MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Supplementary Agenda

Meeting: Audit and Assurance Committee

Date: Monday 8 June 2020

Time: 10.00am

Place: Teams Virtual Meeting

Members

Anne McMeel (Chair)
Dr Lynn Sloman (Vice-Chair)
Kay Carberry CBE
Dr Mee Ling Ng OBE
Dr Nelson Ogunshakin OBE

As provided for under section 100B(4)(b) of the Local Government Act 1972, the Chair is of the opinion that the attached papers should be considered as late items as information in relation to them was not available at the time that the agenda and papers were published. The Financial Statements were published on 31 May 2020. The reason for urgency is that the Financial Statements are now available for public consultation and there is not another meeting of the Committee before the Board is asked to approve the Financial Statements on 29 July 2020. The EY report needs to be considered alongside the Financial Statements.

Copies of the papers and any attachments are available on tfl.gov.uk How We Are Governed.

Further Information

If you have questions, would like further information about the meeting or require special facilities please contact: Jamie Mordue, Secretariat Officer; telephone: 020 7983 5537;.

For media enquiries please contact the TfL Press Office; telephone: 0845 604 4141; email: PressOffice@tfl.gov.uk

Howard Carter, General Counsel
Wednesday 3 June 2020

Supplementary Agenda
Audit and Assurance Committee
Monday 8 June 2020

5 TfL's Statement of Accounts for the Year Ended 31 March 2020

(Appendix 1) (Pages 1 - 202)

Chief Finance Officer

The Committee is asked to note the draft Statement of Accounts and the delegation to the Chief Finance Officer to make any adjustments arising from the ongoing audit work prior to submission to the Board.

Appendix 1 - Statement of Accounts for Year Ended 31 March 2020 was published on the TfL website on 31 May 2020.

8 EY Report to Those Charged with Governance

(Pages 203 - 224)

Chief Finance Officer

The Committee is asked to note the report.

DRAFT

Transport for London

Financial Statements
For the year ended 31 March 2020

The status of the Statement of Accounts is unaudited, and the Statement of Accounts as published for the purposes of the exercise of public rights may be subject to change prior to the conclusion of audit.

I confirm that this Statement of Accounts presents a true and fair view of:

(i) the financial position of Transport for London at the end of the financial year to which it relates; and

(ii) Transport for London's income and expenditure for the financial year ended 31 March 2020

A.J. King.

Antony King
Group Finance Director and Statutory Chief Finance Officer

31 May 2020

Contents

Narrative Report and Financial Review

Overview

These are extraordinary times for TfL, for London, and indeed for the whole of the United Kingdom. Our purpose is to connect Londoners and all our communities by keeping London moving, working and growing, to make life in our city better. The coronavirus pandemic (COVID-19) has challenged this over recent months, causing us to change our messaging, initially, to "Stay at home" and "Only travel if it is essential and more recently to "Stay Alert". Meanwhile we have continued to provide a safe and reliable network of services to transport key workers, and, more recently, those who absolutely need to use public transport to travel to work. The safety of our colleagues and those using our services is our absolute priority and, working with the Mayor, we will continue doing all that we can to protect our staff and those critical workers who need to use our services. It is a matter of great sadness that a number of our colleagues have passed away due to the coronavirus. The incredibly important role that they have played for this city will be remembered by all of us forever.

The ongoing requirement to provide services, and to maximise capacity while observing the necessary social distancing measures, means, for us, a continued high level of relatively fixed operational costs, combined with a significant reduction in our fares and other income – the financial effects of which were already beginning to be felt in the last few weeks of the 2019/20 financial year. As set out in the Prospects, outlooks, principal risks and uncertainties section of this report, the impact on our 2020/21 revenues is expected to be severe and compounds the underlying financial challenges TfL was already facing in relation to the loss of the operating grant from central Government, the impact of a subdued national economy, and the delay to the opening of the Elizabeth line.

During 2019/20, TfL continued to make good progress towards its goal of turning a deficit on the net cost of operations into a surplus by 2022/23. Like-for-like operating costs were held to an increase of only one per cent against 2018/19 levels, below the level of inflation. This reflects our continued focus on cost savings while observing the need to maintain a safe and reliable network. The pressure on our revenues resulting from coronavirus, however, is so large that no amount of cost saving initiatives will be capable of making up the anticipated shortfall. As a consequence, and alongside seeking opportunities to further minimise our expenditure and maximise other sources of income, since the year end we have worked closely with the Government to secure additional support to alleviate the financial impact of the pandemic on our operations while supporting the safe restart of the Capital's transport system.

We have made use of the Government's Coronavirus Job Retention Scheme, initially furloughing 7,000 employees across the organisation to mitigate our costs. We have also secured an extraordinary funding and financing package from the Secretary of State which gives TfL access to £1.6bn of funding for an initial Support Period until 17 October 2020. At that point in time, as the longer-term impact of the coronavirus outbreak becomes clearer, a further, medium-term support package will be put in place, to secure TfL's ability to continue to operate and support London and the United Kingdom through the pandemic and into economic recovery.

Narrative Report and Financial Review (continued)

Meanwhile, we have continued to support the Government's efforts to stop the spread of coronavirus and mitigate the financial impact of lockdown for Londoners. As set out later in this report steps we have taken range from granting a three-month rental holiday to all small and medium enterprises for whom we are the landlord, to temporarily suspending our road user charging schemes in the early part of lockdown. From a safety perspective we implemented middle door only boarding of buses to reduce the risk of our drivers contracting the virus from passengers until additional safety measures could be put in place and we rolled out the use of a new anti-viral cleaner that kills viruses and bacteria on contact across all our services.

TfL has continued delivering essential transport services supporting the crisis response and is committed to partnering with the Government over the coming months and years to drive economic recovery and growth.

Summary of financial performance

In 2019/20, we continued our strong track record of delivering our financial strategy. We once again kept a tight control over our operating expenditure. Like-for-like operating costs at £5,644m for the year came in at £173m below the level experienced in 2015/16 when we first began our savings programme. Over 2019/20, we have worked in consultation with our trade unions to review 25 business areas and more than 3,000 roles. Overall, operating costs rose only slightly against the prior year, from £7,561m in 2018/19 to £7,746m – the increase reflecting the incremental costs of preparations for the opening of the Elizabeth line, the commencement of the new Ultra Low Emission Zone (ULEZ) in April 2019, and additional services on TfL Rail. We also recognised a further £19m of exceptional costs relating to the safe stop of certain capital investment projects as a result of the coronavirus outbreak.

On the revenue side, our performance has been more mixed. Demand across all our modes of transport was better than anticipated in the first half of 2019/20. However, we saw a sharp deterioration in demand towards the end of 2019, which was consistent with the poor Christmas retail performance on the high street. This trend showed signs of improvement in January, but from February our passenger revenues began to see an adverse impact from changing travel patterns as a result of the emerging coronavirus pandemic. For the full year, fares income fell 2.1 per cent during the year from £4,854m in 2018/19 to £4,751m in 2019/20.

An increase in non-fares revenues, from £802m in 2018/19 to £1,011m, primarily reflected the launch of the Ultra Low Emission Zone in April 2019, which resulted in a fall in roadside nitrogen dioxide pollution by 36 per cent in the zone in the first six months, compared to 2017 levels.

The combined impact of the above has resulted in an increase in the net cost of services for the year to £1,984m, 4.1 per cent worse than 2018/19's total of £1,905m.

Narrative Report and Financial Review (continued)

In 2019/20, our financing and investment income increased significantly from £149m to £984m, reflecting a gain of £934m recognised on the revaluation of investment properties. In order to create a consolidated commercial property portfolio, assets previously held as operational have been identified and transferred into a designated investment portfolio, alongside a range of existing investment properties. This is a vehicle to deliver homes under the Mayor's Transport Strategy, and a growing sustainable income stream, as well as to facilitate the ability to generate both debt and equity to fund capital requirements. A deferred tax charge of £243m was separately recognised in the year in respect of this fair value gain.

Financing and investment expenditure also increased during the year from £475m to £520m due to higher levels of interest payable on our leasing arrangements as a result of our adoption of the new lease accounting standard, IFRS 16 Leases, in 2019/20. The application of IFRS 16 has no impact on our underlying cashflows but acts to replace operating lease charges, previously included within operating expenditure, with an amortisation charge in respect of right-of-use assets (recognised as a component of operating expenditure) and a financing charge, which is recognised within financing and investment expenditure, in our Statement of Comprehensive Income and Expenditure. Smaller increases were seen in relation to the interest charge on borrowings and in relation to the net interest payable on the Group's defined benefit pension obligation.

Grant income, at £3,268m, was £252m above 2018/19 levels, reflecting additional Crossrail funding received from the Greater London Authority (GLA). The share of losses from our associated undertakings and joint ventures reduced from £95m in 2018/19 to £52m in 2019/20.

These items combined to give an overall surplus on the provision of services after tax for the year of £1,404m – significantly above the prior year surplus of £659m. However, after reserves transfers this translated to a reduction in usable reserves from £1,627m as at 31 March 2019 to £1,604m at 31 March 2020, below the 2019/20 forecast published in our December 2019 Business Plan.

The level of capital works undertaken fell during the year to £2,717m, 21.6 per cent below the prior year total of £3,467m. In addition to £452m of capital spend on renewals works, this included investment of £1,026m on the Crossrail project. Other significant investment projects progressed in the year included the Four Lines Modernisation project, the Northern Line Extension, major station improvement works, and the design and planned construction of Piccadilly line rolling stock.

Narrative Report and Financial Review (continued)

Funding sources

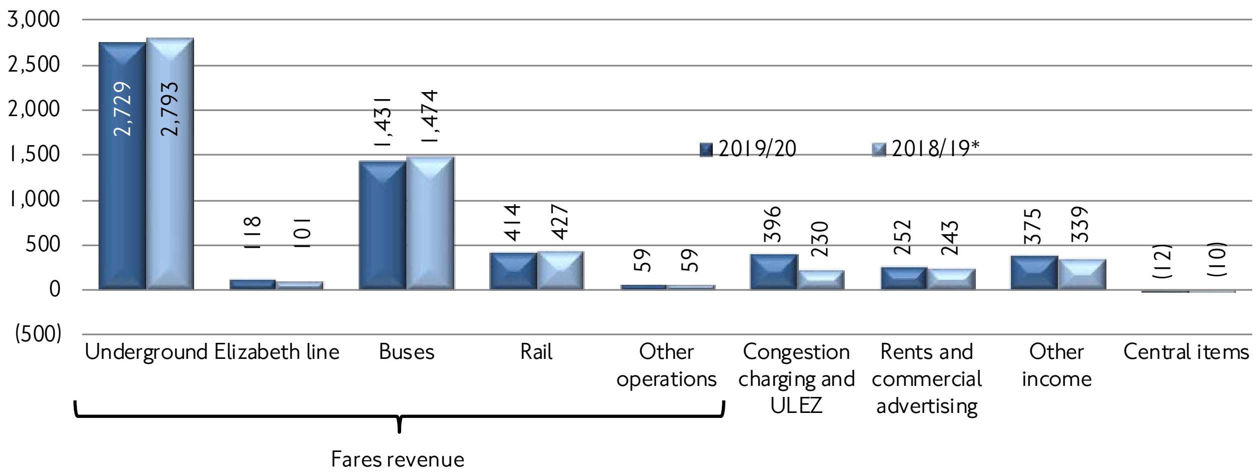
Our activities are funded from four main sources:

- Passenger fares income – historically this has been the largest single source of our income
- Other income, including commercial activity and income from the Congestion Charge
- Grant income, including a share of London Business Rates passed down to TfL from the GLA
- Prudential borrowing (the amount and profile of which has been agreed to 2020/21 with central Government in the March 2017 Funding Agreement) and cash reserves

The annually published TfL Business Plan is financially balanced, with planned funding sources sufficient to meet planned expenditure. Short-term timing differences between expenditure and funding are managed through transfers to or from our cash reserves.

Gross income

Gross income breakdown by type (£m)



* Figures for 2018/19 have been restated to align with a revised internal management structure

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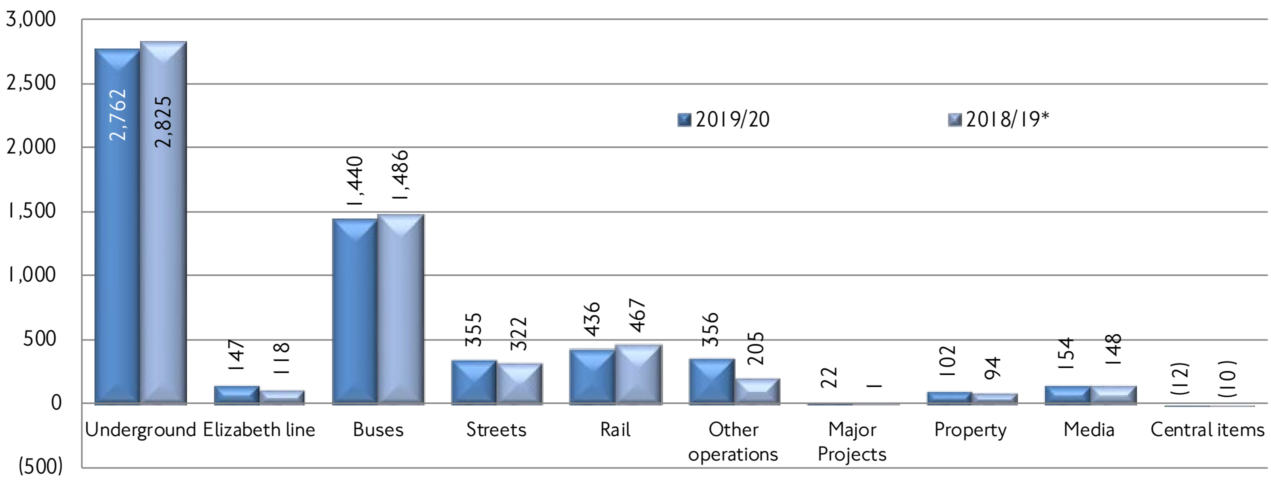
Narrative Report and Financial Review (continued)

Total gross income increased by 1.9 per cent from £5,656m in 2018/19 to £5,762m in 2019/20, driven by increased road user charges as ULEZ charging came into force during the year.

Within this overall total, however, TfL's primary source of gross income came from passenger fares income, which represented 82.3 per cent of all revenue generated. Fares income fell during the year from £4,854m in 2018/19 to £4,751m in 2019/20, reflecting the impact of coronavirus in March 2020, which compounded an underlying reduction in demand growth on the Underground and buses seen throughout the year. As well as falling demand, prices increases were also kept low. TfL fares decisions are taken annually by the Mayor whose decision for 2020 was to again freeze fares in line with his policy for his four-year term. As with previous years, Travelcard increases and associated caps are set in agreement with the train operating companies under fares regulations set by the Government. These increased on average by 2.8 per cent from 1 January 2020 – in line with the 2.8 per cent annual increase in the Retail Prices Index in the benchmark month of July 2019.

