Babcock Rail Limited

Annual report

For the year ended 31 March 2021

Company Registered Number:
02999826

Directors and Advisers

Current directors

S J Bell
C M Deuchars
M Hayward
J R Parker
I S Urquhart

Company secretary

Babcock Corporate Secretaries Limited

Registered office

33 Wigmore Street
London
W1U 1QX

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
141 Bothwell Street
Glasgow
G2 7EQ

The directors present their Strategic report on the Company for the year ended 31 March 2021.

Principal activities

The Company is engaged principally in the renewal and enhancement of railway infrastructure. Babcock Rail Limited focuses on rail infrastructure work with its range of design, construction and commissioning services covering track renewals, signalling and control technology, specialist rail plant provision and rail power systems.

Review of the business

	2021	2020
	£'000	£'000
Revenue	**116,340**	104,701
Loss for the financial year	**(7,782)**	(3,847)
Net Assets	**27,664**	73,268

The underlying operations had a successful year increasing revenues from £104.7m to £116.3m with the associated operational profits flowing to the bottom line. The directors see this positive trend continuing into year ended 31 March 2022.

The restructure that was announced towards the end of the previous financial year was completed during FY21 year.

Rail Systems Alliance Scotland framework contract successfully ramped up in year 2 generating near £70m revenues from domestic track renewal work banks and enhancement projects.

The track and signalling and telecommunications frameworks with Translink continue to operate well for the Company, delivering key projects within Northern Ireland. Volumes in the year increased significantly on prior years as programmes increasingly progress from design phase to build.

In Signalling and Telecoms the focus continues to be on the Scotland medium framework contract for Network Rail which was awarded during FY20. The framework is delivering projects of varying value, including design and feasibility services, level crossing renewals, axle counter upgrades, and telecoms system renewals.

Our on track plant division continues to successfully deliver through our SB Rail joint venture, with outstanding reliability and successful delivery across our specialist National Plant Framework throughout the UK and strong performance from the specialist cranes supporting track renewals Alliances and major projects such as Kings Cross.

However, exceptional costs of £5.2m and provisions against the investment in now discontinued joint ventures of £4.5m were taken in the year. These mainly related to the recoverability of trading balances and loans and an impairment to the carrying value of investment of a now discontinued joint venture.

Principal risk and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks and uncertainties. These are managed through the operational review processes supplemented at Sector and Group level by independent challenge and review by the Group Risk Manager and the Audit and Risk Committee.

The key risks and uncertainties affecting the Company are considered to be related to infrastructure economic policy; future UK rail restructuring with the proposed creation of Great British Railways; health, safety and environmental incidents; client tendering strategy and availability of skilled and technical resource. The directors manage these risks and uncertainties through regular reviews and mitigation planning together with key client / funder engagement.

COVID 19 presents an ongoing risk to continuity of operations. This is managed through the company's operational risk assessment and control measures while working in tandem with guidance from national governments.

Further discussion of these risks and uncertainties, in the context of the Group as a whole and including the impact of COVID-19 is provided on pages 84 to 95 of the annual report of Babcock International Group PLC, which does not form part of this report.

Future developments

As a result of the strong platform created by the current range of framework contracts, the 2020 restructuring, and consistent operational performance, the business has solid foundations to support future development in current and new markets.

The business is focused on ensuring these frameworks are safely, efficiently and effectively executed to the customers' satisfaction providing quality solutions whilst driving revenue and profit growth. In addition, selective targeting of projects and the development of business strategy around new customers and enhanced services (particularly those exploring and enhancing customer and partner relationships) within the rail sector will feature strongly in the near term growth strategy.

Key performance indicators

The Company's activities are managed on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The growth and performance of Land, a sector of Babcock International Group PLC, which includes the Company, is discussed on pages 54 to 55 of the annual report of Babcock International Group Plc, which does not form part of this report.

S172(1) statement and stakeholder engagement

The Directors have acted in a way that they consider, in good faith, to be most likely to promote the long-term success of the Company for the benefit of the Shareholders as a whole while having regard for all stakeholders. Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 58, 59, 79 and 114 to 116 of the annual report of Babcock International group PLC, which does not form part of this report.

On behalf of the Board

J R Parker
Director

25 November 2021

The directors present the audited financial statements of the Company, for the year ended 31 March 2021.

Dividends

The directors have not declared a dividend for the year ended 31 March 2021 (2020: £nil).

Future developments

Information on the future developments of the Company can be found in the Strategic report.

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in credit risk, liquidity risk and interest rate risk. The Company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs.

Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors of Babcock International Group PLC are implemented by the Group and Company's finance departments. The department has a policy and procedures manual that sets out specific guidelines to allow it to manage interest rate risk, credit risk and circumstances where it would be appropriate to use financial instruments to manage these.

All treasury transactions are carried out only with prime rated counter-parties. Financial Risk is managed in accordance with Group policies and procedures which are discussed on pages 47 to 49 and Note 2 of the annual report of Babcock International Group PLC, which does not form part of this report.

Credit risk
The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The Company also monitors existing customer accounts on an on-going basis and takes appropriate action where necessary to minimise any potential credit risk. Cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit rating agencies.

Liquidity risk
The Company retains access to pooled cash resources to ensure it has sufficient available funds for operations. The Company also has access to longer term funding from its ultimate parent undertaking if required.

Financial risk management (continued)

Interest rate cash flow risk

The Company has both interest-bearing assets and interest-bearing liabilities. The interest-bearing assets earn interest at a fixed rate, with the exception of interest earned on cash balances which accrue interest at a floating rate. Interest-bearing liabilities accrue interest at a floating rate. The Company does not use derivative financial instruments to manage interest rate costs and, as such, no hedge accounting is applied.

