basis as described in the Strategic Report on page 3; and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available. Exemptions have been taken in relation to share-based payments, financial instruments, presentation of a cash-flow statement, intra group transactions and remuneration of key management personnel.

**(c) Going concern**

The directors are required to state whether they consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements and identify any material uncertainties to the company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements

**Background for going concern**

First Transpennine Express Limited is a business that provides essential services to the communities it serves. Continuity of transport is proving essential to governments, local communities and many customers during the coronavirus pandemic. It will also be critical to the return to normal conditions when the present uncertain situation is overcome. The funding received from government to sustain services through the EMA and subsequently the ERMA / NRC, is testament to the importance of the offering to customers.

Government and stakeholders recognised the need to reduce services as passenger demand declined rapidly when lockdown orders were made. They also recognised that it was critical to provide funding to maintain essential services for key workers to get to their place of work, and to preserve the ability to restore services quickly when required. Since the nadir of service levels in March 2020, increased service levels have been reintroduced in stages with additional government support.

The impact of the coronavirus on the business and the support being provided by government will continue to evolve throughout the coming months. The continued impact of the Coronavirus Pandemic on the wider economy and the transport sector within the market in which the business operates, remains unclear. Under the ERMA, and now the NRC, the government takes all revenue risk and substantially all cost risk and pays a fixed management fee with the potential for an additional performance fee.

**1 Principal accounting policies (continued)**

**(c) Going concern (continued)**

**Going concern assessment**

The directors used the financial forecasts prepared for business modelling and liquidity purposes as the basis for their assessment of the company's ability to continue as a going concern for the twelve months from the date of approval of the financial statements.

The major assumptions and key areas of judgement incorporated in the modelling included:

- the likelihood of a coronavirus impact in the UK remaining in place for the foreseeable future;
- the terms of the NRC to 28 May 2023; and
- the timing of working capital flows.

These financial forecasts included the terms of the NRC with the business seeing a gradual return in passenger revenues.

Given the extent to which the current terms of the NRC underpins the business at the present levels of passenger demand and the fact the company bears no revenue risk and very limited cost risk under an annual budget agreed with the DfT, it was not felt necessary to run alternative stress tests.

As at 31 March 2020, the company had net current liabilities of £17.9m and net liabilities of £101.9m. As at 18 September 2021 (end of period 6), the company had net current liabilities of £10.6m and net liabilities of £41.5m based on the unaudited management accounts. At the date of signing these financial statements, a letter of support has been provided by the ultimate parent company, FirstGroup plc, stating that it will provide the company with funding up to the limit of the contingent commitments (for parent company support (£63.7m) and performance bond (£17.1m)) as set out in the Funding Deed, details of which are disclosed in note 19, Contingent liabilities. The directors have made enquiries and understand that the parent company has adequate resources to be able to provide this financial support for a period of at least twelve months from the date of approval of these financial statements.

**Going concern statement**

Based on their review of the financial forecasts and having regard to the risks and uncertainties to which the company is exposed the directors believe that the company has adequate resources to continue in operational existence for the twelve month period from the date on which the financial statements were approved. Accordingly, the financial statements have been prepared on a going concern basis.

**(d) Tangible fixed assets and depreciation**

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

Depreciation is provided to write off the cost less residual value of tangible fixed assets over the shorter of their estimated useful economic lives or the duration of the franchise. Our depreciation policy is as follows:

Plant and equipment - 3 to 10 years straight line/duration of franchise

Depreciation is not charged on assets under construction.

**1 Principal accounting policies (continued)**

**(e) Intangible fixed assets and amortisation**

Intangible fixed assets are stated at cost, net of amortisation and any provision for impairment. Amortisation is provided to write off the cost less residual value of intangible fixed assets over the shorter of their estimated useful economic lives or the duration of the franchise. Our amortisation policy is as follows:

Computer software - 3 to 5 years straight line/duration of franchise

**(f) Leases**

All leases are operating leases and the rental charges are taken to the profit and loss account on a straight-line basis over the life of the lease.

**(g) Taxation**

UK corporation tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

The taxation liability is reduced wholly or in part by the surrender of losses by group undertakings. The tax benefits arising from group relief are recognised in the financial statements of the surrendering undertaking.

The credit for taxation is based on the loss for the year and takes into account taxation deferred because of temporary differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is not provided on temporary differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

**(h) Turnover**

Turnover (Revenue) is recognised at the fair value of the consideration received or receivable for services provided in the normal course of business and is shown net of VAT where appropriate.

**Passenger revenue**

The company has one principal class of business, namely, the provision of passenger transport services. Passenger revenues primarily relate to ticket sales and is attributable to the Company predominantly based on models of route usage, by the Railway Settlement Plan. Passenger revenue is recognised at both a point in time and over time. Ticket sales for season tickets, travel cards and open-return tickets are initially deferred then recognised over the period covered by the relevant ticket. Concessionary amounts are recognised in the period in which the service is provided

**Rail franchise subsidy receipts**

The Company's turnover also includes franchise subsidy receipts from the Department for Transport (DfT) and amounts receivable under franchise arrangements including certain funded operational projects. Amounts receivable from the DfT are set out in the franchise agreement for each year of the franchise, but have been adjusted to reflect arrangements under the EMA. Net EMA funding including management and performance fees are recognised as revenue in Rail franchise subsidy receipts as well, in line with other franchise subsidy receipts from the DfT.