Total gross income by operating division (£m)



* Figures for 2018/19 have been restated to align with a revised internal management structure

Total gross income for the Underground was £2,762m, £63m (or 2.2 per cent) below 2018/19 levels, primarily reflecting the impact of coronavirus travel restrictions implemented in March 2020. Underlying passenger demand growth was positive for the first three quarters of the year, albeit lower than budgeted. However, passenger journey volumes for the full year fell from 1,384 million in 2018/19 to 1,337 million in 2019/20 – a 3.4 per cent reduction. Approximately 80 per cent of this adverse variance was attributable to coronavirus with the remainder owing to the bad weather conditions in February and a slowing in demand growth from the end of October.

Narrative Report and Financial Review (continued)

Average yield per journey improved from £2.02 per journey in 2018/19 to £2.04 in 2019/20. This was partly owing to the increase in average fares for National Rail in January 2019 which has an impact on a proportion of TfL tickets, including Travelcards.

Gross income for the Elizabeth line division (currently operating as 'TfL Rail') increased by 24.6 per cent from £118m in 2018/19 to £147m in 2019/20, despite the impact of coronavirus. Within this total, passenger income increased from £101m to £118m reflecting the Paddington to Reading services that commenced in December 2019 and the full-year effect of the Paddington to Hayes & Harlington and Heathrow services.

Income from Buses fell 3.1 per cent from £1,486m in 2018/19 to £1,440m in 2019/20. Passenger income at £1,431m was £43m adverse to the prior year, owing to the impact of coronavirus which reduced passenger demand in March by an estimated 68 million passenger journeys. Total passenger journeys for the year fell 4.9 per cent to 2,112 million in 2019/20 from 2,220 million in 2018/19. Underlying passenger journeys declined by 4.4 per cent. However, due to an improvement in yield, and after adjusting for the impact of coronavirus, passenger income was broadly in line with 2018/19. The average yield increased from £0.66 per journey in 2018/19 to £0.68 in 2019/20.

Streets' income at £355m was £33m higher than 2018/19 levels because of changes made to the Congestion Charge scheme to remove the private hire vehicle (PHV) exemption. The increase was approximately £10m lower than had been expected owing to a reduction in Congestion Charge volumes and the suspension of road user charging in March 2020 because of the coronavirus pandemic.

Within the Rail division, total income was £31m below prior year levels. Within this, passenger income was £13m below 2018/19 due to the impact of coronavirus. Underlying performance remained broadly in line with the prior year as the division suffered lower growth than anticipated from the new London Overground trains and saw fewer passenger journeys on the DLR. In total, passenger journeys on the Overground fell to 187.1 million from 189.5 million, while journeys on the DLR fell from 121.9 million in 2018/19 to 116.8 million in 2019/20.

Income from Other operations (which comprises a broad range of activities including taxi licensing, Dial-a-Ride services, London River Services, the Emirates Air Line, cycle hire and the Victoria Coach Station), rose by 73.7 per cent from £205m in 2018/19 to £356m in 2019/20. Within this total, passenger income remained static at £59m. Other operating income, however, rose by £151m – primarily reflecting the introduction of ULEZ in April 2019.

Within the other divisions, Media saw a 4.1 per cent increase in revenues to £154m in 2019/20, following the deployment of higher quality, higher impact digital advertising. Major projects saw an increase in income from £1m in 2018/19 to £22m in 2019/20; and Property saw an 8.5 per cent increase in revenues from £94m to £102m.

Narrative Report and Financial Review (continued)

Government grants and other funding

The main source of grant income for 2019/20 was funding received from the GLA as part of local authority devolved arrangements. The Mayor retains a share of London's business rates and then allocates a proportion of this to TfL as a resource grant. Other sources of grant income include specific capital grants from the Department for Transport (DfT) and the GLA for the Crossrail project and other projects, such as the Northern Line Extension.

The total of resource and capital grants receivable by TfL in 2019/20 amounted to £3,268m (2018/19 £3,016m).

Prudential borrowing

The table below summarises movements in the value of borrowings during the year.

Movement in borrowing (£m)	
Opening borrowing at 1 April 2019 per the accounts	11,145
European Investment Bank (EIB) loans – £100m due in 2030	100
Public Works Loan Board (PWLB) loans – five tranches borrowed totalling £516m due between 2021-2059	516
Issuance of rolling short-term Commercial Paper	25
Scheduled repayments on PWLB and EIB loans	(96)
Fair value movements, issue premia/discounts and fee adjustments	(1)
Closing borrowing at 31 March 2020 per the accounts	**11,689**

The authorised limit for direct borrowings for the Corporation set by the Mayor for 2019/20 was £13,490.0m.

At 31 March 2020, TfL had one committed facility with Export Development Canada (EDC) that was not fully drawn and is expected to be fully utilised over the next year.

In addition to these sources of financing, other sources include Private Finance Initiative contracts (PFIs) (notes 27 and 28 to the accounts) and other leasing arrangements which are discussed in more detail in note 14 to the financial statements.

Narrative Report and Financial Review (continued)

Uses of funding

Gross expenditure

Gross expenditure, which includes day-to-day operating costs as reported to management (see note 2 to the financial statements) and Central statutory reporting items (including depreciation and amortisation) increased by 2.4 per cent from £7,561m in 2018/19 to £7,746m in 2019/20. Excluding these Central items, expenditure increased by 1.9 per cent from £6,295m to £6,415m.

The level of operating costs reflected our continued focus on cost savings while observing the need to maintain a safe and reliable network. Year-on-year increases were due to inflation within the bus operators' contracts, train leasing costs, charges paid to Network Rail and concession costs.

Year-on-year costs of operations (£m)

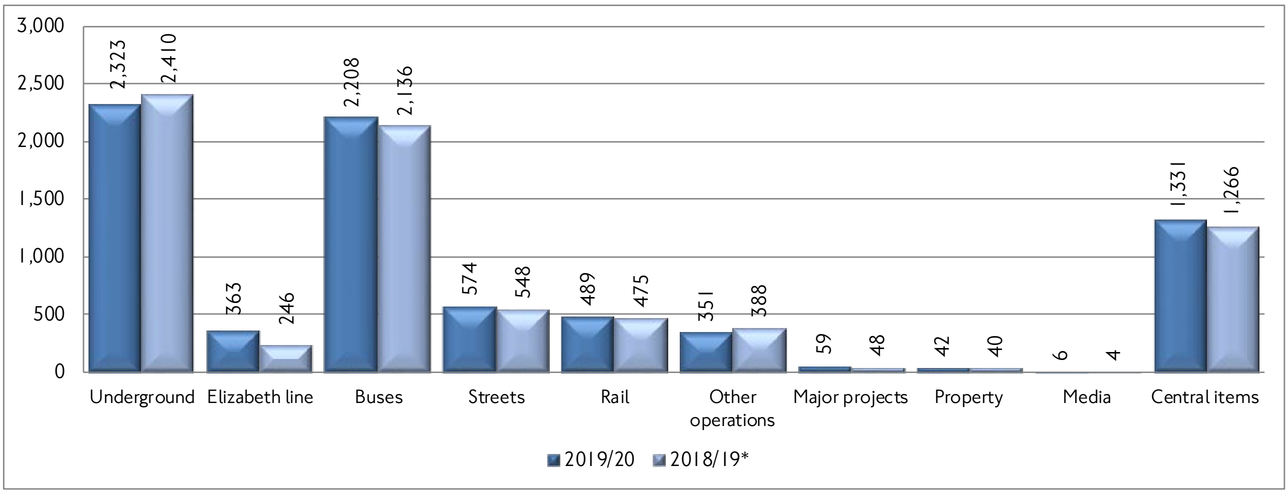
	2020	2019
Cost of operations per internal management reports	**(6,415)**	(6,295)
Adjust for one-off items incurred	**35**	135
Adjust for investment programme operating costs included in operating expenditure	**284**	335
Adjust for Elizabeth line operating cost increases	**354**	237
Adjust for other new services (ULEZ and new London Overground trains)	**64**	-
Adjust for one-off bus operators' payment	**34**	-
Cost of operations (like-for-like basis)	**(5,644)**	(5,588)
Year-on-year increase	**56**	
Year-on-year percentage increase	**1.0%**	

Cost control initiatives continued throughout the year as we worked towards our target of turning a deficit on the net cost of operations into a surplus by 2022/23. The small year-on-year increase in like-for-like cost of operations was primarily a reflection of inflation within the bus operators' contracts.

In 2019/20, one-off items included £28m of costs relating to additional cleaning and safe stop of construction projects attributable to our coronavirus response. One-off items in 2018/19 included costs relating to TfL's restructuring programme and a £70m pension recovery plan payment.

Narrative Report and Financial Review (continued)

Gross expenditure by operating division (£m)



* Figures for 2018/19 have been restated to align with a revised internal management structure

On the Underground, costs fell by £87m (3.6 per cent) in the year, reflecting a continued drive to achieve cost savings while maintaining a safe and reliable network.

Operating expenditure on the Elizabeth line rose by £117m compared to 2018/19, owing to the costs of operating the new Elizabeth line rolling stock, combined with increased charges paid to Network Rail and increased concession costs reflecting the expanded service provision.

The cost of operating the Bus division increased 3.4 per cent from £2,136m in 2018/19 to £2,208m, primarily owing to the annual contracted price inflation within the bus operators' contracts, which resulted in a year-on-year cost increase of £57m. The remainder of the increase included the costs of a new bus driver retention payment scheme introduced in March 2020, funded by the Mayor though additional business rates grant, under which drivers are eligible to receive a payment of £1,000 after completing two years of service and a further £600 after their third year.

Within Streets, expenditure increased from £548m in 2018/19 to £574m in 2019/20. This reflected the increased costs of road user charging arising from the removal of the discount previously granted to private hire vehicles, combined with increased levels of credit loss provisioning owing to the expected collection impacts from coronavirus on road user debtor balances.

Narrative Report and Financial Review (continued)

Operating expenditure for the Rail division grew 2.9 per cent from £475m in 2018/19 to £489m in 2019/20. The increase reflected contractual inflation and higher track access costs. Costs for Other operations, meanwhile, reduced to £351m for 2019/20 from £388m in 2018/19. A one-off £70m pension recovery plan payment made in 2018/19 was not quite matched by the increased costs of running the ULEZ scheme in 2019/20. As well as costs in respect of ULEZ, London Dial-a-Ride, London River Services, London Taxi and Private Hire, Santander Cycles, the Victoria Coach Station and the Emirates Air Line, spend in this category also included the costs of the Crossrail 2 project team and the Group Planning team.

In the Major projects division, costs rose from £48m in 2018/19 to £59m in 2019/20 as a result of increased expenditure on non-capitalisable projects. Operating expenditure in the Property and Media divisions was in line with the prior year at £42m in 2019/20 for Property versus £40m in 2018/19, and £6m for Media versus £4m in 2018/19.

Operating costs within Central items increased from £1,266m in 2018/19 to £1,331m in 2019/20. As set out in note 2, these costs represent items not included in internal management reporting. The most significant line item within this balance comprises depreciation, amortisation and impairment charges recognised in relation to property, plant and equipment and intangible assets. The total of these charges increased from £1,064m in 2018/19 to £1,069m in 2019/20. The Central items category also absorbs the difference between the accounting methodologies used in the statutory versus the management accounts. The most significant of these relate to the treatment of defined benefit pension schemes, and to the treatment of former operating lease payable arrangements. In our management accounts the costs of these items are recognised within operating expenditure based on cash flows, whereas in the statutory financial statements, as set out in the Accounting Policies notes to the accounts, IFRS 16 Leases and IAS 19 Employee Benefits are applied.

Net interest and finance income/charges

Gross financing and investment expenditure for the year was £520m, £28m below the prior year.

Within this overall total, interest payable on direct borrowings increased by 1.9 per cent from £414m to £422m. This increase reflected a full year of interest costs on borrowings of £728m raised in 2018/19, coupled with the impact of the £545m increase in borrowings during 2019/20. As at 31 March 2019, TfL had a nominal £11.175bn of borrowings, of which approximately £0.7bn was short-term borrowing under the Commercial Paper programme. The weighted average interest rate was 3.59 per cent and the borrowings had a weighted average remaining life to maturity of 19.4 years. As at 31 March 2020, the nominal value of borrowings outstanding had increased to £11.720bn, of which £0.7bn was short-term Commercial Paper. The weighted average interest rate was 3.48 per cent and the borrowings had a weighted average life to maturity of 18.1 years.

Narrative Report and Financial Review (continued)

Interest payable on borrowings was offset, to a degree, by the amount of interest capitalised into the cost of qualifying property, plant and equipment. Interest capitalised in 2019/20 totalled £109m (£104m in 2018/19).

Interest payable on leases, including contingent rentals in respect of PFIs, increased from £46m in 2018/19 to £82m in 2019/20, primarily reflecting the impact of the application of the new accounting standard, IFRS 16 Leases, from 1 April 2019. The implementation of this standard resulted in the recognition of new right-of-use lease liabilities on 1 April 2019 totalling £1,768m (see note 45). New rolling stock leases recognised in relation to the delivery of trains on the London Overground and the Elizabeth line during the year has augmented this total such that the balance of right-of-use lease liabilities outstanding as at 31 March 2020 was £2,417m. The Group's net interest expense in respect of its defined benefit pension scheme obligations increased from £113m in 2018/19 to £123m in 2019/20.

Gross financing and investment income totalled £984m, an increase of £835m from 2018/19. This was primarily due to an increase in gains realised on the revaluation of our investment properties, reflecting the creation of a consolidated commercial property portfolio. This is a vehicle to deliver homes under the Mayor's Transport Strategy, and a growing sustainable income stream, as well as to facilitate the ability to generate both debt and equity to fund capital requirements. As a consequence, gains recognised increased from £5m in 2018/19 to £934m in 2019/20.

Other financing and investment income fell from £144m in 2018/19 to £50m in 2019/20. Within this total, gains from the disposal of investment properties fell from £132m in 2018/19 to £32m in 2019/20, reflecting the disposal of fewer Crossrail over-station development sites during the year. Interest receivable on finance leases held in respect of advertising assets rose from £2m in 2018/19 to £3m in 2019/20 reflecting TfL's increased investment in new technology. Similarly, investment returns on cash and other investment balances rose during the year, from £10m in the prior year to £15m in 2019/20, reflecting higher average cash balances during the year.