Directors

The directors of the Company who held office during the year and up to the date of signing the financial statements were as follows:

S F Brooks (Resigned 30 September 2020)
S J Bell (Appointed 17 September 2020)
C M Deuchars
R Forbes (Resigned 17 September 2020)
M Hayward (Appointed 3 August 2020)
J R Parker (Appointed 30 September 2020)
I S Urquhart
S M White (Resigned 3 August 2020)

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Employee involvement

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through the in-house newspaper and newsletters, briefing groups and the distribution of the annual report.

Safety policy

The Company recognises the promotion of health and safety at work as an important objective. It is Company policy to take steps to ensure, as far as reasonably practical, the health, safety and welfare of the employees of the Company. The particular challenges of the COVID 19 pandemic were tackled very effectively, with strong risk based controls effectively implemented. This was supported by excellent consultation and engagement with staff, customers and our key suppliers and partners.

Environment

The Company recognises its responsibility to minimise, so far as reasonably possible, the potential for adverse impacts from its operations. It aims to achieve the highest standards in environmental management and seek accreditation to appropriate standards where appropriate.

The Company has developed and implemented an environmental policy to ensure that the impact of its activities on the environment is limited to the minimum practicable level.

Statement of directors’ responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 “Reduced Disclosure Framework”, and applicable law). 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors 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.

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.

Directors' confirmations

In the case of each director in office at the date the Directors’ Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company’s auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company’s auditors are aware of that information.

Qualifying third party indemnity provisions

Babcock International Group PLC provides protections for directors of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by Companies Act 2006) for the benefit of members of Babcock International Group PLC, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities came into force in 2012 and remain in force.

Going concern

The Company is a member of the Babcock International Group PLC cash pooling arrangement. After making enquiries, and obtaining a letter of support in respect of the Company's involvement in this arrangement, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

On behalf of the Board

J R Parker
Director

25 November 2021

Report on the audit of the financial statements

Opinion

In our opinion, Babcock Rail Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance sheet as at 31 March 2021; Income statement, Statement of comprehensive income and Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic report and Directors' report for the year ended 31 March 2021, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report for the year ended 31 March 2021

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report for the year ended 31 March 2021.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and fraudulent recording of revenue. Audit procedures performed by the engagement team included:

- Enquiring of management around known or suspected instances of non-compliance with laws and regulations, claims, litigation and instances of fraud
- Understanding of managements' controls designed to prevent and detect irregularities
- Review of board minutes
- Identifying and testing journal entries to assess whether any of the entries appeared unusual, for example were made to an unexpected account combination
- Incorporating into our testing plan procedures which are unpredictable in nature

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Kenneth Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
25 November 2021

Income statement
for the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Revenue	4	**116,340**	104,701
Cost of sales		**(103,897)**	(86,953)
Gross profit		**12,443**	17,748
Administrative expenses		**(9,524)**	(13,425)
Operating profit before Exceptional items		**2,919**	4,323
Exceptional costs	9	**(6,303)**	(9,431)
Operating loss	6	**(3,384)**	(5,108)
Share of operating (loss)/profit in joint ventures	15	**(2,702)**	22
Loss before interest and taxation		**(6,086)**	(5,086)
Finance income	5	**1,811**	2,236
Finance costs	5	**(642)**	(492)
Other finance costs – pensions	24	**(1,336)**	(1,552)
Loss before taxation		**(6,253)**	(4,894)
Income tax expense	11	**(1,529)**	1,047
Loss for the financial year		**(7,782)**	(3,847)

Statement of comprehensive Income
for the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Loss for the financial year		**(7,782)**	(3,847)
Other comprehensive (expense)/income:			
Items that will not be subsequently reclassified to income statement:			
Actuarial (loss)/gain recognised on the pension scheme	24	**(46,695)**	11,502
Movement in deferred tax relating to pension liability	20	**8,873**	(859)
Total comprehensive (expense)/income		**(45,604)**	6,796

Balance Sheet
as at 31 March 2021

	Note	2021 £'000	2020 £'000
Non-current assets			
Intangible assets	12	**7,236**	7,236
Property, Plant and Equipment	13	**866**	895
Right of use assets	14	**2,246**	3,134
Investments	15	**165**	165
		10,513	11,430
Current assets			
Trade and other receivables	16	**190,650**	193,428
Cash and cash equivalents		**22,074**	9,963
		212,724	203,391
Trade and other payables – amounts falling due within one year	17	**(81,641)**	(68,743)
Lease liabilities	19	**(4,072)**	(2,914)
Net current assets		**127,011**	131,734
Total assets less current liabilities		**137,524**	143,164
Provisions for liabilities	18	**(747)**	(6,820)
Lease liabilities	19	**(5,135)**	(6,996)
Employee benefit obligations	24	**(103,978)**	(56,080)
Net assets		**27,664**	73,268
Equity			
Called up share capital	21	**10**	10
Share premium account		**88,950**	88,950
Revaluation reserve		**18**	18
Capital redemption reserve		**898**	898
Profit and loss account		**(62,212)**	(16,608)
Total shareholders' funds		**27,664**	73,268

The notes on pages 15 to 39 are an integral part of these financial statements.
The financial statements on pages 12 to 39 were approved by the board of directors on 25 November 2021 and signed on its behalf by:

J R Parker

J R Parker
Director

Statement of changes in equity
for the year ended 31 March 2021

	Called up share capital £'000	Share premium account £'000	Capital Redemption Reserve £'000	Revaluation Reserve £'000	Profit and loss account £'000	Total Shareholders' Funds £'000
At 1 April 2020	10	88,950	898	18	(16,608)	73,268
Loss for the financial year	-	-	-	-	(7,782)	(7,782)
Actuarial loss on pension scheme	-	-	-	-	(46,695)	(46,695)
Movement in deferred tax relating to pension scheme	-	-	-	-	8,873	8,873
At 31 March 2021	**10**	**88,950**	**898**	**18**	**(62,212)**	**27,664**

	Called up share capital £'000	Share premium account £'000	Capital Redemption Reserve £'000	Revaluation Reserve £'000	Profit and loss account £'000	Total Shareholders' Funds £'000
At 1 April 2019	10	88,950	898	18	(21,694)	68,182
Loss for the financial year	-	-	-	-	(3,847)	(3,847)
Actuarial gain on pension scheme	-	-	-	-	11,502	11,502
Movement in deferred tax relating to pension scheme	-	-	-	-	(859)	(859)
Transition to IFRS 16	-	-	-	-	(1,710)	(1,710)
At 31 March 2020	**10**	**88,950**	**898**	**18**	**(16,608)**	**73,268**

1 General information

Babcock Rail Limited is a private Company limited by shares which is incorporated and domiciled in England. The address of the registered Office is 33 Wigmore Street, London W1U 1QX.