**1 Principal accounting policies (continued)**

**(h) Turnover (continued)**

**Other Revenue**

The Company recognises other revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity; and (e) when the specific criteria relating to the each of company's sales channels have been met.

Turnover from non-passenger receipts include rents receivable on property, commission on ticket sales, advertising receipts and other sundry income.

**(i) Financial assets and liabilities**

All financial assets and liabilities are measured at transaction price (including transaction cost). All the financial assets and liabilities are classified as 'basic' under Section 11 of FRS 102. Instruments classified as 'basic' financial instruments are measured subsequently at amortised cost using the effective interest method.

**(j) Impairment of financial assets**

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised

**(k) Stocks**

Stocks are valued at the lower of cost and net realisable value. Provision is made for obsolete and slow moving or defective items where appropriate.

**(l) Pension costs**

**Company specific schemes**

The company participates in the Railways Pension Scheme (RPS), which an industry wide defined benefit scheme and is held in separately administered funds.

The amounts charged to operating profit regarding the defined benefit scheme are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs.

**1 Principal accounting policies (continued)**

**(l) Pension costs (continued)**

**Company specific schemes (continued)**

Past service costs are recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested. Where changes to the benefits in payment on defined benefit pension schemes require a change in scheme rules or ratification by the Trustees, the change is recognised as a past service charge or credit in the profit and loss account.

Where changes in assumptions can be made without changing the Trustee agreement these are recognised as a change in assumption in other comprehensive income.

Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

Pension scheme assets are measured at fair values and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability is presented separately after other assets on the face of the balance sheet.

The company also operates a defined contribution scheme for all qualifying members. Expenses from the schemes are charged to the profit and loss account.

**Rail franchise adjustment**

In calculating the company's pension obligation in respect of the Railways Pension Scheme (RPS), the company's total pension deficit in accordance with FRS 102 Section 28 has been calculated. This deficit is reduced by a 'franchise adjustment' which is that portion of the deficit which is projected to exist at the end of the franchise and for which the company is not required to fund. The franchise adjustment, which has been calculated by FirstGroup's actuaries, is offset against the present value of the RPS liabilities so as to fairly present the financial performance, position and cash flow of the company's obligations. Allowance is also made in the preparation of the financial statements for the cost sharing nature of the benefit and in particular, only 60% of the total profit and loss charge and balance sheet position are attributed to the company and recognised in the accounts.

**(m) Share based payments**

The company's ultimate parent issues equity-settled share-based payments to certain of the company's employees. Equity-settled share-based payments are measured at fair value at the date of grant.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest and is adjusted for the effects of non-market based vesting conditions. Fair value is measured by the use of a Black-Scholes pricing model or other appropriate valuation models. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

**1 Principal accounting policies (continued)**

**(n) Capital grants**

Capital grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. All other grants are credited to the profit and loss account as the related expenditure is incurred.

**(o) Impairment**

Assets should be reviewed for impairment when circumstances indicate that an asset value may be impaired. When an asset's carrying value exceeds its recoverable amount, it must be written down to the recoverable amount. The write-down should be recognised in the profit and loss account as an impairment expense. The recoverable amount of plant and equipment in most cases is net selling price. After the recognition of an impairment loss, the depreciation charge for the asset should be adjusted in future periods to allocate the asset's carrying amount, on a straight-line basis, over its remaining useful life.

**(p) Future ticket deferral**

Where season tickets or railcards are issued in excess of one week's duration, the attributable share of income is deferred within creditors and is recognised in the profit and loss account over the period covered by the season ticket or railcard. Income from advanced purchase and other ticket types is recognised in the profit and loss account on the date of travel.

**(q) Provisions**

Provisions are recognised when the company has a present obligation as a result of a past event and it is probable that the company will be required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material. Obligations are recognised as provisions where the timing or amount to be settled is uncertain. Provisions are split between those falling due within one year and those falling due in one year.

**(r) Critical accounting judgements and key sources of estimation uncertainty**

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

In the process of applying the company's accounting policies as described above, management have made the following judgements and estimates that have the most significant effect on the amounts recognised in the financial statements.

**1 Principal accounting policies (continued)**

**(i) Critical accounting judgements**

**Defined benefits pension arrangements**

The company operates a Railways Pension Scheme (RPS). RPS is a defined benefit pension scheme which covers the whole of the UK rail industry. In contrast to the pension schemes operated by most businesses the RPS is a shared cost scheme which means that costs are formally shared 60% employer 40% employee. The company only recognises amounts in relation to its share of costs in the profit and loss account. The RPS is partitioned into sections and the company is responsible for the funding of these sections whilst it operates the relevant franchise.