Capital expenditure

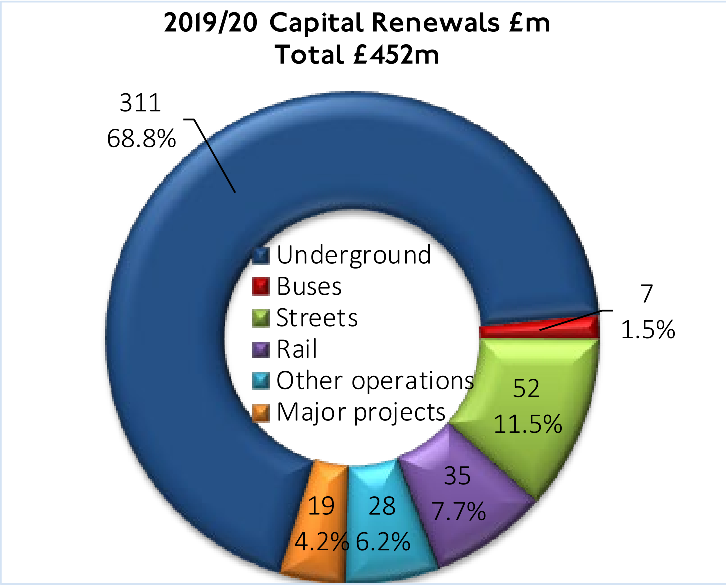
Capital expenditure by business area, excluding Crossrail (£m)

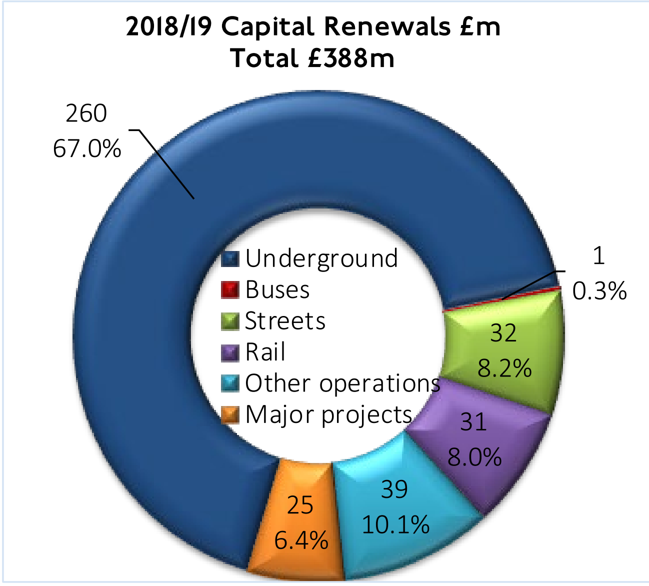
Group capital expenditure for the year, including Crossrail, totalled £2,717m (2018/19 £3,467m). Non-Crossrail related expenditure totalled £1,691m (2018/19 £2,078m). Within this total £452m was spent on capital renewals (2018/19 £388m) and £1,239m (2018/19 £1690m) was spent on new capital investment.

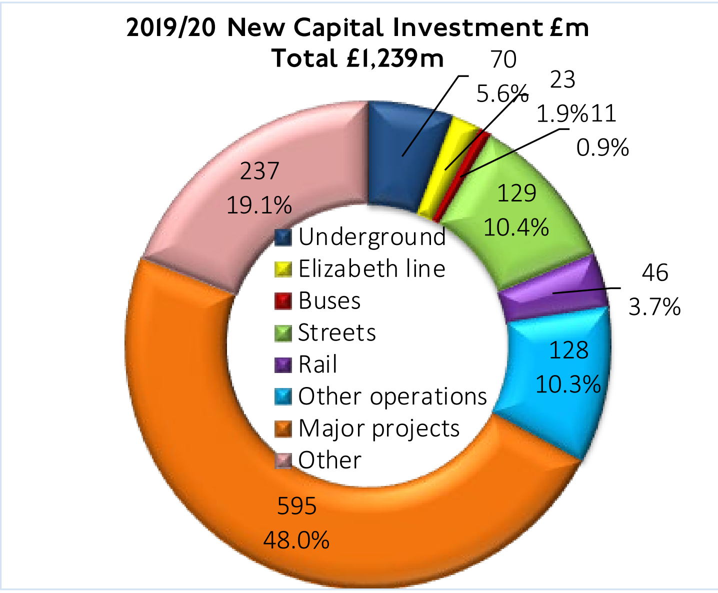
As part of the coordinated TfL response to coronavirus, capital programmes ceased non-essential site works at the end of March 2020. Non-site activity continues while we prepare for restarting site works as soon as it is safe to do so.

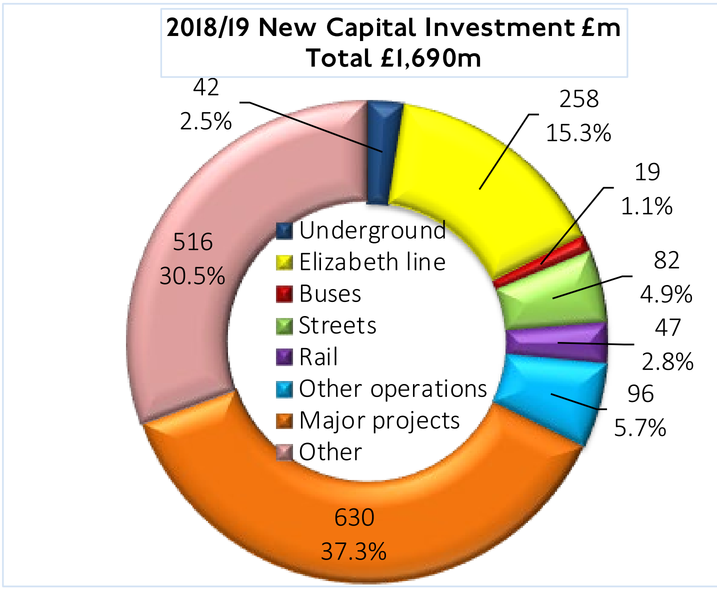
Narrative Report and Financial Review (continued)

Capital expenditure by business area, excluding Crossrail (£m)









Figures for 2018/19 in the charts above have been restated to align with a revised internal management structure

On the Underground, capital expenditure totalled £381m, up from £302m in 2018/19. This included £70m of new capital investment in addition to £311m of renewals spend.

More stations will become step-free by the end of calendar year 2020 as part of the Mayor's step-free access initiative. Mill Hill East was made step-free in February of this year, with installation underway at all the remaining sites. Cockfosters and Amersham will be the next stations to be completed once construction work resumes.

Narrative Report and Financial Review (continued)

On the Jubilee line, all 63 trains have been refurbished and are back in service. The refurbishments include a wheelchair area, new flooring and refreshed exteriors and interiors.

We replaced over 9.1km of new track across the Underground network, exceeding our target of 7.8km, which will continue to improve reliability, reduce maintenance costs and increase capacity. Two new cranes required for track work in tunnels arrived at the Ruislip Depot in November. The machines are now being tested and are expected to be in service in the summer of 2020, enabling us to complete more work overnight and at weekends.

In addition, we opened a new entrance at Finsbury Park station to the public in December 2019 and our work on the City Road Heat Exchanger was completed, helping to generate hot water for social housing in Islington using the heat from our tunnels. Projects to increase capacity and improve the experience of our customers continue at stations across the network.

On the Elizabeth line, capital investment expenditure of £23m was incurred, primarily in relation to station improvements. Expenditure in 2018/19 included rolling stock production costs prior to the sale of the fleet.

Total capital expenditure within the Buses division of £18m in 2019/20 is comparable to the £20m spend in 2018/19. The nature of capital expenditure changed year-on-year as the focus turned to the procurement of zero emission, single deck buses and the development of new on-board performance management and passenger information systems.

Within the Streets division, £181m was spent on capital projects compared to £114m in 2018/19. This comprised £52m of renewals expenditure, in addition to £129m on new capital investment projects. Capital costs increased compared to the prior year, owing to the delivery of cycling and other road schemes. The focus is on reducing the number of people killed or seriously injured while using London's roads and promoting healthy travel choices, such as walking and cycling.

Capital expenditure in Rail totalled £81m in 2019/20. Within this total, new capital investment, at £46m, continued at previous years' levels. Works included station enhancements, on both London Overground and DLR routes, designed to increase capacity, relieve congestion and improve accessibility. A new-look, upgraded White Hart Lane station, was unveiled in August 2019. Construction continued throughout the year on the capacity enhancement project at Custom House station to provide an improved interchange with the new Elizabeth line station.

Narrative Report and Financial Review (continued)

Capital expenditure of £156m for the year in Other operations comprised £128m of new capital investment in addition to £28m of renewals expenditure. Within new capital investment, work continued on the Emergency Services Network project and the mobile network project – projects aiming to deliver 4G mobile communications capability throughout the network, including on the London Underground.

The Major projects directorate is responsible for our largest and most complex projects. It handles line upgrades, the Deep Tube Upgrade, network extensions and major station upgrades and capacity improvements. Capital expenditure in the directorate totalled £614m in 2019/20, including £595m of new capital investment. Significant progress was made on a number of key projects with 30 of 34 tier one strategic milestones delivered

Within this overall total, £240m was spent on the Four Lines Modernisation project. This project seeks to transform some of the world's oldest underground lines into a high performing, modern railway. Subsequent to the introduction of 192 new, larger, walkthrough trains across the Circle, District, Hammersmith & City and Metropolitan lines in 2018/19, we are in the process of replacing and improving outdated signalling, power and depot assets. Commissioning of the Second Signalling Migration Area between Latimer Road and Euston Square on the Circle and Hammersmith & City lines and from there to Finchley Road on the Metropolitan line, and to Paddington on the District and Circle lines, was completed on 31 August 2019. Capacity on these lines is expected to increase by 33 per cent once the upgrade is complete in 2023.

A further £60m was invested in relation to the designed and planned construction of Piccadilly line rolling stock. In November 2018, we signed a £1.5bn contact with Siemens to design and build a new fleet of Piccadilly line trains. Following the award of the contract, Siemens have been developing concept designs for the new trains. These were presented to the Independent Disability Advisory Group and the Accessibility Stakeholder Forum during the year and received positive feedback.

£174m was spent during 2019/20 on the Northern Line Extension. Running from Battersea Power Station to Kensington via Nine Elms, the extension will bring Battersea and the surrounding area within 15 minutes of the City and the West End, supporting the creation of around 25,000 jobs and more than 20,000 new homes. In June 2019, the final piece of track was installed which has allowed engineering trains to travel end to end through the 3.2km extension to Battersea for the first time. The UK Power Networks (UKPN) transformer rooms have been energised at Kennington Green and Kennington Park. Achieving UKPN power-on is a key step towards getting the Northern Line Extension operational.

Narrative Report and Financial Review (continued)

The construction of new stations at Battersea and Nine Elms also progressed. At Battersea Power station, all platform surfaces are tiled, and the trackside acoustic panelling has been fitted. Escalators have been installed and are going through functional testing. The Northern Line Extension project won gold for the Battersea and Kennington sites and silver for Nine Elms at the Considerate Constructors Scheme National Site Awards. It was also awarded the Royal Society for the Prevention of Accidents' gold award for the third consecutive year. The extension is expected to open in 2021.

£94m was invested in the Major stations upgrade programme. During the year, works progressed at Bank station to improve access, circulation and interchange with the aim of increasing capacity by 45 per cent. Construction of a new triple escalator tunnel to serve the DLR was commenced and by 31 March 2020 a new escalator barrel had been connected to the Central line via the final two cross passages. This is expected to reduce connection times from the Central line to the Northern line and DLR.

On 11 December 2018, TfL's Programmes and Investment Committee granted authority to procure 43 DLR trains to increase capacity and to replace approximately 60 per cent of the existing fleet (33 trains) and for the associated enabling works. Following an extensive period of review and negotiation, a contract for the supply of the next generation of DLR trains was awarded to Construcciones y Auxiliar de Ferrocarriles (CAF) of Spain in June 2019. At Beckton depot, phase one on-site enabling works have been completed, tenders have been received for the southern sidings build package and the new maintenance facility building detailed design package has commenced.

On the Silvertown Tunnel, following an extensive tender process, the design, build, finance and maintenance contract was awarded to the RiverLinx consortium on 21 November 2019. We are in discussion with third parties to put in place the relevant agreements for land access and continue to monitor existing structures and noise levels ahead of the construction phase.

Other projects progressed by the Major projects division included the London Overground extension between Gospel Oak and Barking to serve a new station at Barking Riverside. Barking Riverside is the largest housing development in east London, with planning permission for up to 10,800 new homes. Train services are expected to start from Barking Riverside station in early 2022.

New capital investment in the "Other" category, totalling £237m, included expenditure of £79m within the Property division. During 2019/20 we submitted planning applications for 456 homes next to Wembley Park Tube station with our partner Barratt London. This site will provide train crew accommodation and office space for more than 200 people. Development of new buildings will create modern, sustainable office space alongside hundreds of net-zero carbon homes.

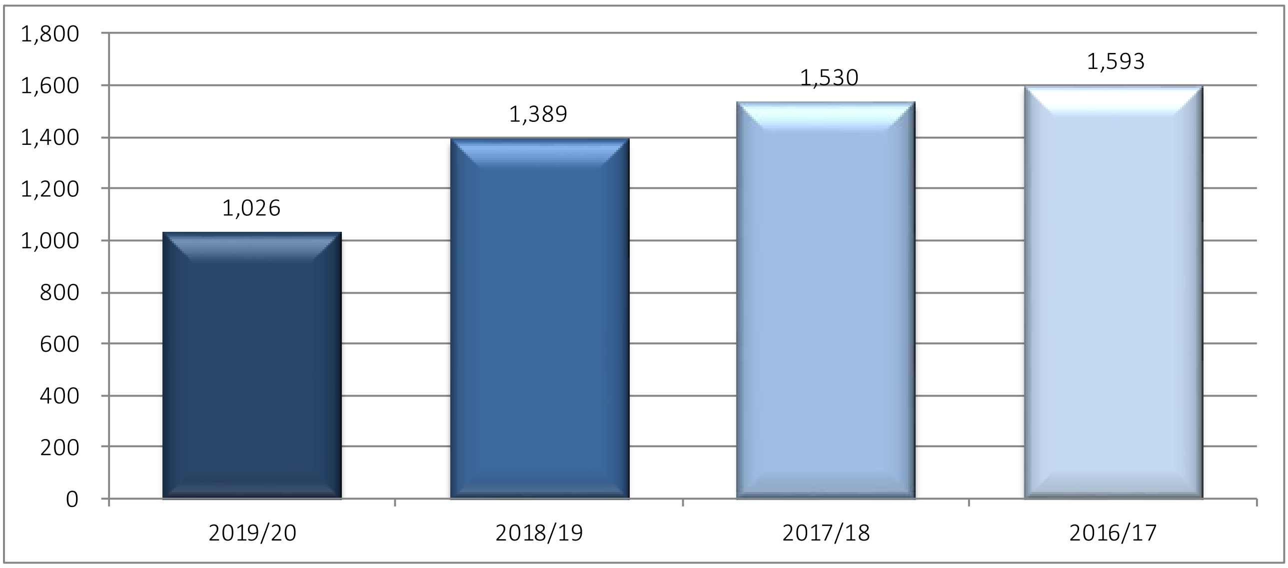
Narrative Report and Financial Review (continued)

Alongside our partner Catalyst Housing, we submitted applications for 400 affordable homes at Stanmore and Canons Park. This site, if approved, will provide step-free access to Stanmore station via a new lift.

We have also submitted planning applications for 1,300 homes across our two sites at Bollo Lane near Acton Town station, and at Southall. Our proposals for Bollo Lane include 875 homes, 50 per cent of which will be affordable, and a new green corridor creating a safe pedestrian walkway between Acton Town and Chiswick Park. Southall is the first submitted site by our partners, Connected Living London, to deliver 440 high quality rental homes, of which 40 per cent will be affordable.

Also included within the "Other" category is the cost of interest capitalised in relation to qualifying assets during the year, totalling £109m.

Crossrail capital expenditure (£m)



During the year, £1,026m was spent on the Crossrail project. On 30 August 2018, Crossrail Ltd, a subsidiary of the TfL Group, formally notified its Sponsors (the DfT and TfL) that there was insufficient time remaining to introduce Stage 3 Elizabeth line services through the central section in December 2018, as further time was required to complete the railway. A new leadership team was subsequently put in place along with a new governance structure. A robust and realistic high-level plan to deliver the rest of the project was published on 25 April 2019.