2 Summary of significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

Basis of preparation
The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). These financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest £'000.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The Company is a wholly owned subsidiary of Babcock Support Services (Investments) Limited and of its ultimate parent, Babcock International Group Plc. It is included in the consolidated financial statements of Babcock International Group Plc which are publicly available.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
b) IFRS 7, 'Financial instruments: Disclosures'
c) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
d) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
   - paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
   - paragraph 73(e) of IAS 16 Property, plant and equipment; and
   - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
e) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.
f) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.
g) The following paragraphs of IAS 1, 'Presentation of financial statements':
   10(d), 10(f), 16, 38, 40, 111, and 134-136
h) IAS 7, 'Statement of cash flows'

2 Summary of significant accounting policies *(continued)*

Basis of preparation (continued)

i) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
j) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
k) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Going concern

The Company is a member of the Babcock International Group PLC cash pooling arrangement. After making enquiries, and obtaining a letter of support in respect of the Company's involvement in this arrangement, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

Adoption of new and revised standards

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2021 that have a material impact on the Company's financial statements.

Joint Ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. The Company's interests in joint ventures are accounted for by the equity method of accounting and are initially recorded at cost. The Company's investment in joint ventures includes goodwill (net of any accumulated impairment loss) identified on acquisition. The carrying values of joint ventures are reviewed on a regular basis and if there is objective evidence that an impairment in value has occurred as a result of one or more events during the period, the investment is impaired. The Company's share of its joint ventures post-acquisition profits or losses after tax is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. If the Company's share of losses in a joint venture equals or exceeds its investment in the joint venture, the Company does not recognise further losses unless it has incurred obligations to do so. Unrealised gains and losses on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in the joint venture. Loans to joint ventures are valued at amortised cost less provision for impairment.

Revenue

Revenue recognised represents income derived from contracts with customers for the provision of goods and services in the ordinary course of business. Revenue is recognised in line with IFRS 15, Revenue from Contracts with Customers. IFRS 15 requires the identification of performance obligations in contracts, allocation of the contract price to the performance obligations and recognition of revenue as performance obligations are satisfied.

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

(a) Performance obligations

Contracts are assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations if the customer can benefit from them either on their own or together with other resources readily available to the customer and they are separately identifiable in the contract. The integrated output nature of many of the goods and services provided by the Company can result in contracts with one performance obligation.

(b) Allocation of contract price to performance obligations

The contract price represents the amount of consideration which the Company expects to receive in exchange for delivering the promised goods or services to the customer. Variable consideration is included in the contract price on the most likely outcome basis but only to the extent that it is highly probable that it will not reverse in the future. Given the bespoke nature of many of the goods and services the Company provides, stand-alone selling prices are generally not available and, in these circumstances, the Company allocates the contract price to performance obligations based on cost plus margin, in accordance with the Group's pricing principles. The Company's contracts typically do not include significant financial components.

(c) Revenue and profit recognition

Performance obligations are satisfied, and revenue recognised, as control of goods and services is transferred to the customer. Control can be transferred at a point in time or over time and the Company determines, for each performance obligation, whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if any of the following criteria are satisfied:

- the customer simultaneously receives and consumes the benefits of the Company's performance as it performs; or
- the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for work done; or
- the Company's performance creates or enhances an asset controlled by the customer.

Most of the Company's contracts meet the requirements to satisfy performance obligations and recognise revenue over time either because the customer simultaneously receives and consumes the benefits of the Company's performance as it performs or the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for work done.

Where the Company satisfies performance obligations over time, revenue is recognised using costs incurred as a proportion of total estimated costs to assess stage of completion, but with the stage of completion and revenue assessed in relation to each performance obligation. In some circumstances the Company also uses an output based earned value approach, as an indicator, to validate the cost based input approach and this approach uses suitably qualified and experienced Company personnel to assess the stage of completion of performance obligations.

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

(c) Revenue and profit recognition *(continued)*

If a performance obligation is not satisfied over time, then revenue is recognised at the point in time that control is transferred to the customer. Point in time recognition mainly applies to sale of goods. Control typically transfers to the customer when the customer has legal title to the goods and this is usually coincident with delivery of the goods to the customer and right to payment by the Company.

Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outturn assessments are carried out on a contract-by-contract basis by suitably qualified and experienced Group personnel and the assessments of all significant contracts are subject to review and challenge by local management, sector management and Group management.

Assessment of outcomes is in relation to separate performance obligations and includes variable consideration, which can include judgements on variations and claims, measured using the most likely outcome approach, to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. Any expected loss on a contract is recognised immediately in the income statement.

The Company operates in a partnering environment with some customers and certain contracts include pain/gain share arrangements under which cost under/over spends against the contract target cost are shared with the customer. These contract sharing arrangements are included in the assessment of contract outturns.

The Company presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. The Company presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

(d) Costs of obtaining a contract

Pre-contract costs are recognised as expenses as incurred, except that directly attributable costs incurred from the point that it can be reliably expected that a contract will be obtained, typically at preferred bidder stage, and that the contract is expected to result in future net cash inflows.