At the end of the franchise term, responsibility for funding the relevant section of the scheme, and consequentially any deficit or surplus existing at that date, is passed to the next franchisee.

At each balance sheet date, a franchise adjustment is recognised against the net pension asset or liability to reflect that portion expected to pass to the next franchisee.

As there is no requirement to make contributions to fund the current deficit, it is assumed that all of the current deficit will be funded by another party and hence none of that deficit is attributable to the current operator. In respect of the future service costs, there is currently no pension obligation in respect of those costs. When the costs are recognised in the profit and loss account, the extent to which the committed contributions fall short determines the amount that is to be covered by contributions of another party in future, which is recognised as an adjustment to service cost in the profit and loss account. Under circumstances where contributions are renegotiated, such as following a statutory valuation, an adjustment will be recognised in the profit and loss account, whilst changes in actuarial assumptions continue to be recognised through Other Comprehensive Income (OCI). The Directors consider this to be the most appropriate interpretation of FRS 102 Section 28 to reflect the specific circumstances of the RPS where the franchise commitment is only to pay contributions during the period in which we run the franchise.

The UK schemes retirement benefit obligations are discounted at a rate set by reference to market yields at the end of the reporting period on high-quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. Management follows actuarial advice from a third party when determining these judgements. We take specialist advice on this from our actuarial advisors which aims to consider the likely experience taking into account each scheme's characteristics. Our approach is to review these assumptions following completion of their funding valuations, and more frequently only if appropriate to do so.

The Pension Regulator (TPR) has been in discussions with the Railways Pension Scheme (the Scheme) regarding the long-term funding strategy of the Scheme. Whilst TPR believes that a higher-level funding is required in the long-term, it is not possible at this stage to determine the impact to ongoing contribution requirements.

The carrying amount of the company's retirement benefit obligations at 31 March 2020 was a liability of £nil (2019: £nil). Further details are set out in notes 19 (contingent liabilities) and 21 (Pension liability).

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**1 Principal accounting policies (continued)**

**(i) Key sources of estimation uncertainty**

**Contract and franchise accounting**

Estimates are made on an ongoing basis about the recoverability of amounts due and the carrying value of assets and liabilities arising from the company's franchise and long-term contracts. Regular forecasts are compiled on the outcome of these types of accounting estimates and contracts, which requires assessments and estimates relating to the expected level of revenue and costs included.

The useful economic life of assets is determined by reference to the length of the franchise and matched to the franchise end date. The residual value of the assets is determined by their condition at the franchise end date and the amount of maintenance that has been carried out during the period of operation.

The company has a number of contractual relationships including those with the DfT and Network Rail. Due to the regulated nature of the rail industry, disputes and claims typically arise with such bodies as well as other TOCs where one or more TOC has access to shared infrastructure such as railway lines. Management is required to estimate the amount receivable and also payable taking account of the information available at the time.

The company has received contractual and direct fiscal support as a result of coronavirus. The key fundamental principle to the basis of preparation of the financial statements is that this support will continue to be provided until passenger volumes and operated service activities return towards pre-coronavirus levels. The Emergency Measures Agreements (EMAs) effective from 1 March 2020, transferred all revenue and cost risk to the government for an initial period to 20 September 2020. The company is paid a management fee to continue running a revised National Rail timetable.

Net EMA funding, including the management fee, is recognised as revenue in Rail franchise subsidy receipts, in line with the revenue recognition policy for franchise subsidy receipts from the DfT. Turnover received under the EMA for the year ended March 2020 was £18.1m.

As detailed in note 21, the company has an onerous contract provision of £52.2m as at 31 March 2020, to cover future unavoidable losses under the original Franchise Agreement and has been measured based on the contractual terms in existence at that date. The termination of the Franchise Agreement on 30 May 2021 and Termination Sum of £nil agreed with the DfT removes the expectation of future unavoidable losses under the contract and this has resulted in the subsequent release of the onerous contract provision of £52.2m. The company has also agreed amounts recoverable on contracts (as detailed in note 13) and franchise related accruals (as detailed in note 14) as part of the Settlement Agreements with the DfT in May 2021, the net impact of which was a subsequent credit to the profit and loss account of £7.9m.

The company has concluded that the termination of the ERMA-amended Franchise Agreement and the Settlement Agreements constitute non-adjusting post balance sheet events and has therefore not reflected the financial impact of these Settlement Agreements in the financial statements for year ended 31 March 2020.

## **2 Turnover**

Turnover represents the amounts receivable for services supplied to customers during the year and includes amounts receivable for tendered services and concessionary fare schemes.

The turnover derives from the company's principal activity within the United Kingdom. The company has one principal class of business, namely, the provision of passenger transport services. Other revenue includes rents receivable on property, commission on ticket sales, advertising receipts and other sundry income.