Narrative Report and Financial Review (continued)

On 10 December 2018, TfL announced a financing package provided by the DfT, the GLA and TfL, to support the final stages of the Crossrail project and to open the Elizabeth line to passengers. TfL subsequently confirmed, on 18 September 2019, a range of risk contingency contained in Crossrail Ltd's cost forecasts reflecting project uncertainties. These projections showed a central cost forecast of approximately £400m more than the funding committed under the financing package. TfL has agreed with the DfT that the financing package will remain in place while discussions are ongoing regarding how funding of these additional costs will be resolved.

Crossrail Ltd advised on 8 November 2019 that their latest assessment is that the opening of the central section will not occur in 2020, which was the first part of the previously declared opening window. The Elizabeth line would open as soon as practically possible in 2021 and a more comprehensive update would be provided in early 2020. On 10 January 2020, Crossrail Ltd issued an update on progress to complete the Elizabeth line and confirmed that it plans to open the central section in summer 2021. Crossrail Ltd expects that, following the opening of the central section, full services across the Elizabeth line route from Reading and Heathrow in the west to Abbey Wood and Shenfield in the east will commence by mid-2022. This latest assessment by Crossrail Ltd of the opening dates is within the range of modelling scenarios assumed in TfL's December 2019 Business Plan.

Much of the central section is now substantially complete. Fit-out is nearing completion at all stations, except Bond Street and Whitechapel, with all physical works in the tunnels already complete. Dynamic Testing of the signalling and train systems is advanced. The major programme focus is commencing intensive operational testing, known as Trial Running, at the earliest opportunity and completing assurance and safety certification for the railway. From the start of Trial Running, it will take between 7 to 12 months to fully test the Elizabeth line before it can open for passenger service.

In March 2020, the Prime Minister announced unprecedented measures in the Government's bid to halt the spread of coronavirus in the UK. In response, Crossrail Ltd, in line with other TfL divisions, brought non-essential physical activity at its project sites to a temporary stop. As the programme impacts of the coronavirus pandemic become clearer, Crossrail Ltd will issue an update to Sponsors but it is currently expected that Elizabeth line services through central London will commence in 2021.

Narrative Report and Financial Review (continued)

Cash and investments

Total cash, cash equivalents and investments with maturities greater than three months held by the Group at 31 March 2020 amounted to £2,209m, up from £1,882m as at 31 March 2019. The average yield from TfL's cash investments for 2019/20 was 0.78 per cent, up from 0.69 per cent in 2018/19. The low investment yield reflects the low interest rates environment and the conservative nature of TfL's investment strategy. Earmarked reserves for TfL's future investment programme, including the Crossrail project, at 31 March 2020 amount to £1,081m.

Treasury risk management

The Board approves TfL's treasury strategy and policies that have regard to the principles of the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services and to the Prudential Code for Capital Finance in Local Authorities, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and last updated in 2017. The strategy and policies also have regard to the Statutory Guidance on Local Authority Investments issued by the Ministry of Housing, Communities and Local Government, and last updated in February 2018.

Senior management directly control day-to-day treasury operations. The Finance Committee (a committee of the TfL Board) is the primary forum for discussing the annual treasury strategy, policy matters and for submitting proposals to the Board.

Treasury is managed on a centralised, non-speculative risk basis. Its purpose is to identify and mitigate residual treasury-related financial risks inherent to the Group's business operations.

Senior management continually monitor the Group's overall exposure to currency, inflation and interest rates as they affect its operating and commercial activities, as well as its financing activities (financial costs and investment returns on cash balances). TfL's objective under the 2019/20 borrowing strategy was to manage its borrowings in a manner that is affordable, sustainable and prudent, and combines value for money, flexibility, security of access to funds, and diversity of funding sources. TfL's investment strategy continues to reflect a low risk appetite consistent with the good stewardship of public funds and prioritises security and liquidity over yield.

The primary treasury-related financial risks faced by the Group are counterparty credit, liquidity, foreign exchange and interest rate movements. These are the focus of treasury policies, as set out below:

Narrative Report and Financial Review (continued)

Counterparty credit

The Group's exposure to credit-related losses, i.e. non-performance by counterparties on financial instruments, is mitigated by setting a minimum required credit rating and applying financial limits based on credit ratings. For 2019/20, TfL continued to follow a conservative investment strategy, investing in: the UK Government and its executive agency, the UK Debt Management Office (DMO); selected financial institutions with high (investment grade) credit ratings; selected supranational or sub-sovereign agencies; selected Money Market Funds; highly rated corporates; and other highly rated sovereign governments. In addition to Sterling investments, TfL had investments in Euros and US Dollars, which were swapped back into Sterling as a matter of course. The amounts that can be invested with the UK Government and the UK DMO were not limited, while amounts invested with other institutions were based on their credit rating. The minimum rating was P-2/A-2. Credit ratings are obtained from the three main rating agencies and are kept under constant review.

Funding and liquidity

Primary funding sources comprise passenger fares income, other income including commercial activity and road user charging, grant income including TfL's share of London's Business Rates and cash reserves as well as Prudential Borrowing within approved Mayoral and Government affordable debt limits. By harnessing the assortment of funding sources available to TfL, liquidity risk is primarily managed by maintaining a minimum level of cash reserves of at least 60 days' worth of forecast annual operating expenditure, equivalent to approximately £1.2bn. Maintaining sufficient cash reserves and having access to a diverse range of flexible funding sources ensures the Group has sufficient liquidity to meet its liabilities, in both normal and stressed conditions. TfL can access several sources of debt funding including the capital markets, loans from financial institutions and direct access to the UK DMO via the PWLB. With respect to managing the affordability of debt financing, debt maturities are diversified across short-, medium- and long-term horizons that broadly equate to the lives of assets purchased with this source of funding. The maturity profile of borrowing and other financial liabilities outstanding at 31 March 2020 is set out in note 35 to the accounts.

Foreign exchange rates

The Group's exposure to movements in foreign currency mainly arises from the procurement of goods or services. TfL's risk management strategy provides for measures to address highly probable exposures with a highly certain risk profile, including entering into derivative contracts.

Narrative Report and Financial Review (continued)

Interest rates

The Board approved parameters of a minimum of 75 per cent fixed rate on outstanding borrowings. The proportion of fixed rate borrowings (including Commercial Paper swapped to fixed rate through the use of interest rate derivatives) at the year end was 96.2 per cent; the remaining 3.8 per cent constituted unhedged Commercial Paper borrowing which, although it has fixed rates of interest, in practice behaves more like floating rate debt if used on a rolling basis.

Pensions

As at 31 March 2020, the majority of TfL's employees were members of the TfL Pension Fund. The Public Sector Section's deficit has decreased from £5,189m at the start of the year to £3,942m at the end of the year. The main reasons for this decrease are the change in the financial assumptions adopted (primarily the fall in expected price inflation) and positive member experience (compared to the assumptions made). These have both served to reduce the value placed on the liabilities.

These factors have been partially offset by the return on assets being lower than expected (based on last year's discount rate) and the value of the benefits accrued by active members over the year being more than the contributions paid by TfL.

The total deficit recognised in respect of all funded and unfunded pension arrangements at 31 March 2020 amounted to £4,101m (2019 £5,371m).

The latest available full actuarial valuation of the TfL Pension Fund was carried out as at 31 March 2018. The 2018 valuation showed a combined deficit on the Public Sector and Tube Lines Sections for funding purposes of £603m; and, as a result of this, the employers agreed a revised Schedule of Contributions with the Pension Fund.

Prospects, outlook, principal risks and uncertainties

In December 2019, TfL published an updated Business Plan for the next five years through to 2024/25. The Plan announced that, while focusing on the delivery of the Mayor's Transport Strategy, and making journeys in London safer, cleaner and greener, we were taking a tough approach to prioritisation within our capital investment programme, continuing only with work that is critical to maintaining current levels of safety and reliability, or with what was already contractually committed. Since that Plan was published, the unprecedented global pandemic of coronavirus has significantly impacted TfL's ability to execute its activities as envisaged and not all forecast outcomes of the published Plan will be achievable in the short to medium term.

Narrative Report and Financial Review (continued)

Our tactical response to the challenges brought on by coronavirus has been split into two phases, the shorter-term 'restart' phase and the longer-term 'recovery' phase. Seven workstreams were identified to return TfL's operations to a level commensurate with demand given social distancing measures required to be in place. These were:

- Operations
- Finances
- Projects
- People & ways of working
- Communications & Engagement
- Strategy
- Supply Chain

Each workstream lead is responsible for identifying and managing the risks to the objectives of their respective workstreams.

In support of the Government's efforts to stop the spread of Coronavirus and mitigate financial impact of lockdown for many, examples of specific short-term and temporary measures these workstreams have implemented include:

- TfL and its subsidiary, Crossrail Limited, have brought all project sites to a temporary Safe Stop unless they need to continue for operational safety reasons or essential maintenance of the transport network
- Rent reliefs, including the grant of a three-month rental holiday during the initial phase of lockdown, to all small and medium enterprises across the property estate (representing 86 per cent of TfL's tenants) to enable them to continue trading in the future
- Temporary suspension of all road user charging schemes to ensure essential workers and emergency services can travel around the city more easily during the pandemic
- Middle door only boarding of buses, to keep drivers safe from the risk of contracting the virus from passengers until additional safety measures could be put in place
- Enhanced cleaning and use of an anti-viral cleaner that kills viruses and bacteria on contact across all our services

Narrative Report and Financial Review (continued)

We also fully supported the Government's nationwide message to 'stay at home' during the lockdown. As a result, we saw demand reduce by 96 per cent on the Tube and 84 per cent on Buses in March/April with significant reductions in demand expected to continue through to 2021. We have continued delivering essential transport services supporting the crisis response. However, the fall in our revenues has had a profound impact on our finances, as passenger revenues have contributed more than 80 per cent of our total revenue income in recent years. Other income streams, including road user charges, advertising and property rentals have also been significantly adversely impacted by the changes to Londoners' travel patterns, and by TfL's implementation of other measures in response to the pandemic.

Therefore, as part of our immediate response to the crisis, the 'Finances' workstream modelled the impact of a number of revenue scenarios based on Imperial College's modelling of the impact on the UK. These indicated a possible reduction in passenger revenues ranging from £1.4bn to £3.5bn by the end of 2020/21. As a consequence, and alongside seeking opportunities to further minimise expenditure and maximise other sources of income, we have worked and will continue to work closely with the Government to secure additional support to alleviate the financial impact of the pandemic on TfL.

We have made use of the Job Retention Scheme, initially furloughing 7,000 employees across the organisation to mitigate costs during a period where there has been a stark reduction in income; activities have been paused and service levels reduced. Through the scheme, TfL receives grant income for up to a maximum of £2,500 or 80 per cent of salary per month for each individual furloughed. TfL continues to pay 100 per cent of salary and pension and other benefits as normal.

We have also secured an extraordinary funding and financing package from the Secretary of State which gives TfL secure access to £1.6bn of funding in the form of a mixture of Government grant and borrowing from the PWLB for an initial Support Period until 17 October 2020. At that point in time, as the longer-term impact of the coronavirus outbreak becomes clearer, a further, medium-term support package will be put in place.

We are well positioned to partner with the Government and the GLA, going forward, in driving economic recovery and growth. Actions over the coming months will involve ramping back to our maximum service levels and investing in infrastructure through capacity and connectivity improvements.

Nonetheless, despite securing this support from the Government, it is clear that the coming months and indeed years, will be a challenging time in the history of TfL. Our future prospects and outlook are set against a backdrop of uncertainties, many of which do not fall under TfL's direct control.

Narrative Report and Financial Review (continued)

- **Passenger demand**

  Passenger demand will continue to be affected in the short to medium term as we navigate through the pandemic. There are a variety of possibilities of future events that may follow, all of which would negatively impact on TfL fares income in comparison to 2019/20 levels and to differing extents. These include a period of extended social distancing, further lockdowns and homeworking becoming a new norm with a permanent reduction in work travel. Reductions in tourism and discretionary travel may continue after restrictions are lifted, while some leisure travel may be the last to become approved as we move out of lockdown. Timing and availability of a successful vaccine against the virus is uncertain and will be critical in restoring confidence to return to what is considered 'normal life'.

- **Reduced non-fare income**

  Non-fare income streams will also continue to be impacted in the short to medium term as businesses take stock and implement business continuity plans to remain financially viable. A share of London business rates is a primary source of income for TfL and is at risk of being lower in the future if a significant portion of businesses in London do not emerge from the crisis. Further, TfL has already and may be further required to directly forego income generation opportunities, such as rent holidays, during a period where reliefs are provided to individuals and businesses.

- **UK relationship with the European Union**

  There continues to be considerable uncertainty surrounding the UK's withdrawal from the European Union. As a local transport authority, TfL is relatively isolated from many common risks related to this. Our largest financial exposure is to macro-economic shifts, including any economic contractions that may result from a disruptive outcome where no long-term trading deal is agreed. Our income is highly dependent on public transport ridership, which is itself dependent to some degree on economic performance including the number of jobs in central London. Any outcome that has a significant impact on this is likely to lead to a reduction in our revenue. Interaction between the negotiations on the long-term trade deal and the coronavirus are currently unclear, but we are carefully monitoring events to ensure we are prepared for all possible outcomes.

Narrative Report and Financial Review (continued)

More short-term risks include potential disruptions to operations and commercial contracts, exposure to financial risks (foreign exchange and interest rates) and the wellbeing of our people. Our Brexit Working Group, with representatives from across all of TfL's activities, has developed and is implementing significant mitigation plans to enable us to continue to serve our customers in all scenarios. This includes a command and control structure that would be implemented in the event of a No Deal Brexit, working with other bodies across London and the South East. Many Brexit-related risks are key risks we are managing. They include:

(i) Operations

We are preparing an operational plan and are working closely with partners to manage any disruptions at the end of the transition period. We are working with the London Resilience Forum and our operators to ensure sufficient resources are in place to maintain our services regardless of the outcome. This includes maintaining sufficient levels of stock of critical spares to enable uninterrupted maintenance activities.

(ii) Commercial and finance

While we source some goods directly from the European Union, we are managing supply chain risks, including sub-contractors, to ensure contracts can continue. Where necessary, we use hedging to reduce exchange rate risk and placing orders for critical supplies at fixed prices. We are working with lenders to manage interest rate risks and seeking to increase certainty by fixing borrowing rates in advance

(iii) People

We are supporting our non-UK European Union citizen staff by providing guidance on applying for Settled Status. We are engaging through our Human Resources team and internal communications.

- **Security of long-term funding**

The future shape of TfL's capital investment programme over both the short to medium term and over the longer term is currently uncertain, being dependent on both macro- and micro- economic factors.

Narrative Report and Financial Review (continued)

Absorption of the financial impacts of the unprecedented coronavirus directly restricts the level and availability of funding to TfL for spend on capital investment and certain projects are likely to be delayed as a result. Over the short to medium term we will continue with those projects critical to operational safety, those related to Government priorities (such as those that promote cycling or walking) or which are already committed and nearing completion. Other pipeline projects may be cancelled or postponed, as coupled with reduced availability of funding, planned infrastructure projects may now be de-prioritised or no longer considered optimal.