(e) Contract mobilisation costs

Post-contract award but pre-contract operational start-up mobilisation costs are recognised as an asset and amortised over the life of the contract. These mobilisation costs are included within the contract value and relate to ensuring that assets and resources are mobilised as necessary to support delivery of performance obligations in accordance with contract requirements.

2 Summary of significant accounting policies *(continued)*

Exceptional items

Items that are exceptional in size or nature are presented as exceptional items within the income statement. The separate reporting of exceptional items helps provide a better indication of the business's underlying business performance. Events which may give rise to the classification of items as exceptional include gains or losses on the disposal of businesses, material acquisition costs along with the restructuring of businesses and asset impairments.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation. The intangible assets are as follows:

Goodwill
Goodwill relating to acquisitions prior to transition date is maintained at its net book value on the date of transition to FRS 101.
Annual impairment reviews are performed as outlined in note 12.

Property, plant and equipment

Property, plant and equipment are shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of PPE over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Leasehold property	Lease term
Plant and equipment	6.6% to 33.3%

PPE is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of an asset's fair value less cost to sell or value in use.

Investments

Fixed asset investments are stated at cost less provision for impairment in value.

Trade receivables

Trade receivables are stated at their cost less provision for bad debts. A provision for bad debt is established when there is objective evidence that the collection of the debt is no longer probable.

Share based payments

The Group operates equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models. The charge is recognised in the income statement over the vesting period of the award.

2 Summary of significant accounting policies *(continued)*

Taxation

(a) Current income tax

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

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Pensions costs and other post-retirement benefits

The Company participates in a defined benefit scheme that shares risks between entities under common control. The defined benefit scheme defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The cost of providing benefits is determined using the projected unit credit actuarial valuation method. The total service cost and associated administration costs of the pension scheme are charged to operating profit in the entities who participate in the scheme. In addition, a retirement benefit interest charge on the net pension deficit is charged to the income statement as a finance cost. Actuarial gains and losses are recognised directly in equity through the statement of comprehensive income.

The fair value of plan assets, are measured in accordance with FRS 101 fair value hierarchy and includes the use of appropriate valuation techniques.

The extent to which the Company recognises its share of the income statement charge, the assets and liabilities of the scheme, and the actuarial gain or loss is determined by the proportion of active members of the scheme that it employs.

The scheme’s liability is the present value of the defined benefit obligation at the end of the reporting date less the fair value of the plan assets at the reporting date.

The Company participates in a defined benefit contribution scheme. Obligations for contributions to the defined benefit pension plan are recognised as an expense in the income statement.

2 Summary of significant accounting policies *(continued)*

Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the local currency at the year end exchange rates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Lessee Accounting

For all leases in which the Company is a lessee (other than those meeting the criteria detailed below), the present value of future lease payments are capitalised to the statement of financial position in accordance with IFRS 16 'Leases', with a corresponding right of use asset recognised. Lease payments are discounted using the interest rate implicit in the lease or the incremental borrowing rate where the interest rate implicit in the lease is not available.

Depreciation of right of use assets is recognised as an expense in the income statement on a straight-line basis over the shorter of the asset's useful life or expected term of the lease.

Interest on the lease liability is recognised as a finance expense in the income statement over time, with the rate being determined at lease inception based on a number of factors including asset type, lease currency and lease term.

Right of use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, with the impairment expense being recognised in the income statement. Where a lease is terminated early, any termination fees or gain or loss relating to the release of right of use asset and lease obligation are recognised as a gain or loss through the income statement.

Payments in respect of short-term leases or low-value leases are expensed straight-line to the income statement as permitted by IFRS 16 'Leases'. A lease is considered short-term if the total lease length is less than 12 months, and low-value if the underlying asset would cost less than £5,000 to buy new.

Provisions for liabilities

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Company incurring further costs.

Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of contract balances for that portion of the work which has already been completed, and as liability provisions for the remainder. Losses are determined on the basis of estimated results on completion of contracts and contract assessments are updated regularly. A provision is made where operating leases are deemed to be onerous.

2 Summary of significant accounting policies *(continued)*

Provisions for liabilities *(continued)*

A provision for deferred consideration on acquisitions is recognised when the Company has a realistic expectation of the expense based on the Purchase and Sale Agreement.

A provision for employee benefits is recognised when there is a realistic expectation of the liability.

3 Critical accounting estimates and judgements

In the course of preparation of the financial statements no judgements have been made in applying the Company's accounting policies, other than those involving estimates, that have had a material effect on the amounts recognised in the financial statements. The application of the Company's accounting policies requires the use of estimates and the inherent uncertainty in forward looking estimates may result in a material adjustment to the carrying amount of assets and liabilities in the next financial year.

Critical accounting estimates are subject to continuing evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. Critical accounting estimates in relation to these financial statements are considered below:

Revenue and profit recognition

Revenue and profit recognition on contracts is based on estimates of outturn revenues and costs on a contract-by-contract basis. Both of these estimates can involve significant levels of estimation uncertainty. Estimating contract revenues can involve judgements around whether the Company will meet performance targets, earn incentives and the pricing of any scope changes, variations or claims under the contract. When considering variations to contracts, the Company must make a judgement as to whether the variation should be accounted for as a separate, distinct contract or be considered, and accounted for, as part of the original contract. This judgement will depend on the scope of the variation, its pricing and the contractual terms.

Contract outturn assessments are carried out by suitably qualified and experienced personnel and include assessments of variable consideration and contract contingencies arising out of technical, commercial, operational and other risks. When considering variations, claims and contingencies, the Company analyses various factors including the contractual terms, status of negotiations with the customer and historic experience with that customer and similar contracts. The assessment of all significant contracts are subject to review and challenge. As contracts near completion, often less judgement is needed to determine the size of the expected outturn.

Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds.

Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 21 for the disclosures of the defined benefit pension scheme.

4 Revenue

Revenue is wholly attributable to the principal activities of the Company and arises as follows:

	2021 **£'000**	2020 £'000
Provision of services – transferred over time	**116,340**	104,701
	116,340	104,701

All the revenue in the year ending 31 March 2021 originated in the United Kingdom.

5 Finance income and finance costs

	2021 **£'000**	2020 £'000
Finance income:		
Loan interest receivable from group undertakings	**1,811**	2,236
Finance costs:		
Bank interest	**(52)**	(92)
IFRS 16 interest	**(437)**	(389)
Loan interest payable to group undertakings	**(153)**	-
Share of joint venture interest	**(-)**	(11)
	(642)	(492)

6 Operating loss

Operating loss is stated after charging:

	2021 **£'000**	2020 £'000
Depreciation on tangible assets (note 13)	**109**	86
Right of use depreciation (Note 14)	**2,995**	1,856
Audit fees payable to the Company's auditors	**69**	58

7 Staff costs

The average monthly number of employees (including directors) employed by the Company during the year was as follows:

	2021 Number	2020 Number
Operations	**358**	366
Management and administration	**347**	390
	705	756

Their aggregate remuneration comprised:

	2021 £'000	2020 £'000
Wages and salaries	**37,467**	37,469
Social security costs	**4,456**	4,614
Other pension costs	**4,982**	4,728
	46,905	46,811

Included in other pension costs are £2,707,000 (2020: £2,709,000) in respect of the defined benefit schemes and £2,005,000 (2020: £2,019,000) in respect of the defined contribution scheme.

The employment costs above include those of employees providing management services to other group companies, as well as staff seconded to other group companies. These are recharged to those business entities.

8 Directors' remuneration

The emoluments of the directors, including pension contributions, paid by any Company in respect of services provided to this Company were as follows:

	2021 £'000	2020 £'000
Emoluments (including benefits in-kind)	**428**	550
Defined contribution pension scheme	**34**	66
Compensation for loss of office	**557**	-
	1,019	616

During the year no (2020: three) directors remunerated by Babcock Rail Limited exercised share options under long term incentive plans and three (2020: three) directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to one director (2020: one) under defined benefit pension schemes.

8 Directors' remuneration (continued)

Except for four (2020: four) directors, all of the directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the directors in relation to other Babcock Group companies.
The above amounts for remuneration include the following in respect of the highest paid director:

	2021	2020
	£'000	£'000
Emoluments (excluding pension contributions)	**95**	213
Company pension contributions (in place of accrued benefit entitlement under the group's defined contribution scheme)	**9**	47
Defined benefit pension scheme:		
- Accrued pension at the end of the year	**-**	-
- Accrued lump sum at the end of the year	**-**	-
Compensation for loss of office	**473**	-

In 2020 the highest paid director exercised shares under long term incentive plans.

9 Exceptional Costs

	2021	2020
	£'000	£'000
Write down system upgrade project costs	**2,145**	-
Other restructuring costs	**4,158**	9,431
	6,303	9,431

Exceptional items are those items which are exceptional in nature or size.

During the financial year £6.3m of exceptional costs were incurred. The company's financial systems upgrade project was put on hold as part of an overall review of capital expenditure at group level and spend to date of £2.1m was written off. A further review of the recoverability of the trading balances on the ABC electrification JV investment was carried out with the conclusion to recognise a provision of £4.4m. In additional unutilised restructuring provisions of £0.2m were written back to the P&L.

10 Share based payments

The charge to the income statement has been based on the assumptions below and is based on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions. The detailed description of the plans below is included within the Remuneration report.

During the year the total charge relating to employee share-based payment plans was £nil (2020: £0.1 million), all of which related to equity-settled share-based payment transactions.

After tax, the income statement charge was £nil (2020: £0.1 million).

The fair value per option granted and the assumptions used in the calculation are as follows:

DBMP, PSPS AND DBP[1]

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – EPS/ROCE %	Fair value per option – TSR Pence	Fair value per option – EPS/ROCE Pence	Correlation %	Grant or modification date
2020	695,458	350.0	19.0%	6.0	100.0%	–	305.2	55.0%	01/12/20
2020	2,091,247	350.0	19.0%	4.0	100.0%	–	350.0	55.0%	01/12/20
2020	1,341,477	350.0	19.0%	6.0	100.0%	137.9	305.2	55.0%	01/12/20
2020	118,320	289.0	19.0%	4.0	100.0%	–	289.0	55.0%	03/08/20
2020	146,306	289.0	19.0%	3.0	100.0%	–	289.0	55.0%	03/08/20
2020	192,096	284.2	19.0%	4.0	100.0%	–	284.2	55.0%	13/08/20
2020	8,474	284.2	19.0%	3.0	100.0%	–	284.2	55.0%	13/08/20
2019	1,370,671	472.8	11.0%	6.0	–	70.9	472.8	45.0%	13/06/19
2019	3,019,033	472.8	11.0%	4.0	–	70.9	472.8	45.0%	13/06/19
2019	313,909	472.8	11.0%	4.0	100.0%	–	472.8	45.0%	13/06/19
2019	93,430	472.8	11.0%	3.0	100.0%	–	472.8	45.0%	13/06/19
2018	1,370,671	472.8	11.0%	6.0	–	70.9	472.8	45.0%	13/06/18
2018	3,019,033	472.8	11.0%	4.0	–	70.9	472.8	45.0%	13/06/18
2018	313,909	472.8	11.0%	4.0	100.0%	–	472.8	45.0%	13/06/18
2018	93,430	472.8	11.0%	3.0	100.0%	–	472.8	45.0%	13/06/18
2017	860,157	856.0	14.0%	6.0	–	370.9	856.0	56.0%	14/06/17
2017	1,699,323	856.0	14.0%	4.0	–	370.9	856.0	56.0%	14/06/17
2017	187,433	856.0	14.0%	4.0	100.0%	–	856.0	56.0%	14/06/17
2017	90,777	856.0	14.0%	3.0	100.0%	–	856.0	56.0%	14/06/17

1. DBMP = 2012 Deferred Bonus Matching Plan, PSP = 2009 Performance Share Plan and DBP = 2012 Deferred Bonus Plan.

Both the vesting period and the expected life of all DBMP and PSP awards are three years, but for the DBP they are two years, other than for Executive Directors where the vesting period is three years. The holders of all awards receive dividends.