Turnover can be analysed as follows:

	2020	2019
	£000	£000
Passenger receipts	257,378	256,358
Traincrew services	2,910	7,550
Revenue subsidy	18,132	-
Other revenue	11,828	4,708
	<u>290,248</u>	<u>268,616</u>

## **3 Operating costs**

	2020	2019
	£000	£000
Station & track access and facilities	67,525	66,139
Rolling stock lease costs	63,723	70,958
Staff costs (note 4)	88,488	73,435
External charges	22,906	38,049
Intangible asset amortisation (note 10)	212	182
Tangible asset depreciation (note 11)	5,713	3,046
Net franchise payments	41,681	16,905
	<u>290,248</u>	<u>268,714</u>

The decrease in other external charges versus the prior year reflects the reduced payments to Network rail as a result of better train operating performance during the year. This decrease is also due to the decrease in rail ticket passenger receipts towards the end of 2019/20, cost reductions in sales commission charges, and reduced marketing expenditure all reflect reduced passenger volumes and marketing situation during the latter part of 2019/20.

Net Franchise Payments include payments due to the DfT pre-EMA offset by amounts recoverable on contracts (see note 13).

**4 Employee numbers and costs**

The average periodic number of persons employed by the company (including directors) during the 13 rail periods of the year was as follows:

	2020 Actuals	2019 Actuals	2020 FTE	2019 FTE
Traincrew including traincrew management	588	496	583	492
Customer service	550	501	537	490
Administration	183	178	170	165
	<u>1,321</u>	<u>1,175</u>	<u>1,290</u>	<u>1,147</u>

The aggregate payroll costs of these persons were as follows:

	2020 £000	2019 £000
Wages and salaries	75,828	62,554
Social security costs	8,175	6,872
Pension costs (note 20)	4,405	4,009
	<u>88,488</u>	<u>73,435</u>

Pension costs include only those items included within operating costs.

**5 Directors' remuneration**

Certain directors (Kevin Gardner, Clive Burrows, Stephen Montgomery and Hugh Clancy) received remuneration from FirstGroup plc, the ultimate parent company, and First Rail Holdings Limited, the immediate parent company, in the current and previous years, details of which are disclosed in their report and accounts.

These directors have not performed any qualifying services on behalf of the company during the current and prior year. Details of retirement benefits accruing to the directors under the group defined benefit schemes are detailed in the financial statements of FirstGroup plc.

The remuneration of the directors paid by the company during the year was as follows:

	2020 £000	2019 £000
Aggregate emoluments (excluding pension contributions)	553	750
Compensation for loss of office	<u>188</u>	<u>-</u>
Contributions to defined benefit schemes	<u>34</u>	<u>36</u>

Directors' emoluments include salary, fees, bonuses, sums paid by way of expense allowances subject to UK income tax and the money value of other non-cash benefits and exclude share options, company pension contributions and payments made under long-term incentive schemes.

**5 Directors' remuneration (continued)**

The emoluments of the highest paid director amounted to:

	2020 £000	2019 £000
Aggregate emoluments	392	331
Compensation for loss of office	188	-
Defined benefit scheme		
Accrued pension at year end	50	53
Accrued lump sum at end of year	35	39

The highest paid director is entitled to receive shares under the FirstGroup plc long term incentive plan.

**6 Share based payments**

**Save as you earn (SAYE)**

The company's ultimate parent company operates an HMRC approved savings-related share option scheme. The scheme is based on eligible employees being granted options and their agreement to opening a share save account with a nominated savings carrier and to save weekly or monthly over a specified period. Share save accounts are held with Computershare. The right to exercise the option is at the employee's discretion at the end of the period previously chosen for a period of six months. Details of the share options outstanding during the year are disclosed in the published financial statements for FirstGroup plc.

**Buy as you earn (BAYE)**

BAYE enables eligible employees to purchase shares from their gross income. The company provides two matching shares in FirstGroup plc for every three shares bought by employees, subject to a maximum company contribution or shares to a value of £20 per employee per month. If the shares are held in a trust for five years or more, no income tax or national insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years of award.

The group has allocated the expense amongst its trading subsidiary undertakings based on the number of employees participating in the scheme. The company has recognised a total expense of £333,000 (2019: £98,000) relating to equity-settled share-based payment transactions.

	2020 £'000	2019 £'000
Total expense recognised in the profit and loss account	333	98
Contribution paid to First Rail Holdings Limited (parent company)	(333)	-
Credited to shareholder funds	-	98

Share-based payment expense comprises costs arising from FirstGroup plc shares schemes including Save As You Earn, Employee Share Plan and Deferred Bonus Shares. Further details on these share schemes can be found in the FirstGroup plc Annual Report and Financial statements.