Setting aside the incremental financial impacts resulting from coronavirus, we have no certainty of capital funding beyond 2020/21, which poses a challenge when planning the pipeline of investment required by London. We will, however, continue to work with stakeholders to secure the necessary funds. As part of the settlement set out in the extraordinary funding and financing package, a broad ranging, government-led review of TfL's future financial position and future financial structure is underway to look at TfL’s structure and potential sources of future funding with a view to making detailed recommendations on what decisions can be made. This will be completed by end of August 2020. We will also continue our successful programme of reducing like-for-like operating costs and work to grow our business to create new revenue streams.

In order to achieve a surplus on our operating activities, we will continue our broad programme to reduce costs, increase revenue and become more efficient, while maintaining safety, frontline services and vital investment. Savings have already been achieved in our operating model, reducing and relocating head office accommodation based on our three-hub office strategy. Other activities underway to deliver cost reductions include: modernising London Underground maintenance, driving greater efficiency from our supply chain; reviewing and re-tendering bus contracts; and reshaping the bus network within inner London and refocusing the network in outer London to meet growing demand.

Growing our commercial income is another key part of our plan to achieve an operating surplus. A more diverse range of income also supports financial security. We will use our assets to generate long-term revenues, doing more to leverage our position as one of London’s largest landowners. We plan to further develop our property, retail, advertising, telecoms and consultancy businesses to continue to deliver ongoing income streams.

These cost savings and additional sources of revenue will help us to keep investing in the new infrastructure London needs to support its growth and remain the economic engine of the UK. Our goal is to continue to deliver a world-leading public transport network that provides value for money and gets people to their destination safely and quickly.

Narrative Report and Financial Review (continued)

- **Crossrail project**

  Further delay to the completion and opening of the central tunnel section of the Elizabeth line is possible as a result of it having to safe stop during the lockdown. Any delays could have implications on the costs of construction and on the financing arrangements previously put in place in relation to the delivery of the project. As the programme impacts of the coronavirus pandemic become clearer, Crossrail Ltd will issue an update to Sponsors, but it is currently expected that Elizabeth line services through central London will commence in 2021.

- **London 2020 elections and the new transport Commissioner**

  The London 2020 elections (including the Mayoral election) are now scheduled for 2021 and the outcome, together with the appointment of the new transport Commissioner may impact the ongoing prioritisation of TfL activities and strategic deliverables.

How we manage our risks

The key strategic risks we are currently managing, which include those highlighted in the paragraphs above, and the strategic objectives to which they relate, have been identified as falling into the following categories:

Strategic Objectives	Strategic Risks
Mayor's Transport Strategy (MTS): Healthy Streets and healthy people	• Major health, safety or environmental incident • Physical and digital security
MTS: New homes and jobs	• Programme delivery • Supply chain disruption
MTS: A good public transport experience	• Major service disruption • IT system strain
Corporate: People and stakeholders	• Protecting the wellbeing of TfL's workforce • Loss of stakeholder trust
Corporate: Finance	• Ability to recover ridership • Financial sustainability

The TfL Board has overall accountability for risk management and setting TfL's risk tolerance and appetite levels. Progress of management of all key risks is presented to TfL's committees and panels. Here, members of the Board have an opportunity to scrutinise, challenge or provide recommendations as appropriate.

Narrative Report and Financial Review (continued)

TfL's Executive Committee reviews and discusses strategic risks periodically, and a full assessment of each strategic risk is carried out quarterly. The Audit and Assurance Committee is updated on key risk management activities every quarter and reviews the effectiveness of the risk process at least annually.

External audit

Appointment, re-appointment and assessment of effectiveness

In July 2016, the Secretary of State specified Public Sector Audit Appointments Limited (PSAA) as an appointing person under the Local Audit and Accountability Act 2014. This meant that for audits of accounts from 2018/19, PSAA was responsible for appointing an auditor to, and setting the level of audit fees for, relevant bodies that have chosen to opt into its national auditor appointment scheme. TfL has opted into this scheme.

Appointments were made for the duration of the five-year appointing period, covering the audit of the accounts from 2018/19 to 2022/23.

In order for an audit firm to be eligible to tender for an audit contract with PSAA, the firm must appear on the Institute of Chartered Accountants in England and Wales (ICAEW) register of Local Auditors, having fulfilled the criteria determined by legislation as evaluated by the ICAEW (The Recognised Supervisor Body). Contracts were awarded after a competitive tender that balanced audit quality with price. The primary consideration in allocating proposed appointments to individual opted-in bodies was to ensure independence. TfL's appointed external auditor is Ernst & Young LLP.

TfL's Audit and Assurance Committee, through the use of questionnaires and reports, formally reviews the performance of the external auditors at least annually against the four criteria of

- Qualification;
- Expertise and resources;
- Effectiveness; and
- Independence

The Audit and Assurance Committee remains satisfied with the quality, integrity and the effectiveness of the work undertaken by Ernst & Young LLP. The Committee carries out regular reviews to ensure that auditor objectivity and independence is maintained at all times.

Narrative Report and Financial Review (continued)

Non-audit services

Under guidance issued by Financial Reporting Council in December 2019, only non-audit work that is closely related to the statutory audit may be undertaken by an entity's auditor. Furthermore, total fees for non-audit services provided is limited to no more than 70 per cent of the average of the fees paid in the last three consecutive financial years for the audit of the audited entity and of its controlled undertakings and of the consolidated financial statements of that group of undertakings.

Under TfL's policy on external audit services, Ernst & Young is required to report to the Committee every six months on fees billed for non-audit services. During 2019/20, the non-audit services provided by Ernst & Young were in respect of audit-related services provided in relation to the use of grant monies received and for procedures relating to regulation 4 of the Railway Safety Levy Regulations 2006. Total non-audit fees for the TfL Group represented six per cent of the total statutory audit fees paid in respect of the combined audit for the TfL and Transport Trading Limited Groups, and 31 per cent of the audit fee of the Corporation as a single entity for 2019/20.

Accounting statements

TfL is a statutory corporation established by section 154 of the Greater London Authority Act 1999 (GLA Act 1999). It is a functional body of the GLA and reports to the Mayor of London.

The legal structure is complex in comparison to that of most local authorities and comprises:

- The Corporation, which is made up of London Streets, Taxi and Private Hire, and the corporate centre which, for legal and accounting purposes, constitutes TfL
- The TfL Group, which is made up of the Corporation and its subsidiaries, joint ventures and associated undertakings as set out in notes 16, 17 and 18

Under the GLA Act 1999, the Corporation is treated as a Local Authority for accounting purposes and the Statement of Accounts, which includes the individual financial statements of the Corporation, has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code), which is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

TfL's subsidiaries are subject to the accounting requirements of the Companies Act 2006 and separate statutory accounts are prepared for each subsidiary and for the Transport Trading Limited group. These accounts are prepared under International Financial Reporting Standards as adopted by the EU.

Narrative Report and Financial Review (continued)

The financial statements for the TfL Group, which consolidate the accounts of the Corporation, its subsidiaries, and the Group's share of the results and net asset of its associated undertakings on the basis set out in the Statement of Accounting Policies (paragraph c), are here presented alongside the financial statements of the Corporation.

The Statement of Accounts comprises:

- The Group and Corporation Comprehensive Income and Expenditure Statements, Balance Sheets, Cash Flow Statements and the Movement in Reserves Statements
- The Expenditure and Funding Analysis
- The Statement of Accounting Policies
- The Statement of Responsibilities for the Accounts
- Notes to the Group and Corporation financial statements

Within the Statement of Accounts, references to the 'Corporation' relate to the transactions, assets and liabilities of TfL. References to the 'Group' relate to the accounts of TfL and its subsidiaries.

Purposes of major schedules within the financial statements

The nature and purpose of the primary schedules included within the financial statements are set out below:

Comprehensive Income and Expenditure Statement

This statement shows both the revenue received and the costs incurred in the year of providing services, in accordance with generally accepted accounting practices. Other comprehensive income and expenditure comprises unrealised gains and losses including revaluation gains on property, plant and equipment, fair value movements on derivative financial instruments and remeasurement gains or losses on defined benefit pension schemes.

The Balance Sheet

The Balance Sheet shows the value as at the balance sheet date of the assets and liabilities recognised by TfL. The net assets of TfL (assets less liabilities) are matched by the reserves held by TfL. Reserves are reported in two categories. The first category is usable reserves, being those reserves that TfL may use to provide services, subject to the need to maintain a prudent level of reserves. The second category is those reserves that TfL is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold, and reserves that hold timing differences shown in the movement in reserves statement line 'Adjustments between accounting basis and funding basis under regulations'.

Narrative Report and Financial Review (continued)

The Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of TfL during the financial year. The statement shows how TfL generates and uses cash and cash equivalents by classifying cash flows as derived from operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of TfL are funded by way of passenger income and grants. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to TfL's future service delivery.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by TfL, analysed into usable reserves and other reserves. The Surplus or Deficit on the Provision of Services is different from the statutory amounts required to be charged to the General Fund Balance. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves.

Expenditure and Funding Analysis

The Expenditure and Funding Analysis, although not a primary statement, is presented alongside and shows how annual expenditure is used and funded from resources (grants, business rates etc.) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between TfL's operating segments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Statement of Responsibilities for the Accounts

The Corporation is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers (the Statutory Chief Finance Officer) has responsibility for the administration of those affairs

- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets

- Approve the Statement of Accounts

The Statutory Chief Finance Officer is responsible for the preparation of the Statement of Accounts for the Corporation and the Group in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Statutory Chief Finance Officer has:

- Selected suitable accounting policies and then applied them consistently

- Made judgements and estimates that were reasonable and prudent

- Complied with the Code

- Kept proper accounting records which were up to date

- Taken reasonable steps for the prevention and detection of fraud and other irregularities

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Corporation and Group at the accounting date and of the income and expenditure for the year ended 31 March 2020.

Antony King

Group Finance Director and Statutory Chief Finance Officer

[X] July 2020

Group Comprehensive Income and Expenditure Statement

Year ended 31 March	Note	Gross income 2020 £m	Gross expenditure 2020 £m	Net income/ (expenditure) 2020 £m*	Gross income 2019 restated £m*	Gross expenditure 2019 restated £m*	Net income/ (expenditure) 2019 restated £m*
Operating segment							
Underground		**2,762.0**	**(2,323.0)**	**439.0**	2,825.0	(2,410.0)	415.0
Elizabeth line		**147.0**	**(363.0)**	**(216.0)**	118.0	(246.0)	(128.0)
Buses		**1,440.0**	**(2,208.0)**	**(768.0)**	1,486.0	(2,136.0)	(650.0)
Streets		**355.0**	**(574.0)**	**(219.0)**	322.0	(548.0)	(226.0)
Rail		**436.0**	**(489.0)**	**(53.0)**	467.0	(475.0)	(8.0)
Other operations		**356.0**	**(351.0)**	**5.0**	205.0	(388.0)	(183.0)
Major projects		**22.0**	**(59.0)**	**(37.0)**	1.0	(48.0)	(47.0)
Property		**102.0**	**(42.0)**	**60.0**	94.0	(40.0)	54.0
Media		**154.0**	**(6.0)**	**148.0**	148.0	(4.0)	144.0
Net cost of operations per internal management reports	2	**5,774.0**	**(6,415.0)**	**(641.0)**	5,666.0	(6,295.0)	(629.0)
Central items	2	**(11.8)**	**(1,330.7)**	**(1,342.5)**	(9.8)	(1,265.9)	(1,275.7)
Net cost of services before exceptional items	2	**5,762.2**	**(7,745.7)**	**(1,983.5)**	5,656.2	(7,560.9)	(1,904.7)
Exceptional items	6			**(19.3)**			-
Net cost of services after exceptional items				**(2,002.8)**			(1,904.7)
Other net operating expenditure	7			**(30.9)**			(32.5)
Financing and investment income	8			**983.9**			148.8
Financing and investment expenditure	9			**(519.9)**			(475.3)
Grant income	10			**3,268.1**			3,015.5
Group share of loss after tax of joint ventures	17			**(0.1)**			-
Group share of loss after tax of associated undertakings	18			**(52.0)**			(94.5)
Surplus on the provision of services before tax				**1,646.3**			657.3
Taxation	11			**(242.5)**			2.0
Surplus on the provision of services after tax				**1,403.8**			659.3

Group Comprehensive Income and Expenditure Statement (continued)

Year ended 31 March	Note	Gross income 2020 £m	Gross expenditure 2020 £m	Net income/ (expenditure) 2020 £m*	Gross income 2019 £m	Gross expenditure 2019 £m	Net income/ (expenditure) 2019 £m
Surplus on the provision of services after tax				**1,403.8**			659.3
Other comprehensive income and expenditure							
Items that will not be subsequently reclassified to profit or loss							
Surplus on the revaluation of property, plant and equipment ***	13			**29.4**			59.9
Net remeasurement gain/(loss) on defined benefit pension schemes ***	36			**1,687.9**			(336.7)
				1,717.3			(276.8)
Items that may be subsequently reclassified to profit or loss							
Movement in the fair value of derivative financial instruments ***	38			**(26.8)**			0.6
Derivative fair value loss recycled to the Balance Sheet ***	38			**0.2**			-
Derivative fair value loss recycled to income and expenditure ***	38			**9.0**			8.6
				(17.6)			9.2
				1,699.7			(267.6)
Total comprehensive income and expenditure				**3,103.5**			391.7

* IFRS 16 Leases has been adopted for the first time in 19/20. 18/19 comparatives have not been restated for this change. Further information on the impact of the implementation of this new standard is set out in note 45.

** Figures for 2018/19 have been restated to show the split of net cost of services by revised internal management operating segment (see note 2)

*** There is no tax effect of these items on other comprehensive income and expenditure in the years ended 31 March 2020 or 2019 (note 11).