PSP awards for 2017 to 2019 are split evenly between the performance criteria of TSR, EPS and ROCE.

For PSP awards made in December 2020, 2,786,705 were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached. A further 1,341,477 awards were made where the performance criteria is 50% against free cash flow and 50% TSR.

There are no performance conditions attached to the DBP.

The expected volatility is based on historical volatility over the last one to three years. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon government bonds of a term consistent with the assumed option life.

10 Share based payments (continued)

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 180,175 matching shares (2020: 104,756 matching shares) at a cost of £0.5 million (2020: £0.5 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year 5,000 matching shares were purchased on the open market (2020: 1,000 matching shares) and 1,193 matching shares vested (2020: 713 matching shares) leaving a balance of 5,012 matching shares (2020: 1,205 matching shares).

11 Income tax credit

	2021 **£'000**	2020 £'000
Tax expense/(income) included in income statement		
Current tax:		
UK Corporation tax on loss of the year	**-**	28
Total Current tax charge for the year	**-**	28
Deferred tax:		
Origination and reversal of temporary differences	**(203)**	(947)
Adjustments in respect of deferred tax for prior years	**1,732**	21
Impact of change in UK tax rate	**-**	(149)
Total deferred tax charge/(credit)	**1,529**	(1,075)
Total Tax on loss	**1,529**	(1,047)

	2021 **£'000**	2020 £'000
Tax (income)/expense included in other comprehensive income		
Current tax	**-**	-
Deferred tax:		
Tax impact of actuarial losses/(gains) on pension liability	**8,873**	(2,185)
Impact of change in tax rates	**-**	1,326
Total tax (income)/expense included in other comprehensive income	**8,873**	(859)

11 Income tax credit *(continued)*

The tax assessed for the year is lower than (2020: lower) the standard rate of corporation tax in the UK for the year ended 31 March 2021 of 19% (2020: 19%). The differences are explained below:

	2021 **£'000**	2020 £'000
Loss before taxation	**(6,253)**	(4,894)
Tax on loss at standard UK corporation tax rate of 19% (2020: 19%)	**(1,188)**	(930)
Effects of:		
(Income not taxable)/Expenses not deductible for tax purposes	**(260)**	11
Deferred tax asset on losses not recognised	**1,245**	-
Adjustments in respect of deferred tax for previous years	**1,732**	21
Impact of change in UK tax rate	**-**	(149)
Total tax credit for the year	**1,529**	(1,047)

In the 2020 budget, it was announced that the decrease in the UK rate of corporation tax from 19% to 17% was cancelled. On 24 May 2021, the Finance Act 2021 was substantively enacted, increasing the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. As the increase of the rate to 25% had not been substantively enacted at the Balance Sheet date, its effects are not included in these Financial Statements.

12 Intangible assets

	Total **£'000**
Cost	
At 1 April 2020 and **at 31 March 2021**	**13,600**
Accumulated amortisation	
At 1 April 2020 and **at 31 March 2021**	**6,364**
Net book value	
At 1 April 2020 and **at 31 March 2021**	**7,236**

The goodwill arising on the acquisition of the trade and assets of First Projects Limited.

The directors' estimate that the values of the underlying business acquired is expected to exceed the value of the underlying assets. The values are reviewed annually.

13 Property, Plant and Equipment

	Leasehold property £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 April 2020	2,531	9,615	12,146
Additions in year	458	-	458
Disposals in year	(698)	(1,326)	(2,024)
At 31 March 2021	**2,291**	**8,289**	**10,580**
Accumulated depreciation			
At 1 April 2020	2,114	9,137	11,251
Charge for the year	109	-	109
Eliminated on disposal	(681)	(965)	(1,646)
At 31 March 2021	**1,542**	**8,172**	**9,714**
Net book value			
At 31 March 2021	**749**	**117**	**866**
At 31 March 2020	417	478	895

14 Right of use assets

	Leasehold property £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 April 2020	11,266	2,391	13,657
Additions in year	670	1,493	2,163
Terminations	(56)	(356)	(412)
At 31 March 2021	**11,880**	**3,528**	**15,408**
Accumulated depreciation			
At 1 April 2020	9,673	850	10,523
Charge for the year	2,126	869	2,995
Terminations	-	(356)	(356)
At 31 March 2021	**11,799**	**1,363**	**13,162**
Net book value			
At 31 March 2021	**81**	**2,165**	**2,246**
At 31 March 2020	1,593	1,541	3,134

15 Investments

	2021 £'000	2020 £'000
At 1 April 2020	**165**	2,800
Write down of investment	**-**	(2,657)
Share of (loss) / profit	**(2,702)**	22
Provision for future losses	**2,702**	-
At 31 March 2021	**165**	165

15 Investments *(continued)*

The joint ventures of the Company at 31 March 2021 are shown below, all shares are held directly.

Name	Class of share	Number held at 31 March 2021	Percentage	Country of domicile
FSP (2004) Limited	Ordinary	50	50%	UK
Registered office - Kintail House, 3 Lister Way, Hamilton International Park, Blantyre, G72 0FT				
ABC Electrification Limited	Ordinary	200	33.3%	UK
Registered office - 8th Floor, The Place, High Holborn, London, WC1V 7AA				

The directors believe that the carrying value of the investments is supported by their underlying net assets.