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<b>7</b>	<b>Net interest payable</b>		
		2020	2019
		£000	£000
	Bank interest receivable	370	395
	Interest payable on parent company loans (note 14)	(2,354)	(1,062)
	Unwind of discount on contract provision	(1,083)	(1,082)
	Unwind of discount on amounts owed to group undertakings	(464)	-
		<u>(3,531)</u>	<u>(1,749)</u>
<b>8</b>	<b>Loss before taxation</b>		
		2020	2019
		£000	£000
	Loss before taxation is stated after charging:		
	Auditor's remuneration		
	- Deloitte LLP audit fee for the audit of the annual accounts	50	50
	- Deloitte LLP non-audit fee for other services	8	8
	Depreciation on tangible owned assets	5,713	3,046
	Intangible asset amortisation	212	182
	Rentals payable under operating leases		
	- plant and machinery	12,986	9,511
	- other operating leases	<u>38,390</u>	<u>38,170</u>
<b>9</b>	<b>Tax</b>		
		2020	2019
		£000	£000
	Current taxation		
	- UK corporation tax credit for the year	-	(3,405)
	- Group Relief receivable	(2,306)	-
	- Adjustment in respect of prior years	(1,566)	(812)
	Total current taxation	<u>(3,872)</u>	<u>(4,217)</u>
	Deferred taxation		
	- Origination and reversal of timing differences	1,700	2,733
	- Impact of deferred tax arising from rate change	(1,666)	-
	- Writing down of previously recognised tax losses	5,421	-
	- Adjustment in respect of prior years	1,471	774
	Total deferred taxation	<u>6,926</u>	<u>3,507</u>
	Total tax charge/(credit) on profit	<u>3,054</u>	<u>(710)</u>

**9 Tax (continued)**

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 19% (2019: 19%).

The actual current tax charge for the current and previous year differed from the standard rate for the reasons set out in the following reconciliation:

	2020 £'000	2019 £'000
Loss multiplied by standard rate of corporation tax in the United Kingdom of 19% (2019: 19%)	(671)	(351)
Expenses not deductible for tax purposes	65	-
Prior year adjustments	(95)	(38)
Writing down of previously recognised tax losses	5,421	-
Impact of deferred tax arising from rate change	(1,666)	-
Effect of decrease in tax rate on origination and reversal of timing differences	-	(321)
Total tax charge/(credit)	<u>3,054</u>	<u>(710)</u>

Deferred tax assets for brought forward losses, which had previously been recognised, have now been written down as it is now not probable that there will be future profits to offset these losses as a result of the current year impact of the Coronavirus Pandemic on the near-term forecasts of FirstGroup plc.

The UK Government enacted legislation to maintain the main rate of UK corporation tax at 19% from 1 April 2020 and deferred tax is now calculated at 19%. Under the enacted legislation at 31 March 2019 the rate was set to reduce to 17% from 31 March 2020 resulting in deferred tax being calculated at 17% in the prior year.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, as the deferred tax assets recognised are expected to reverse before 2023 it is likely that there would be no change to the tax expense for the period nor the deferred tax asset if it had been substantively enacted.

**10 Intangible fixed assets**

	Computer software £000
<b>Cost</b>	
At 1 April 2019	2,731
At 31 March 2020	<u>2,731</u>
<b>Accumulated amortisation</b>	
At 1 April 2019	293
Charge for year	212
At 31 March 2020	<u>505</u>
<b>Net book value</b>	
At 31 March 2019	<u>2,438</u>
At 31 March 2020	<u>2,226</u>

Computer software is recognised separately as an intangible asset and is carried at cost less accumulated amortisation. Costs include software licenses, website development, costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the software.

Included in computer software is £1.670m (2019: £1.776m) of assets in course of construction, which are not amortised until they are brought into use.

**11 Tangible fixed assets**

	Plant and equipment £000
<b>Cost</b>	
At 1 April 2019	28,148
Additions	7,624
At 31 March 2020	<u>35,772</u>
<b>Accumulated depreciation</b>	
At 1 April 2019	5,197
Charge for year	5,712
At 31 March 2020	<u>10,909</u>
<b>Net book value</b>	
At 31 March 2019	<u>22,951</u>
At 31 March 2020	<u>24,863</u>

Included in plant and equipment is £23k (2019: £3.5m) of assets under construction, which are not depreciated until they are brought into use. This primarily relates to depot improvement works.

**12 Stock**

	2020 £000	2019 £000
Fuel	<u>114</u>	<u>132</u>

**13 Debtors**

	2020 £000	2019 £000
<b>Amounts due within one year</b>		
Trade debtors (including amounts recoverable from Network Rail)	14,339	36,358
Amounts recoverable on contracts	46,248	43,288
EMA funding	18,432	-
Amounts due from group undertakings	870	65
Other debtors (primarily VAT)	4,872	2,305
Other prepayments and accrued income	7,892	2,088
Deferred tax asset (note 16)	8,704	15,630
Group tax relief	7,279	4,217
	<u>108,636</u>	<u>103,951</u>

Amounts due from group undertakings relate primarily to charges due from Hull Trains Company Limited and are due within 28 days of invoice date.

As part of the Settlement Agreements which were initiated and agreed with the DfT post 31 March 2020, the amounts recoverable on contracts of £46.2m were settled at £24.2m. This has been treated as a non-adjusting post balance sheet event as detailed in note 21.