Group Balance Sheet

	Note	31 March 2020 £m*	31 March 2019 £m
Long-term assets			
Intangible assets	12	**118.7**	112.6
Property, plant and equipment	13	**42,085.7**	40,815.2
Right-of-use assets	14	**2,309.6**	-
Investment property	15	**1,430.5**	492.0
Equity accounted investment in joint ventures	17	**7.2**	-
Equity accounted investment in associated undertakings	18	**194.6**	233.5
Long-term derivative financial instruments	31	**1.5**	6.8
Long-term finance lease receivables	19	**37.0**	39.4
Long-term debtors	21	**97.4**	112.6
		46,282.2	41,812.1
Current assets			
Inventories	20	**58.9**	61.0
Short-term debtors	21	**512.8**	697.0
Assets held for sale	22	**113.4**	122.4
Short-term derivative financial instruments	31	**3.4**	11.8
Short-term finance lease receivables	19	**15.7**	12.8
Short-term investments	23	**642.4**	215.9
Cash and cash equivalents	24	**1,566.8**	1,665.8
		2,913.4	2,786.7
Current liabilities			
Short-term creditors	25	**(2,128.8)**	(2,167.2)
Short-term current tax liability		**-**	(0.1)
Short-term borrowings and overdrafts	26	**(936.5)**	(745.9)
Short-term right-of-use lease liabilities	14	**(318.2)**	-
Short-term other finance lease liabilities	27	**-**	(16.1)
Short-term PFI lease liabilities	28	**(13.9)**	(54.2)
Other short-term financing liabilities	29	**(3.5)**	-
Short-term derivative financial instruments	31	**(26.3)**	(3.0)
Short-term provisions	30	**(192.6)**	(345.9)
		(3,619.8)	(3,332.4)

Group Balance Sheet (continued)

	Note	31 March 2020 £m*	31 March 2019 £m
Long-term liabilities			
Long-term creditors	25	**(61.6)**	(61.5)
Long-term borrowings	26	**(10,752.5)**	(10,398.7)
Long-term right-of-use lease liabilities	14	**(2,098.8)**	-
Long-term other finance lease liabilities	27	**-**	(222.7)
Long-term PFI lease liabilities	28	**(111.6)**	(125.5)
Other long-term financing liabilities	29	**(132.5)**	(132.7)
Long-term derivative financial instruments	31	**(63.1)**	(46.5)
Long-term deferred tax liabilities	11	**(242.5)**	-
Long-term provisions	30	**(58.0)**	(54.6)
Retirement benefit obligation	36	**(4,100.6)**	(5,370.6)
		(17,621.2)	(16,412.8)
Net assets		**27,954.6**	24,853.6
Reserves			
Usable reserves		**1,604.2**	1,627.0
Unusable reserves	38	**26,350.4**	23,226.6
Total reserves		**27,954.6**	24,853.6

* IFRS 16 Leases has been adopted for the first time in 2019/20. 2018/19 comparatives have not been restated for this change. Further information on the impact of the implementation of this new standard is set out in note 45.

The Expenditure and Funding Analysis on page 46 and the notes on pages 50 to 202 form part of these financial statements. These financial statements were approved by the Board on [ ] July 2020 and signed on its behalf by:

Sadiq Khan
Chair of TfL

Group Movement in Reserves Statement

	Note	General fund £m	Earmarked reserves £m	**General fund and earmarked reserves £m**	Street works reserve £m	Capital grants unapplied account £m	**Usable reserves £m**	Unusable reserves £m	**Total reserves £m**
At 1 April 2018		150.0	948.6	**1,098.6**	19.4	671.5	**1,789.5**	22,672.4	**24,461.9**
Movement in reserves during 2018/19									
Surplus on the provision of services after tax		946.0	-	**946.0**	-	-	**946.0**	(286.7)	**659.3**
Other comprehensive income and expenditure		-	-	**-**	-	-	**-**	(267.6)	**(267.6)**
Total comprehensive income and expenditure		946.0	-	**946.0**	-	-	**946.0**	(554.3)	**391.7**
Adjustments between accounting basis and funding basis under regulations	39	(438.1)	-	**(438.1)**	1.1	(671.5)	**(1,108.5)**	1,108.5	**-**
Net increase/(decrease) before transfer to/from earmarked reserves		507.9	-	**507.9**	1.1	(671.5)	**(162.5)**	554.2	**391.7**
Transfer to/from earmarked reserves		(507.9)	507.9	**-**	-	-	**-**	-	**-**
Increase/(decrease) in 2018/19		-	507.9	**507.9**	1.1	(671.5)	**(162.5)**	554.2	**391.7**
Balance at 31 March 2019		**150.0**	**1,456.5**	**1,606.5**	**20.5**	**-**	**1,627.0**	**23,226.6**	**24,853.6**
Movement in reserves during 2019/20									
Surplus on the provision of services after tax		1,064.6	-	**1,064.6**	-	-	**1,064.6**	339.2	**1,403.8**
Other comprehensive income and expenditure		-	-	**-**	-	-	**-**	1,699.7	**1,699.7**
Total comprehensive income and expenditure		1,064.6	-	**1,064.6**	-	-	**1,064.6**	2,038.9	**3,103.5**
Impact of the implementation of IFRS 16 Leases at 1 April 2019*		-	-	**-**	-	-	**-**	(2.5)	**(2.5)**
Adjustments between accounting basis and funding basis under regulations	39	(1,090.4)	-	**(1,090.4)**	3.0	-	**(1,087.4)**	1,087.4	**-**
Net increase/(decrease) before transfer to/from earmarked reserves		(25.8)	-	**(25.8)**	3.0	-	**(22.8)**	3,123.8	**3,101.0**
Transfer to/from earmarked reserves		375.8	(375.8)	**-**	-	-	**-**	-	**-**
Increase/(decrease) in 2019/20		350.0	(375.8)	**(25.8)**	3.0	-	**(22.8)**	3,123.8	**3,101.0**
Balance at 31 March 2020		**500.0**	**1,080.7**	**1,580.7**	**23.5**	**-**	**1,604.2**	**26,350.4**	**27,954.6**

* IFRS 16 Leases has been adopted for the first time in 19/20. 18/19 comparatives have not been restated for this change. Further information on the impact of the implementation of this new standard in set out in note 45.

Group Movement in Reserves Statement

Earmarked reserves have been established to finance future projects and form part of the overall funding available for the Investment Programme and revenue projects.

Group Statement of Cash Flows

Year ended 31 March	Note	2020 £m*	2019 £m
Surplus on the provision of services after tax		**1,403.8**	659.3
Adjustments to surplus after tax for non-cash movements	37 a	**(632.1)**	412.1
Net cash flows from operating activities		**771.7**	1,071.4
Investing activities	37 b	**(645.0)**	(943.7)
Financing activities	37 c	**(225.7)**	298.6
(Decrease)/increase in net cash and cash equivalents in the year		**(99.0)**	426.3
Net cash and cash equivalents at the start of the year		**1,665.8**	1,239.5
Net cash and cash equivalents at the end of the year	24	**1,566.8**	1,665.8

* IFRS 16 Leases has been adopted for the first time in 19/20. 18/19 comparatives have not been restated for this change. Further information on the impact of the implementation of this new standard is set out in note 45.

Corporation Comprehensive Income and Expenditure Statement

Year ended 31 March	Note	2020 £m	2019 £m*
Highways and Transport Services			
Gross income		**588.0**	377.4
Gross expenditure	3	**(1,495.0)**	(1,361.2)
Net cost of services before exceptional items **		**(907.0)**	(983.8)
Exceptional items	6	**(7.8)**	-
Net cost of services after exceptional items		**(914.8)**	(983.8)
Other net operating expenditure	7	**(0.3)**	(7.2)
Financing and investment income	8	**426.8**	470.0
Financing and investment expenditure	9	**(552.6)**	(522.8)
Grant income	10	**3,181.9**	2,907.6
Grant funding of subsidiaries		**(1,076.4)**	(917.8)
Surplus on the provision of services		**1,064.6**	946.0
Other comprehensive income and expenditure			
Items that will not be subsequently reclassified to profit or loss			
Surplus on the revaluation of property, plant and equipment	13	**11.1**	19.8
Net remeasurement gain/(loss) on defined benefit pension schemes	36	**1,673.7**	(335.7)
		1,684.8	(315.9)
Total comprehensive income and expenditure		**2,749.4**	630.1

* IFRS 16 Leases has been adopted for the first time in 19/20. 18/19 comparatives have not been restated for this change. Further information on the impact of the implementation of this new standard is set out in note 45.

** Decisions taken by the Board about resource allocation are made using internal management reports which show total expenditure for the TfL Group. No segmental disclosures are included for the Corporation as the Corporation's results are not reported to the Board on a segmental basis.

Corporation Balance Sheet

	Note	31 March 2020 £m*	31 March 2019 £m
Long-term assets			
Intangible assets	12	**77.7**	78.3
Property, plant and equipment	13	**4,151.5**	4,047.6
Right-of-use assets	14	**421.1**	-
Investment property	15	**14.1**	6.8
Investments in subsidiaries	16	**11,562.5**	10,322.5
Long-term debtors	21	**11,155.0**	10,517.6
		27,381.9	24,972.8
Current assets			
Short-term debtors	21	**938.8**	616.7
Assets held for sale	22	**19.1**	23.4
Short-term investments	23	**623.5**	203.0
Cash and cash equivalents	24	**1,410.7**	1,504.6
		2,992.1	2,347.7
Current liabilities			
Short-term creditors	25	**(1,125.9)**	(535.7)
Short-term borrowings	26	**(936.5)**	(745.9)
Short-term right-of-use lease liabilities	14	**(25.7)**	-
Short-term PFI lease liabilities	27	**(9.0)**	(11.0)
Short-term provisions	30	**(124.6)**	(127.8)
		(2,221.7)	(1,420.4)

Corporation Balance Sheet (continued)

	Note	31 March 2020 £m*	31 March 2019 £m
Long-term liabilities			
Long-term creditors	25	**(20.8)**	(18.7)
Long-term borrowings	26	**(10,757.5)**	(10,404.5)
Long-term right-of-use lease liabilities	14	**(413.6)**	-
Long-term PFI lease liabilities	27	**(111.2)**	(120.3)
Long-term provisions	30	**(23.0)**	(21.4)
Retirement benefit obligation	36	**(4,082.3)**	(5,340.7)
		(15,408.4)	(15,905.6)
Net assets		**12,743.9**	9,994.5
Reserves			
Usable reserves		**1,604.2**	1,627.0
Unusable reserves	38	**11,139.7**	8,367.5
Total reserves		**12,743.9**	9,994.5

* IFRS 16 Leases has been adopted for the first time in 2019/20. 2018/19 comparatives have not been restated for this change. Further information on the impact of the implementation of this new standard is set out in note 45.

The notes on pages 50 to 202 form part of these financial statements.

These financial statements were approved by the Board on [ ] July 2020 and signed on its behalf by:

Sadiq Khan,
Chair of TfL

Corporation Movement in Reserves Statement

	Note	General fund £m	Earmarked reserves £m	**General fund and earmarked reserves £m**	Street works reserve £m	Capital grants unapplied account £m	**Usable reserves £m**	Unusable reserves £m	**Total reserves £m**
At 1 April 2018		150.0	948.6	**1,098.6**	19.4	671.5	**1,789.5**	7,574.9	**9,364.4**
Movement in reserves during 2018/19									
Surplus on the provision of services		946.0	-	**946.0**	-	-	**946.0**	-	**946.0**
Other comprehensive income and expenditure		-	-	**-**	-	-	**-**	(315.9)	**(315.9)**
Total comprehensive income and expenditure		946.0	-	**946.0**	-	-	**946.0**	(315.9)	**630.1**
Adjustments between accounting basis and funding basis under regulations	39	(438.1)	-	**(438.1)**	1.1	(671.5)	**(1,108.5)**	1,108.5	**-**
Net increase/(decrease) before transfer to/from earmarked reserves		507.9	-	**507.9**	1.1	(671.5)	**(162.5)**	792.6	**630.1**
Transfer to/from earmarked reserves		(507.9)	507.9	**-**	-	-	**-**	-	**-**
Increase/(decrease) in 2018/19		-	507.9	**507.9**	1.1	(671.5)	**(162.5)**	792.6	**630.1**
Balance at 31 March 2019		**150.0**	**1,456.5**	**1,606.5**	**20.5**	**-**	**1,627.0**	**8,367.5**	**9,994.5**
Movement in reserves during 2019/20									
Impact of the implementation of IFRS 16 Leases at 1 April 2019 *		-	-	**-**	-	-	**-**	-	**-**
Surplus on the provision of services		1,064.6	-	**1,064.6**	-	-	**1,064.6**	-	**1,064.6**
Other comprehensive income and expenditure		-	-	**-**	-	-	**-**	1,684.8	**1,684.8**
Total comprehensive income and expenditure		1,064.6	-	**1,064.6**	-	-	**1,064.6**	1,684.8	**2,749.4**
Adjustments between accounting basis and funding basis under regulations	39	(1,090.4)	-	**(1,090.4)**	3.0	-	**(1,087.4)**	1,087.4	**-**
Net increase/(decrease) before transfers to/from earmarked reserves		(25.8)	-	**(25.8)**	3.0	-	**(22.8)**	2,772.2	**2,749.4**
Transfer to/from earmarked reserves		375.8	(375.8)	**-**	-	-	**-**	-	**-**
Increase/(decrease) in 2019/20		350.0	(375.8)	**(25.8)**	3.0	-	**(22.8)**	2,772.2	**2,749.4**
Balance at 31 March 2020		**500.0**	**1,080.7**	**1,580.7**	**23.5**	**-**	**1,604.2**	**11,139.7**	**12,743.9**

* IFRS 16 Leases has been adopted for the first time in 19/20. 18/19 comparatives have not been restated for this change. Further information on the impact of the implementation of this new standard is set out in note 45.

Corporation Movement in Reserves Statement

Earmarked reserves have been established to finance future projects and form part of the overall funding available for the Investment Programme and revenue projects.

Corporation Statement of Cash Flows

Year ended 31 March	Note	2020 £m*	2019 £m
Surplus on the provision of services		1,064.6	946.0
Adjustments to surplus after tax for non-cash movements	37 a	(682.3)	(197.6)
Net cash flows from operating activities		382.3	748.4
Investing activities	37 b	(470.5)	(660.1)
Financing activities	37 c	(5.7)	313.9
Increase in net cash and cash equivalents in the year		(93.9)	402.2
Net cash and cash equivalents at the start of the year		1,504.6	1,102.4
Net cash and cash equivalents at the end of the year	24	1,410.7	1,504.6

* IFRS 16 Leases has been adopted for the first time in 19/20. 18/19 comparatives have not been restated for this change. Further information on the impact of the implementation of this new standard is set out in note 45.