16 Trade and other receivables

	2021 £'000	2020 £'000
Amounts falling due within one year:		
Trade receivables	**2,920**	2,294
Amounts recoverable on contracts	**1,965**	5,224
Amounts owed by parent and group undertakings	**164,031**	165,035
Deferred tax asset (note 20)	**20,112**	12,770
JV Loan	**-**	6,067
Other debtors	**359**	777
Prepayments and accrued income	**1,263**	1,261
Total	**190,650**	193,428

The amounts due from group undertakings are unsecured and repayable on demand.

There are ten major loans (2020: ten) to group companies:

- A loan of £15,000,000 (2020: £15,000,000) is repayable on demand, the interest rate is 6 month LIBOR plus 4%.
- Four loans (2020: four) totalling £95,000,000 (2020: £95,000,000) are repayable on demand, the interest rate is 6 month LIBOR plus 1%.
- Five loans (2020: five) totalling £39,155,000 (2020: £39,171,935) are repayable on demand, with no interest charge.

16 Trade and other receivables *(continued)*

	Amounts due for contract work £'000	Total £'000
At 1 April 2020	5,224	**5,224**
Transfers from contract assets recognised at the beginning of the year to receivables	(5,224)	**(5,224)**
Increase due to work done not transferred from contract assets	1,965	**1,965**
At 31 March 2021	**1,965**	**1,965**

	Amounts due for contract work £'000	Total £'000
At 1 April 2019	19,258	**19,258**
Transfers from contract assets recognised at the beginning of the year to receivables	(19,258)	**(19,258)**
Increase due to work done not transferred from contract assets	5,224	**5,224**
At 31 March 2020	**5,224**	**5,224**

17 Trade and other payables

	2021 £'000	2020 £'000
Amounts falling due within one year:		
Trade creditors	**8,460**	2,933
Amounts owed to group undertakings	**43,103**	41,449
Amounts owed to joint ventures	**2,829**	-
Taxation and social security	**11,517**	9,043
Other payables	**1,570**	2,898
Accruals and deferred income	**8,462**	6,720
Debenture loan stock	**5,700**	5,700
	81,641	68,743

The amounts due to group undertakings are unsecured and repayable on demand.

There are four major loans (2020: four) from group companies:

- Two loans (2020: two) totalling £13,000,000 (2020: £13,000,000) are repayable on demand, the interest rate is 6 month LIBOR plus 1%.
- Two loans (2020: two) of £15,782,893 (2020: £11,827,600) is repayable on demand, with no interest charge.

The debenture loan stock is repayable on demand. Interest at a commercial rate is applicable from the date on which the holder of the stock demands its repayment.

17 Trade and other payables *(continued)*

The Company has access to Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 22).

	Contract cost accruals £'000	Total £'000
At 1 April 2020	7,387	**7,387**
Amounts accrued	8,462	**8,462**
Amount utilised	(7,387)	**(7,387)**
At 31 March 2021	**8,462**	**8,462**

	Contract cost accruals £'000	Total £'000
At 1 April 2019	9,880	**9,880**
Amounts accrued	7,387	**7,387**
Amount utilised	(9,880)	**(9,880)**
At 31 March 2020	**7,387**	**7,387**

18 Provisions for liabilities

	Dilapidations provisions £'000	Redundancy provisions £'000	Onerous Lease provisions £'000	Total £'000
At 1 April 2020	60	5,942	818	6,820
Charged to the Income Statement	-	-	-	-
Utilised during the year	(60)	(5,195)	(818)	(6,073)
At 31 March 2021	**-**	**747**	**-**	**747**

The redundancy provision relates to restructuring throughout different sections of the business. The majority of this provision is expected to be utilised over the next financial year, with the remainder being completed by September 2022 on completion of an IT project.

The Onerous Lease provision related to the non-lease costs of one property which have been fully utilised with no other costs expected.

19 Lease liabilities

The entity leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The entity also leases plant and machinery under non-cancellable operating leases.

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2021	2020
	£'000	£'000
At 31 March 2020	**9,910**	-
Transition to IFRS16	**-**	11,856
Additions	**2,443**	803
Disposals	**(513)**	(59)
Interest charged	**351**	389
Payments	**(2,984)**	(3,079)
At 31 March 2021	**9,207**	9,910

Discounted future minimum lease payments are as follows:

	2021	2020
	£'000	£'000
Within one year	**4,072**	2,914
In more than one year, but not more than five years	**5,135**	6,996
Carrying value of liability	**9,207**	9,910

The weighted average incremental borrowing rate applied to the lease liabilities at the date of transition was 4.717%.

Lease commitments for short term leases as at 31 March 2021 were £8,095,000 (2020 £8,095,000)

20 Deferred taxation

The major components of the deferred tax assets are recorded as follows:

	Accelerated capital allowances £'000	**Retirement benefit obligations £'000**	**Other £'000**	**Total £'000**
At 1 April 2019	113	11,270	1,171	12,554
Credited to income statement	170	244	661	1,075
Charged to other comprehensive income	-	(859)	-	(859)
At 31 March 2020 and at 1 April 2020	283	10,655	1,832	12,770
Charged to income statement	(747)	229	(1,011)	(1,529)
Credited to other comprehensive income	-	8,873	-	8,873
At 31 March 2021	**(464)**	**19,757**	**821**	**20,114**

21 Called up share capital

	2021	2020
	£'000	£'000
Allotted and fully paid		
10,225 ordinary shares of £1 each (2020: 10,225)	**10**	10

22 Contingent liabilities

At the year-end date the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2020: £nil) provided to certain Group companies. In addition, the Company had joint and several liabilities for the drawn bank overdraft facilities of other Group companies of £nil (2020: £nil).