**14 Creditors**

	2020 £000	2019 £000
<b>Amounts falling due within one year</b>		
Trade creditors	27,589	17,886
Amounts owed to group undertakings	6,413	10,000
Other tax and social security	4,968	2,276
Other creditors	6,173	2,811
Accruals	90,096	88,111
Deferred income	46,668	56,573
	<u>181,907</u>	<u>177,657</u>
<b>Amounts falling due after more than one year</b>		
Amounts owed to parent undertakings	46,166	22,267
Deferred capital income	12,843	-
	<u>59,009</u>	<u>22,267</u>
	<u>240,916</u>	<u>199,924</u>

**14 Creditors (continued)**

Last year, within the Amounts falling due within one year, Amounts owed to group undertakings included an interest-free loan of £10m. This loan was repaid in full during this financial year.

During the current year a further parent company support loan of £20m (2019: £17m) was drawn down, bringing the overall total to £46.2m. This is an interest-bearing loan, with a fixed rate of 7% per annum, with no repayment schedule.

All other intercompany transactions are payable within 28 days and are interest-free.

As part of the Settlement Agreements which were initiated and agreed with the DfT post 31 March 2020, franchise related accruals amounting to £47.7m were settled at £17.8m. This has been treated as a non-adjusting post balance sheet event as detailed in note 21.

**15 Provisions for liabilities**

	Lease Obligations £000	Contract Provision £000	Total £000
At 1 April 2019	680	106,881	107,561
Utilised in the year	-	(55,805)	(55,378)
Credited to profit and loss account	-	-	-
Unwind of discount on contract provision		1,079	1,079
At 31 March 2020	<u>680</u>	<u>52,155</u>	<u>52,835</u>

	2020 £000	2019 £000
<b>Amounts falling due within one year</b>		
Lease obligations	680	680
Contract provision	-	29,700
At 31 March	<u>680</u>	<u>30,380</u>

	2020 £000	2019 £000
<b>Amounts falling due after more than one year</b>		
Unwind of discount factor on contract provision	1,079	1,082
Contract provision	51,076	76,099
At 31 March	<u>52,155</u>	<u>77,181</u>
<b>Total Provision for liabilities</b>	<u>52,835</u>	<u>107,561</u>

At 31 March 2020, the dilapidation provisions were £0.68m (2019: £0.68m). This was made up of the liabilities for the class 350 train fleet, as well as remaining liabilities at office locations around the network.

**15 Provisions for liabilities (continued)**

The company has concluded that the termination of the ERMA-amended Franchise Agreement and the Settlement Agreements constitute non-adjusting post balance sheet events and has therefore not reflected the financial impact of these settlement agreements in the financial statements for year ended 31 March 2020. Further details are disclosed in note 21.

**16 Deferred taxation**

	£000
Asset at 1 April 2019	15,630
Charged to Profit and Loss Account	(6,926)
Asset at 31 March 2020	<u>8,704</u>

The deferred tax asset comprises:

	2020 £000	2019 £000
Capital allowances less than depreciation	110	(22)
Other timing differences	101	51
Losses	8,493	15,601
Deferred tax asset	<u>8,704</u>	<u>15,630</u>

£30.3m of losses have not been recognised for Deferred Tax, as it is not probable that there will be sufficient future profits to offset these losses as a result of the current year impact of the Coronavirus Pandemic on the near-term forecasts of FirstGroup plc.

**17 Called up share capital**

	2020 £	2019 £
<b>Allotted, called up and fully paid</b>		
1 ordinary share of £1	<u>1</u>	<u>1</u>

**18 Commitments**

**Capital commitments**

Capital commitments at the end of the year for which no provision has been made are as follows:

	2020 £'000	2019 £'000
Contracted for but not provided	<u>2,029</u>	<u>8,555</u>

**18 Commitments (continued)**

**Capital commitments (continued)**

These capital commitments have been made as part of our franchise agreement with the DfT. These relate primarily to fleet depot and platforms expansion programmes.

**Operating leases**

At the balance sheet date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2020		2019 (restated)	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	6,000	50,217	5,970	44,024
Between one and five years	18,128	180,610	16,921	242,693
	<u>24,128</u>	<u>230,827</u>	<u>28,891</u>	<u>286,717</u>

The 2018/19 numbers are restated because the "Other" column included costs for train service agreements which are cancellable costs and should not have been included in the previous year.

**19 Contingent liabilities**

FirstGroup plc has provided the company with performance bonds of £17.1m (2019: £15m) backed by insurance arrangements, to the Director of Passenger Rail Franchising in support of the franchise obligations of the company.

FirstGroup plc has provided parent company support in the form of a subordinated loan facility totalling £168.8m (2019: £168.8m), which is 50% backed by insurance arrangements, to the Director of Passenger Rail Franchising in support of the franchise obligations of the company, as set out in the Funding Deed. As stated in note 14, £20.0m (2019: £17m) of this loan facility was drawn down during the year to 31 March 2020 with an outstanding balance of £46.1m at 31 March 2020 (2019: £23.8m).

An amendment to the Funding Deed in August 2021 reduced the parent company support from £168.8m to £63.7m.