Expenditure and Funding Analysis

For the year ended 31 March 2020	Net expenditure chargeable to the General Fund £m	Adjustments between accounting basis and funding basis under regulations (note 39) £m	Total per the Corporation Comprehensive Income and Expenditure Statement £m	Surplus on the provision of services after tax in subsidiaries (note 38) £m	Total per the Group Comprehensive Income and Expenditure Statement £m
Net cost of services					
Underground	(310.0)	-	(310.0)	749.0	439.0
Elizabeth line	(70.0)	-	(70.0)	(146.0)	(216.0)
Buses	(19.0)	-	(19.0)	(749.0)	(768.0)
Streets	(181.3)	3.3	(178.0)	(41.0)	(219.0)
Rail	(24.0)	-	(24.0)	(29.0)	(53.0)
Other operations	(3.0)	-	(3.0)	8.0	5.0
Major projects	(12.0)	-	(12.0)	(25.0)	(37.0)
Property	(4.0)	-	(4.0)	64.0	60.0
Media	(1.0)	-	(1.0)	149.0	148.0
Central items	273.6	(559.6)	(286.0)	(1,056.5)	(1,342.5)
Net cost of services before exceptional items	(350.7)	(556.3)	(907.0)	(1,076.5)	(1,983.5)
Exceptional items	(7.8)	-	(7.8)	(11.5)	(19.3)
Net cost of services after exceptional items	(358.5)	(556.3)	(914.8)	(1,088.0)	(2,002.8)
Other net operating expenditure	-	(0.3)	(0.3)	(30.6)	(30.9)
Financing and investment income	390.7	36.1	426.8	557.1	983.9
Financing and investment expenditure	(430.6)	(122.0)	(552.6)	32.7	(519.9)
Grant income	526.6	1,578.9	2,105.5	1,162.6	3,268.1
Group share of loss after tax of joint ventures	-	-	-	(0.1)	(0.1)
Group share of loss after tax of associated undertakings	-	-	-	(52.0)	(52.0)
Surplus on the provision of services before tax	128.2	936.4	1,064.6	581.7	1,646.3
Taxation	-	-	-	(242.5)	(242.5)

Expenditure and Funding Analysis (continued)

For the year ended 31 March 2020	Net expenditure chargeable to the General Fund £m	Adjustments between accounting basis and funding basis under regulations (note 39) £m	Total per the Corporation Comprehensive Income and Expenditure Statement £m	Surplus on the provision of services after tax in subsidiaries (note 38) £m	Total per the Group Comprehensive Income and Expenditure Statement £m
Surplus on the provision of services after tax	**128.2**	**936.4**	**1,064.6**	**339.2**	**1,403.8**
Employer's pension contributions and direct payments to pensioners payable in the year	**(86.1)**	**86.1**	**-**		
Minimum Revenue provision	**(56.1)**	**56.1**	**-**		
Amortisation of premium on financing	**(11.8)**	**11.8**	**-**		
Net (decrease)/increase in 2019/20	**(25.8)**	**1,090.4**	**1,064.6**		
Balance of General Fund and Earmarked Reserves at 31 March 2019	**1,606.5**				
Balance of General Fund and Earmarked Reserves at 31 March 2020	**1,580.7**				

Expenditure and Funding Analysis (continued)

For the year ended 31 March 2019 (restated) *	Net expenditure chargeable to the General Fund £m	Adjustments between accounting basis and funding basis under regulations (note 39) £m	Total per the Corporation Comprehensive Income and Expenditure Statement £m	Surplus on the provision of services after tax in subsidiaries (note 38) £m	Total per the Group Comprehensive Income and Expenditure Statement £m
Net cost of services					
Underground	(237.0)	-	(237.0)	652.0	415.0
Elizabeth line	(27.0)	-	(27.0)	(101.0)	(128.0)
Buses	(33.0)	-	(33.0)	(617.0)	(650.0)
Streets	(195.1)	1.1	(194.0)	(32.0)	(226.0)
Rail	(17.0)	-	(17.0)	9.0	(8.0)
Other operations	(230.0)	-	(230.0)	47.0	(183.0)
Major Projects	(29.0)		(29.0)	(18.0)	(47.0)
Property	(3.0)	-	(3.0)	57.0	54.0
Media	(3.0)	-	(3.0)	147.0	144.0
Central items	325.8	(536.6)	(210.8)	(1,064.9)	(1,275.7)
Net cost of services	(448.3)	(535.5)	(983.8)	(920.9)	(1,904.7)
Other net operating expenditure	-	(7.2)	(7.2)	(25.3)	(32.5)
Financing and investment income	372.0	98.0	470.0	(321.2)	148.8
Financing and investment expenditure	(410.0)	(112.8)	(522.8)	47.5	(475.3)
Grant income	1,190.9	798.9	1,989.8	1,025.7	3,015.5
Group share of loss after tax of associated undertakings	-	-	-	(94.5)	(94.5)
Surplus on the provision of services before tax	704.6	241.4	946.0	(288.7)	657.3
Taxation income	-	-	-	2.0	2.0
Surplus on the provision of services after tax	704.6	241.4	946.0	(286.7)	659.3
Employer's pension contributions and direct payments to pensioners payable in the year	(166.3)	166.3	-		
Minimum Revenue provision	(18.7)	18.7	-		
Amortisation of premium on financing	(11.7)	11.7	-		
Net increase in 2018/19	507.9	438.1	946.0		
Balance of General Fund and Earmarked Reserves at 1 April 2018	1,098.6				
Balance of General Fund and Earmarked Reserves at 31 March 2019	1,606.5				

Expenditure and Funding Analysis (continued)

* The divisional split of net cost of services has been restated to reflect revised internal management operating segments.

Accounting Policies

a) Code of practice

TfL is required to prepare an annual Statement of Accounts under Section 3 of the Local Audit and Accountability Act 2014, and by the Accounts and Audit Regulations 2015 (the 2015 Regulations). The 2015 Regulations require the Statement of Accounts to be prepared in accordance with proper accounting practices. The Statement of Accounts have therefore been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code), developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board under the oversight of the Financial Reporting Advisory Board. The Code constitutes proper accounting practice for the purpose of the 2015 Regulations.

The Code for 2019/20 is based on International Financial Reporting Standards (IFRS) adopted by the EU (Adopted IFRS) and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. It requires that local authorities prepare their financial statements in accordance with the International Accounting Standards Board (IASB) 'Framework for the Preparation and Presentation of Financial Statements' as interpreted by the Code.

CIPFA/LASAAC announced its plans to delay implementation of IFRS 16 in the Code until 1 April 2020. IFRS 16 Leases (mandatory for years beginning on or after 1 January 2019 under Adopted IFRS) replaces the previous guidance in IAS 17 on leases. However, as a significant proportion of the Group's activities are conducted through subsidiary companies, which are obliged, under EU Adopted IFRS, to apply IFRS 16 from 1 April 2019, CIPFA has granted TfL permission to also adopt IFRS 16 from the same date. The Group has therefore adopted IFRS 16 in these financial statements from 1 April 2019. 18/19 comparatives have not been restated for the impact of the change. Further details may be found in the Accounting Policies note on leases, and in note 45.

The areas where the Code differs materially from Adopted IFRS are listed below:

Capital grants and contributions

Capital grants and contributions are recognised immediately in the Comprehensive Income and Expenditure Statement once there is reasonable assurance that all conditions relating to those grants have been met. Under Adopted IFRS capital grants and contributions are recorded as deferred income and recognised in the Comprehensive Income and Expenditure Statement over the useful life of the asset.

FRS 102 The Financial Reporting Standard: Heritage assets

The Code has adopted the requirements of FRS 102 in respect of its rules on accounting for Heritage assets. The Group has taken the exemption available under the Code to hold heritage assets at historical cost less any accumulated depreciation or impairment losses and has made additional disclosures on its heritage assets as required by the standard. There is no equivalent standard for accounting for heritage assets under Adopted IFRS.

Accounting Policies (continued)

IAS 36 Impairment of Assets

The Code requires that impairments be accounted for in accordance with IAS 36 Impairment of Assets, except where interpretations or adaptations to fit the public sector are detailed. Consequently, these financial statements have been prepared in accordance with the guidance contained in IPSAS 21 Impairment of Non-Cash-Generating Assets and IPSAS 26 Impairment of Cash-Generating Assets. This guidance stipulates that where an asset is not held primarily with the intention of generating a commercial return, that asset's value in use should be regarded as the present value of its remaining service potential, rather than the present value of the future cash flows that are expected to be derived from it.

b) Basis of preparation

The accounts are made up to 31 March 2020. The Corporation is a single service authority and all expenditure is attributable to the provision of highways, roads and transport services.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The accounts have been prepared under the accruals concept and in accordance with the historical cost accounting convention, modified by the revaluation of certain categories of non-current asset and financial instrument.

Where items are sufficiently significant by virtue of their size or nature, they are disclosed separately in the financial statements in order to aid the reader's understanding of the Corporation's and Group's financial performance.

c) Basis of consolidation

The Code requires local authorities with, in aggregate, material interests in subsidiary and associated companies and joint ventures, to prepare group financial statements.

The Group financial statements presented with the Corporation's financial statements consolidate the individual financial statements of TfL and its subsidiary undertakings. A subsidiary undertaking is an undertaking controlled by the Corporation. Control is achieved when the Corporation: has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. The Corporation reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control.

Accounting Policies (continued)

The Group incorporates its share of the profits or losses and its share of the net assets of associated undertakings using the equity accounting method. Associate undertakings are those where the Group is considered to have the power to significantly influence, but not control, the financial and operating policies of the investee.

The acquisition method of accounting has been adopted for acquisitions or disposals into the Group of subsidiary undertakings. Under this method, the identifiable assets and liabilities of an acquired entity are recorded at their fair values at the date of acquisition. Costs of acquisition are expensed in line with IFRS 3 (revised) Business Combinations. The results of subsidiary undertakings acquired or disposed of are included in the Group Comprehensive Income and Expenditure Statement from the date of acquisition until the date of disposal.

d) Going concern

The financial statements have been prepared on a going concern basis as it is considered by the Board that TfL will continue in operational existence for the foreseeable future and meet its liabilities as they fall due for payment.

As set out in the Narrative Report and Financial Review, the coronavirus pandemic has had a significant impact on the finances of the TfL Group. TfL has modelled the impact of a number of revenue scenarios based on Imperial College's modelling and TfL's own modelling of demand reductions across our network in London. These indicated a potential reduction in passenger revenue of £1.4bn - £3.5bn by the end of 2020/21. As a consequence, and alongside seeking opportunities to further minimise its expenditure and maximise its other sources of income, TfL has worked and continues to work closely with the Government to secure additional support to alleviate the financial impact of the pandemic on the Group.

In addition to making use of the Government's Job Retention Scheme, TfL has also secured an Extraordinary Funding and Financing Agreement from the Secretary of State which gives it secure access to funding in the form of a mixture of Government grant and borrowing from the PWLB for an initial Support Period until 17 October 2020. At that point in time, as the longer-term impact of the coronavirus outbreak becomes clearer, a further, medium-term support package will be agreed in order to allow TfL to continue operating and supporting the Government in its efforts to fight the coronavirus pandemic.

Under the Greater London Authority (GLA) Act 1999, TfL has a legal requirement to produce a financially balanced Budget each year. As at 31 March 2020, the Group had usable reserves totalling £1,604.2m.

e) The application of new and revised standards

The Code stipulates that the requirements of IFRS and other pronouncements by the International Accounting Standards Board (as adopted by the EU) be applied unless specifically adapted or otherwise stated by the Code. The following new standards and amendments have therefore been applied for the first time in these financial statements:

- IFRS 16 (mandatory for years beginning on or after 1 January 2019) was issued in January 2016, replacing IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The Group applied this standard from 1 April 2019 (the date of initial application).

The Group adopted IFRS 16 from 1 April 2019, using the modified retrospective approach. Under this approach, the cumulative effect of adopting IFRS 16 was recognised as an adjustment to the opening balance of reserves at 1 April 2019, with no restatement of comparative information. More details surrounding the impact of application of this new standard are set out in note 45.

- Inter-Bank Offered Rate (IBOR) Reform - Phase 1 amendments to IFRS 9 Financial Instruments (IFRS 9) and IFRS 7 Financial Instruments: Disclosures (IFRS 7) were issued in September 2019. The effective date of the amendments is for annual periods beginning on or after 1 January 2020, with early application permitted. The Phase 1 amendments contain a temporary exception from applying specific hedge accounting requirements pre-IBOR reform.

  TfL has early adopted the Phase 1 amendment and applied the temporary exception in IFRS 9 on hedge relationships directly affected by the IBOR reform.

  Specifically, a portion of TfL's floating rate borrowing and certain floating rate lease liabilities, which have been hedged to fixed rate debt using interest rate swaps, are affected by the market-wide replacement of London Inter-Bank Offered Rate (LIBOR) to alternative risk-free reference rates. The notional amount of interest rate swaps that were designated in hedge relationships, and affected by the reform, at 31 March 2020 was £433.6m.

  By applying the exception in relation to the required prospective assessment of the existence of an economic relationship between the hedged items and hedging instruments for these hedge relationships, TfL assumes the interest rate benchmark on which the hedged risk is based is not altered as a result of the IBOR reform.

  A Group-wide project is in progress to manage the transition to alternative benchmark rates.

f) Accounting standards that have been issued but have not yet been adopted

The following revisions to IFRS are expected to be applicable in future periods, subject to endorsement where relevant. These have been issued by the EU, but have not been applied in these financial statements:

- Amendments to IFRS 3 Definition of a business. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

  Additional guidance is provided that helps to determine whether a substantive process has been acquired.

  The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

- Amendments to IAS 1 and IAS 8 Definition of material. The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

  The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

  The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

  The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

- The Conceptual Framework for Financial Reporting. The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.

  The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

  For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- IFRS 17 Insurance Contracts (mandatory for years commencing on or after 1 January 2021). IFRS 17 will replace IFRS 4 and provides an accounting model for insurance contracts that is more useful and consistent for insurers than existing standards. This standard is not applicable to the TfL Group.

- Issuance of Inter-Bank Offered Rate (IBOR) Reform – Phase 2 amendments to IFRS 9 and IFRS 7 is anticipated in 2020 and is expected to address potential financial reporting implications when an existing interest rate benchmark is replaced with an alternative.

The Group does not consider that any standards, amendments or interpretations issued by the IASB, but not yet applicable, other than those indicated in the paragraphs above, will have a significant impact on the financial statements.

g) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held

Accounting Policies (continued)

for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative Comprehensive Income and Expenditure Statement is re-presented as if the operation had been discontinued from the start of the comparative period.

h) Uses of estimates and judgements

The preparation of financial statements in conformity with the Code requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed below. It is not considered likely that any reasonably possible changes in key assumptions in the next 12 months would have a material impact on the carrying amounts of balance sheet items not already held on the balance sheet at fair value.

Use of judgement

Determining whether an arrangement contains a lease

In determining whether an arrangement contains a lease, as required by IFRS 16 – Leases Standard, there is significant judgement in determining whether the arrangement conveys the right to control the use of an identified asset and in determining the lease term particularly in respect of whether the Group is reasonably certain to exercise extension options or renewal options.

For arrangements where TfL is a lessor there is significant judgement involved in respect of whether the arrangement is finance or an operating lease.

Accounting Policies (continued)

Classification of investment properties

IAS 40 Investment Property (IAS 40) requires that properties be classified as investment properties where they are held for the purpose of capital appreciation or to earn rentals. The Group owns a number of commercial properties as part of its infrastructure where part of the property is leased out to third parties. Judgement needs to be exercised in determining whether these properties should be classified as investment properties in accordance with IAS 40. As investment properties are valued at fair value with movements in the fair value being recorded in the Comprehensive Income and Expenditure Statement this could have a significant effect on the financial performance of the Group.

Leases

From the lessor's perspective in assessing whether a lease is an operating lease or a finance lease, judgement needs to be exercised in determining whether or not substantially all the risks and rewards of ownership of the leased asset are retained by the Group or are transferred to the lessee. Given that assets leased under a finance lease a derecognised from the balance sheet, and assets leased out under operating leases are not, this can have a significant effect on the reported financial position of the Group.

Capitalisation of assets with third party interest

In assessing situations where TfL assets are constructed on, or have significant involvement with, external third parties, judgment is exercised in determining whether substantially all the risks and rewards of ownership of the asset are held by the Group.

Use of estimates

Useful economic life of property, plant and equipment

In determining the useful economic life of property, plant and equipment management estimate the length of time that the assets will be operational.

Post-retirement benefits

The pension costs and defined benefit plan obligations of the Group's defined benefit plans are calculated on the basis of a range of assumptions, including the discount rate, inflation rate, salary growth and mortality. Differences arising as a result of actual experience differing from the assumptions, or future changes in the assumptions will be reflected in subsequent periods. A small change in assumptions can have a significant impact on the valuation of the liabilities. More details are given in note 36.