23 Related party disclosures

The Company has taken advantage of the exemptions within FRS 101 not to disclose transactions and balances with Babcock International Group Plc and its wholly owned subsidiaries, on the grounds that the Company itself is a wholly owned subsidiary of Babcock International Group Plc, for which the consolidated financial statements are publicly available.

The Company has an interest in the following joint Ventures. Transactions occur with these joint ventures in the normal course of business.

The Company sold goods to First Swietelsky Operations and Maintenance for £8,676,000 (2020 - £9,642,000). The amount outstanding at year end was £781,000 (2020 - £247,000). In addition, the Company has a balance due to First Swietelsky Operations and Maintenance of £420,000 (2020 - £658,000).

The Company has a balance due from ABC Electrification Limited which has been fully impaired in the year (2020 - £6,067,000).

The Company purchased goods from FSP (2004) Limited for £27,000 (2020 - £18,500). The amount outstanding at year end was £nil (2020 - £6,553).

24 Employee benefit obligations

The Company accounts for pension costs in accordance with IAS 19.

The Company contributes to two defined contribution scheme in respect of a number of its employees.

The Babcock Rail Limited shared cost section of the Railways Pension Scheme (RPS) is a funded defined benefit pension scheme with benefits based on final pensionable earnings. The scheme was closed to new entrants as at 31 December 2001. The assets of the RPS are held separately from those of the Company in independently administered funds.

The IAS 19 valuation has been updated at 31 March 2021 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation of the Babcock Rail Limited Section of the RPS scheme was 31 December 2016.

24 Employee benefit obligations *(continued)*

The major assumptions used for the IAS 19 valuation were:

	31 March 2021	31 March 2020	31 March 2019
Rate of increase in pensionable salaries	**2.90%**	2.00%	2.30%
Rate of increase in pension payment	**2.72%**	1.98%	2.23%
Discount rate	**2.00%**	2.40%	2.40%
Inflation assumption	**2.90%**	1.80%	2.10%

The mortality assumptions used for the actuarial valuation were:

	31 March 2021	31 March 2020	31 March 2019
Life expectancy from age 65 (male age 65)	**20.9**	20.8	21.1
Life expectancy from age 65 (male age 45)	**21.9**	21.9	22.4

The changes to the Company balance sheet at March 2021 and the changes to the Company income statement for the year to March 2021, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2022 £'000	**Income statement 2022 £'000**
Initial assumptions	**369,707**	**4,897**
Discount rate assumptions increased by 0.5%	**338,232**	**4,380**
Discount rate assumptions decreased by 0.5%	**401,182**	**5,092**
Inflation rate assumptions increased by 0.5%	**394,372**	**5,468**
Inflation rate assumptions decreased by 0.5%	**345,042**	**4,326**
Total life expectancy increased by half a year	**374,300**	**5,018**
Total life expectancy decreased by half a year	**365,114**	**4,775**
Salary increase assumptions increased by 0.5%	**386,318**	**5,337**
Salary increase assumptions decreased by 0.5%	**353,096**	**4,457**

24 Employee benefit obligations *(continued)*

The assets in the scheme and the weighted average expected rates of return:

	31 March 2021	31 March 2020	31 March 2019
	£'000	£'000	£'000
Equities	**208,765**	206,548	207,355
Government bonds	**54,818**	30,261	33,357
Property / Infrastructure	**2,146**	4,640	5,558
Cash	**-**	-	-
Total market value of assets	**265,729**	241,449	246,270
Actuarial value of liabilities	**(369,707)**	(297,529)	(312,568)
Gross pension liability	**(103,978)**	(56,080)	(66,298)

Investments have been valued for this purpose at fair value at the balance sheet date. Equity investments and bonds are valued at bid price.

Analysis of amount charged to the income statement

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Current service cost	**(2,676)**	(2,709)
Past service cost	**(31)**	-
Total included within operating profit	**(2,707)**	(2,709)
Net interest cost	**(1,336)**	(1,552)
Total charged to the income statement	**(4,043)**	(4,261)

Analysis of amount recognised in the Statement of comprehensive income ("SOCI"):

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Actuarial (loss)/gain on liabilities	**(72,444)**	13,505
Experience loss on liabilities	**(554)**	-
Actuarial gain/(loss) on assets	**26,303**	(2,003)
Other gains put through OCI	**-**	-
	46,695	11,502

24 Employee benefit obligations *(continued)*

The equity investments and bonds are valued at bid price.

	2021 **£'000**	2020 £'000
Reconciliation of present value of scheme liabilities		
At 1 April	**297,529**	312,568
Current service cost	**2,676**	2,709
Interest cost	**7,027**	7,393
Employee contributions	**-**	-
Benefits paid	**(10,554)**	(11,636)
Actuarial loss/(gain)	**72,998**	(13,505)
Past service cost	**31**	-
At 31 March	**369,707**	297,529

	2021 **£'000**	2020 £'000
Reconciliation of present value of scheme assets		
At 1 April	**241,449**	246,270
Expected return on plan assets	**5,691**	5,841
Actuarial gain/(loss)	**26,303**	(2,003)
Benefits paid	**(10,554)**	(11,636)
Employer contributions	**2,840**	2,977
Employee contributions	**-**	-
At 31 March	**265,729**	241,449

25 Impact of COVID-19

The current economic conditions continue to create uncertainty around trading performance, in particular in relation to COVID-19. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company has adequate resources to be able to continue to operate for the foreseeable future. Accordingly, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

26 Ultimate parent undertaking

The Company's immediate parent Company is Babcock Support Services (Investments) Limited, a Company registered in England and Wales. The Company's ultimate parent Company and controlling party is Babcock International Group PLC, a Company registered in England and Wales. The only Group in which the results of the Company are consolidated is that headed by Babcock International Group PLC.

Copies of Babcock International Group PLC financial statements are available to the public from the following address:

The Company Secretary
Babcock International Group PLC
33 Wigmore Street
London W1U 1QX