As stated in note 1r(i), the Pensions Regulator (TPR) has been in discussion with the Railways Pension Scheme (the Scheme) regarding the long-term funding strategy of the Scheme. The Scheme is an industry-wide arrangement, and the Group, together with other owning groups, has been participating in a review of scheme funding led by the Rail Delivery Group. Whilst the review is still ongoing, changes to the current funding strategy are not expected in the short term. Whilst TPR believes that a higher level of funding is required in the long term, it is not possible at this stage to determine the impact to ongoing contribution requirements.

**20 Pension liability**

**Railways Pension Scheme - Transpennine Express Section**

**Defined contribution schemes**

The company operates a defined contribution retirement benefit scheme for all qualifying employees. The total expense charge to the profit and loss in the year ended 31 March 2020 was £nil (2019: £0.1m).

The company is a member of a defined benefit pension scheme, which is funded. All eligible employees are offered membership of the Railways Pension Scheme (RPS). Under the terms of the RPS the employer (60%) and the employees (40%) share any fund deficit. The operating cost relating to this scheme in the year was £4.4m (2019: £4.0m).

The scheme is valued triennially, when the cost of future service is calculated, and the funding position established.

The 2019 actuarial valuation was updated for 31 March 2020; at this date the market value of the scheme's assets totalled £171.7m, £62.2m for the former First North Western section and £109.5m for the former Arriva Trains Northern section. The actuarial value of these assets was sufficient to cover 59% (2019: 54%) of the benefits, which had accrued to the scheme's members.

Contributions are paid to the scheme at rates recommended by the actuaries and the assets of the scheme are held in a separately administered trust. The scheme's assets are held and managed independently of the company's finances by independent investment managers appointed by the trustees of the scheme. The current contribution rate is 9.64% (2019: 9.64%) for the former First North Western' employees and 14.46% (2019: 14.46%) for the employer. For the former First Arriva Trains Northern' employees, the current contribution rate is 10.12% (2019: 10.12%) and 15.18% (2019: 15.18%) for the employer.

The accounting treatment for the time-based risk-sharing feature of the Group's participation in the RPS is not explicitly considered under FRS 102. The contributions currently committed to being paid are lower than the share of the service cost (for current and future service) that would normally be calculated under FRS 102 and the company does not account for uncommitted contributions towards its current or expected future deficits. Therefore, the company does not need to reflect any deficit on its balance sheet. A franchise adjustment (asset) exists that exactly offsets any section deficit that would otherwise remain after reflecting the cost sharing with the company members.

**Defined benefit schemes**

This reflects the legal position that some of the existing deficit and some of the service costs in the current year will be funded in future years beyond the term of the current franchise and committed contributions. The franchise adjustment on the balance sheet date reflects the extent to which the company is not currently committed to fund the deficit.

The actuarial assumptions used in determining the last full actuarial valuation (31 December 2013) were that the rate of return on investments will be 7.59% per annum; the rate of earnings increase will be 4.23% per annum and the rate of inflation will be (RPI/CPI) 3.2%/2.4% per annum. The valuation was made using the projected unit method.

**20 Pension liability (continued)**

**Defined benefit schemes (continued)**

**Financial assumptions**

The main financial assumptions used in this update were as follows:

	2020	2019
	£000	£000
Rate of increase in salaries	2.75%	3.40%
Rate of increase of pensions in payment	1.80%	2.15%
Rate of increase of pensions in deferment	1.80%	2.15%
Discount rate	2.40%	2.40%
Inflation assumption – CPI	1.80%	2.15%
Inflation assumption – RPI	2.50%	3.15%

**Mortality assumptions**

The assumptions made for current mortality reflect broadly the current experience. This takes into account size of pension and geographic location. An allowance is made for future improvements, based on information currently available on mortality trends.

Post-retirement mortality (life expectancy in years): current pensioners at 65, 21.1 years (2019: 21.1 years); future pensioners at 65 aged 45 now, 22.3 years (2019: 22.3 years).

**Asset values**

The breakdown of the asset fair value by asset type is as follows:

	2020	2019
	£000	£000
Real Estate	1,600	1,600
Private Equity	14,100	13,500
Cash and cash equivalents	1,600	1,500
Other return seeking assets <sup>1</sup>	154,400	149,470
	<u>171,700</u>	<u>166,070</u>

<sup>1</sup> The section is invested in Railpen pooled funds. The main investment is in the Growth Pooled Fund, the purpose of which is to invest in a wide range of return-seeking assets across different financial markets and economies in order to deliver high long-term real returns (RPI + 4% pa) over a rolling 5 to 10-year period. As at the reporting date, the Growth Pooled Fund was invested predominantly in a range of Equity investments.

The value of private/illiquid assets held by the Railways Pension Scheme and included in these statements include 31 December 2019 assets totalling £34m which have been adjusted for cash inflows and outflows to 31 March 2020. Applying any form of adjustment to these assets is highly subjective and in any case would have a negligible impact on the deficit due to the shared cost and franchise adjustments applied. As such we have retained the valuations provided directly by the investment manager.

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**20 Pension liability (continued)**

**Defined benefit schemes (continued)**

	Assets	Liabilities	Shared cost	Franchise impact	Net
Balance sheet at 1 April 2018	144,430	(253,043)	43,446	65,169	-
Income Statement					
Operating					
- Service cost	-	(15,896)	6,319	6,154	(3,423)
- Administration cost	-	(976)	391	-	(586)
- Past service gain including curtailments	-	(247)	98	147	-
Total Operating cost	-	(17,119)	6,807	6,301	(4,009)
Financing	3,958	(6,778)	1,128	1,692	-
Total Income Statement	3,958	(23,897)	7,935	7,993	(4,009)
Amounts paid to / from scheme					
Employer contributions	4,009	-	(1,604)	1,604	4,009
BRASS matching contributions	-	-	-	-	-
Employee contributions	2,607	-	(1,043)	(1,564)	-
Benefits paid	(3,386)	3,386	-	-	-
Total	3,230	3,386	(2,646)	39	4,009
Expected closing position	151,618	(273,554)	48,735	73,201	-
Gains / losses					
Change in financial assumptions	-	(27,043)	10,817	16,226	-
Change in demographic assumptions	-	(5,000)	2,000	3,000	-
Return on assets in excess of discount rate	14,452	-	(5,781)	(8,671)	-
Experience	-	(1,000)	440	560	-
Total	14,452	(33,043)	7,476	11,115	-
Balance sheet at 31 March 2019	166,070	(306,597)	56,211	84,316	-

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**20 Pension liability (continued)**

**Defined benefit schemes (continued)**

	Assets	Liabilities	Shared cost	Franchise impact	Net
Balance sheet at 1 April 2019	166,070	(306,597)	56,211	84,316	-
Income Statement					
Operating					
- Service cost	-	(19,334)	7,734	7,604	(3,996)
- Administration cost	-	(682)	273	-	(409)
- Past service gain including curtailments	-	-	-	-	-
Total Operating cost	-	(20,016)	8,007	7,604	(4,405)
Financing	4,099	(7,114)	1,206	1,809	-
Total Income Statement	4,099	(27,130)	9,213	9,413	(4,405)
Amounts paid to / from scheme					
Employer contributions	4,405	-	(1,762)	1,762	4,405
BRASS matching contributions	-	-	-	-	-
Employee contributions	2,937	-	(1,175)	(1,762)	-
Benefits paid	(3,446)	3,446	-	-	-
Total	3,896	3,446	(2,937)	-	4,405
Expected closing position	174,065	(330,281)	62,487	93,729	-
Gains / losses					
Change in financial assumptions	-	37,279	(14,912)	(22,367)	-
Change in demographic assumptions	-	-	-	-	-
Return on assets in excess of discount rate	(2,365)	-	945	1,420	-
Experience	-	1,110	(444)	(666)	-
Total	(2,365)	38,389	(14,411)	(21,613)	-
Balance sheet at 31 March 2020	171,700	(291,892)	48,076	72,116	-

**21 Post balance sheet events**

The company entered into two Settlement Agreements with DfT in May 2021 that finalised the Franchise premium adjustments relating to the period before the start of the Emergency Measures Agreement on 1 March 2020. These Settlement Agreements were initiated, negotiated and agreed with the DfT after 31 March 2020 and are treated as non-adjusting events.

The Emergency Measures Agreement (EMA), effective from 1 March 2020, transferred all revenue and cost risk to the government for an initial period to 20 September 2020. The EMA was replaced with an Emergency Recovery Measures Agreement (ERMA) that expired at 01.59 on 30 May 2021. At 02.00 on 30 May 2021 the National Rail Contract (NRC) with the DfT commenced.

Under the NRC the government takes revenue risk and a level of cost and contingent capital risk that is capped (subject to contractual changes) and pays a fixed management fee with the potential for an additional performance fee. This provides the company ongoing protection from the continuing loss of revenues resulting from Coronavirus.

The company has an onerous contract provision of £52.2m as at 31 March 2020, as described in note 15, to cover future unavoidable losses under the original Franchise Agreement and has been measured based on the contractual terms in existence at that date. The termination of the Franchise Agreement on 30 May 2021 and Termination Sum of £nil agreed with the DfT removes the expectation of future unavoidable losses under the contract and this has resulted in the subsequent release of the onerous contract provision of £52.2m.

The company has also agreed amounts recoverable on contracts (as detailed in note 13) and franchise related accruals (as detailed in note 14) as part of the Settlement Agreements with the DfT in May 2021, the net impact of which was a subsequent credit to the profit and loss account of £7.9m.

The company has concluded that the termination of the ERMA-amended Franchise Agreement and the Settlement Agreements constitute non-adjusting post balance sheet events and has therefore not reflected the financial impact of these Settlement Agreements in the financial statements for year ended 31 March 2020.

**22 Ultimate parent company**

The directors regard FirstGroup plc, a company incorporated in The United Kingdom and registered in Scotland, as the ultimate parent and controlling company, which is the smallest and largest group that includes the company's results and for which group financial statements are prepared.

The company's immediate controlling party is First Rail Holdings Limited.

Copies of the accounts of FirstGroup plc can be obtained on request from The Point, 37 North Wharf Road, London W2 1AF.