Accounting Policies (continued)

Financial derivative instruments

The Group uses financial derivative instruments to manage certain exposures to fluctuations in foreign currency exchange rates and interest rates. In making its assessment and judgements, the Group assesses the effectiveness of the derivatives and changes in their fair values. Note 35 and Accounting Policy aj) on financial instruments provide detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as a sensitivity analysis for these assumptions. Management believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Provisions

Estimation techniques are employed in the calculation of the best estimate of the amount required to settle obligations, including determining how likely it is that expenditure will be required by the Group. This can be very complex, especially when there is a wide range of possible outcomes. More details are given in note 30.

Expected credit loss allowance

The expected credit loss allowance recognised in respect of financial assets is based on a forward-looking probability-weighted measure considering reasonable and supportable information on past events, current conditions and the time value of money. As at 31 March 2020, management were required to make estimates regarding future losses based on the impact of the coronavirus outbreak on credit risk. Given the unprecedented nature of the pandemic, a greater than usual level of judgement was involved in reaching this estimate.

Investment property

Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value (open market value), as estimated by external, professionally qualified surveyors in accordance with Royal Institution of Chartered Surveyors (RICS) guidelines. Gains and losses from changes in the fair value of investment property are included in the Comprehensive Income and Expenditure Statement for the period in which they arise. Due to generally increased levels of market uncertainty due to the coronavirus pandemic, a greater than usual level of judgement was involved in reaching the valuation estimates at 31 March 2020.

Office buildings

Office buildings held within property, plant and equipment are held at fair value (open market value), as estimated by external, professionally qualified surveyors in accordance with RICS guidelines. Movements in the fair value of the property are taken to the revaluation reserve. Due to generally increased levels of market uncertainty due to the coronavirus pandemic, a greater than usual level of judgement was involved in reaching the valuation estimates at 31 March 2020.

Accounting Policies (continued)

i) Revenue recognition

Revenue includes income generated from the provision of travel, other fees and charges, the letting of commercial advertising space and the rental of commercial properties.

Revenue is measured after the deduction of value added tax (where applicable).

Fares revenue

Revenue from annual or periodic tickets and Travelcards is recognised in the Comprehensive Income and Expenditure Statement on a straight-line basis over the period of validity of the ticket or Travelcard as TfL has a stand ready obligation to provide unlimited travel over the period of validity of the ticket or Travelcard. Oyster pay as you go revenue is recognised on usage and one-day Travelcards and single tickets are recognised on the day of purchase.

Revenue received in advance and not recognised in the Comprehensive Income and Expenditure Statement is recorded in the balance sheet and held within current liabilities – contract liabilities representing creditors' receipts in advance for Travelcards, bus passes and Oyster cards.

Revenue in respect of free and reduced fare travel for older customers and disabled customers

Revenue from the London Borough Councils in respect of free travel for older and disabled customers is recognised on a straight-line basis over the financial year to which the settlement relates, as TfL has a stand ready obligation to provide unlimited travel over the financial year to which the settlement relates.

Congestion charging

The standard daily congestion charge, including those paying through auto-pay, is recognised as income on the day the eligible vehicle enters the Congestion Charge zone.

Income from penalty charge notices is recognised at an amount adjusted for the probability of cancellation, as payment becomes due. Each increase in charge results in income being recognised in full at the date the increase is applied.

Road network compliance

Income from penalty charge notices for traffic and parking infringements on red routes is recognised as it becomes due. Each increase in charge results in income being recognised in full at the date the increase is applied.

Taxi licensing

Income from taxi and private hire licences is recognised on a straight-line basis over the term of the licence.

Accounting Policies (continued)

Commercial advertising

TfL grants a concessionaire partner control over certain advertising assets to facilitate the generation of advertising income across its estate and receives income from this arrangement. This is considered a lease arrangement for accounting purposes.

Where the arrangement is viewed as an operating lease under IFRS 19, revenue is recognised on a straight-line basis over the term of the contract.

Where the arrangement is viewed as a finance lease (where the lease transfers substantially all the risks and rewards of ownership of the underlying asset to the third party), a lease receivable is recognised. Finance income is recognised over the term of the lease, based on a pattern reflecting a constant periodic rate of return on the lease receivable. Lease receipts are allocated between reducing the principal balance and interest income.

TfL, through its concessionaire partner, also sells advertising space to customers and receives income from such arrangements under a revenue share agreement with its concessionaire. Revenue share income is dependent upon the revenue generated by the concessionaire and is therefore contingent in nature. Such revenue is recognised in the period when it is earned.

The Group receives performance monitoring credits when certain performance standards are not met. The performance monitoring credits are recognised as revenue when they are earned.

Rental income

Rental income from operating leases of properties, ATMs and car parks is recognised on a straight-line basis over the term of the lease. Rent free periods, incentives, or fixed annual increases in the lease payments are spread on a straight-line basis over the lease term. Any inflation linked annual increases in rentals are treated as contingent rents and are recognised as income when they occur.

For finance leases, where the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset to the customer, a lease receivable is recognised. Finance income is recognised over the term of the lease, based on a pattern reflecting a constant periodic rate of return on the lease receivable. Lease receipts are allocated between reducing the principal balance and interest.

Third party contributions to operating costs

Revenue from third-party contributions to operating costs is earned on services performed by TfL in conjunction with other organisations or Government in relation to works such as dropping curbs, building roundabouts, installing traffic lights, installing shelters, escalators or elevators in stations, installing bus shelters, etc.

Revenue from third-party contributions is measured on the basis of progress towards completion, calculated using the proportion of costs incurred to date in relation to the total costs to be incurred on the entire project.

Accounting Policies (continued)

Cycle hire scheme revenues

Sponsorship revenue is recognised on a straight-line basis over the term of the contract as it represents an obligation to provide branding promotion to the customer during the period of the contract.

Annual memberships scheme revenue is recognised on a straight-line basis over the membership period, as it represents an obligation to provide specific numbers of memberships to clients during the membership period.

Daily access fees are recognised upon providing the customer with access to the bicycles.

Museum income

Store sales

Revenue from store sales is recognised at the point of sale to the customer.

Venue hire revenue

Revenue from venue hire is recognised on the date when the space is provided to the customer.

Venue hire catering commission

Venue hire catering commission is recognised upon completion of the event based on the estimated consideration receivable from the customer.

Corporate membership scheme

Corporate membership scheme revenue is recognised on a straight-line basis over the period of membership, as it represents a stand-ready obligation to provide unlimited entry during the period of membership.

Café concessionaire commission

Revenue from café concessionaire commission income is recognised over the term of the concessionaire contract and measured based on the estimated consideration receivable from the concessionaire in each period.

Ticket and photocard commission income

Revenue from ticket and photocard commission income is recognised upfront when the ticket or photocard is issued.

j) Segmental reporting

In accordance with the Code, the Group's operating segments have been determined by identifying the segments whose operating results are reviewed by the Board, when making decisions regarding the allocation of resources and for the assessment of performance.

Accounting Policies (continued)

The operating segments of the Group and their principal activities are as follows:

- Underground – Provision of passenger rail services on the London Underground and refurbishment and maintenance of certain parts of the rail network
- Elizabeth line – Delivery of passenger rail services on the Elizabeth line and services currently operating as TfL Rail
- Buses – Provision of bus services
- Streets – Maintenance of London's roads and cycle routes
- Rail – Provision of passenger rail services through contracted third-party operators on the Docklands Light Railway, London Overground and London Trams
- Other operations – Provision of other operations, including Dial-a-Ride, London River Services, Taxi and Private Hire, Santander Cycles, Victoria Coach Station and the Emirates Air Line
- Major Projects – Delivery of TfL's largest and most complex infrastructure projects
- Property – investment in our commercial and residential estate and building portfolio
- Media – advertising estate and digital marketing infrastructure

k) Exceptional items

Exceptional costs are costs that are unusual, infrequent and which do not occur in the normal course of operations. An unusual event or transaction has a high degree of abnormality and is clearly unrelated to (or only incidentally related to) the ordinary activities of the organisation, taking into account the operating environment. Infrequent refers to events and transactions that would not reasonably be expected to recur in the foreseeable future, taking into account the operating environment.

The significant costs incurred in relation to the coronavirus pandemic, such as costs incurred in bringing construction projects to a safe stop, have been considered exceptional items. These costs have been identified separately below the net cost of services on the face of the Comprehensive Income and Expenditure Statement.

l) Grants and other funding

The main source of grant funding is a share of Business Rate Retention received from the GLA, which is classified as a resource grant; and specific capital grants from the GLA for the Crossrail project.

Accounting Policies (continued)

In the accounts of the Corporation and Group, all non-specific grants are credited to the Comprehensive Income and Expenditure Statement upon receipt or when there is reasonable assurance that the grant will be received. If a capital grant is received, but has certain conditions as to when it may be applied, it will be held, in the first instance, as capital grant received in advance, within the payables section of the Balance Sheet. Once any relevant conditions have been met, the capital grant is credited to the Comprehensive Income and Expenditure Statement.

Where expenditure on property, plant and equipment is financed either wholly or partly by capital or non-specific grants or other contributions, the amount of the grant applied is credited to the Capital Adjustment Account through the Movements in Reserves Statement. Amounts not utilised in the year are credited to the Capital Grants Unapplied Account, a usable reserve, for application in future periods.

Amounts of non-specific grants not used in the year are credited to the General Fund balance or to an Earmarked Reserve for specific use in future periods, where appropriate.

m) Overheads

Overheads are recognised in the Comprehensive Income and Expenditure Statement on an accruals basis.

n) Financing and investment income and expenses

Financing and investment income comprises interest income on funds invested, interest received in relation to finance leases, and premia received on the early settlement of borrowings. Interest income is recognised in the Comprehensive Income and Expenditure Statement as it accrues, using the effective interest rate method.

Financing and investment costs comprise the interest expense on borrowings and lease liabilities and the net financing cost on defined benefit pension obligations. Also included are premia paid on the early settlement of borrowings and interest rate derivatives. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the Comprehensive Income and Expenditure Statement using the effective interest rate method (see also Accounting Policy z) Borrowing costs).

o) VAT

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

Accounting Policies (continued)

p) Taxation

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the Comprehensive Income and Expenditure Statement except to the extent that they relate to a business combination, or to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are disclosed net to the extent that they relate to taxes levied by the same authority and the Group has the right of offset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

q) Business combinations

On the acquisition of a business, fair values are attributed to the identifiable assets and liabilities and contingent liabilities unless the fair value cannot be measured reliably in which case the value is subsumed into goodwill. Where fair values of acquired contingent liabilities cannot be measured reliably, the assumed contingent liability is not recognised but is disclosed in the same manner as other contingent liabilities.

Goodwill is the difference between the fair value of the consideration payable and the fair value of net assets acquired.

Accounting Policies (continued)

r) Intangible assets

Goodwill

Where the cost of a business combination exceeds the fair values attributable to the net assets acquired, the resulting goodwill is capitalised and tested for impairment at each balance sheet date. Goodwill is allocated to income-generating units for the purpose of impairment testing.

Other intangible assets

Software costs are measured at cost less accumulated depreciation and accumulated impairment losses.

Where components of an asset are significant in value in relation to the total value of the asset as a whole, and they have substantially different economic lives, they are recognised separately.

Amortisation is charged to the Comprehensive Income and Expenditure Statement on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, unless such lives are indefinite.

The useful lives and amortisation methods for software costs are as follows:

Software costs	Straight-line	3-5 years

s) Property, plant and equipment

Recognition and measurement

Infrastructure consists of roads, tunnels, viaducts, bridges, stations, track, signalling, bus stations and stands; properties attached to infrastructure which are not separable from infrastructure; and properties attached to infrastructure that are used to facilitate the service provision but are limited in use by operational constraints. Some of these properties generate revenues which are considered to be incidental to the Group's activities.

Infrastructure, plant and equipment and rolling stock are measured at cost less accumulated depreciation and accumulated impairment losses. Assets under construction are measured at cost less any recognised impairment loss.

Office buildings are valued at fair value by external, professionally qualified surveyors in accordance with RICS Guidelines. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement methodology assumes the valuation is based on the highest and best use of the asset. Office buildings are measured using the income approach, by means of the discounted cash flow method, where the expected cash flows from the properties are discounted (using a market-derived discount rate) to establish the present value of the net income stream. Properties are therefore categorised as Level 3 in the fair value hierarchy, as the measurement technique uses significant unobservable inputs to determine the fair value measurements. Valuations are performed on a rolling basis, with approximately 75 per cent of the portfolio by value being valued each year. Between formal valuations fair values are adjusted by the application of annual indexation. Movements in the fair value of the property are taken to the Revaluation Reserve, with the exception of permanent diminutions in value which are recognised in profit or loss.

The cost of certain items of property, plant and equipment was determined by reference to a revalued amount determined under a previous accounting regimen. The Group elected to apply the optional exemption to use this previous valuation as deemed cost at 1 April 2009, the date of transition to IFRS.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009, and any other costs directly attributable to bringing the assets to a working condition for their intended use. Where there is a legal obligation to remove the asset and/or restore the site on which it is located at the end of its useful economic life, the costs of dismantling and removing the items and restoring the site on which they are located are also included in the cost of the asset.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. When components are replaced, the costs of the overhaul are capitalised as additions and the carrying amounts of the replaced components are written off to profit or loss.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item, and are recognised net within other gains and losses in the Comprehensive Income and Expenditure Statement.

Depreciation

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less the expected residual value at the end of its useful economic life.

Depreciation is recognised in the Comprehensive Income and Expenditure Statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

Accounting Policies (continued)

The estimated useful lives for the current and comparative periods are as follows:

Tunnels and embankments	up to 120 years
Bridges and viaducts	up to 120 years
Track	up to 100 years
Road pavement	up to 40 years
Road foundations	up to 50 years
Signalling	15 to 40 years
Stations	up to 120 years
Other property	20 to 120 years
Rolling stock	30 to 50 years
Lifts and escalators	25 to 40 years
Plant and equipment	3 to 40 years
Computer equipment	3 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate, the effect of such adjustment being prospectively recognised as a change of estimate.

t) Heritage assets

Property, plant and equipment includes a number of assets classified as heritage assets in accordance with the Code. Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. These provisions apply to the collection of transport-related artefacts held at London Transport Museum. Due to the diverse nature of the assets held and the lack of comparable market values, the cost of obtaining a valuation of TfL's heritage assets is such that it would not be commensurate with the benefits provided to users of the financial statements. TfL has therefore taken the exemption available under the Code to hold its heritage assets at historical cost less any accumulated depreciation or impairment losses.

u) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes.

Accounting Policies (continued)

Investment property is measured initially at cost, including transaction costs, and subsequently measured at fair value with any change therein recognised in profit or loss. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting. Investment properties held at fair value are not subject to depreciation.

Investment properties are valued at fair value by external, professionally qualified surveyors in accordance with RICS Guidelines. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement methodology assumes the valuation is based on the highest and best use of the asset. Properties are measured using the income approach, by means of the discounted cash flow method, where the expected cash flows from the properties are discounted (using a market-derived discount rate) to establish the present value of the net income stream. Properties are therefore categorised as Level 3 in the fair value hierarchy, as the measurement technique uses significant unobservable inputs to determine the fair value measurements.

Properties with a carrying value in excess of £5,000,000 are valued annually. Properties with a value in excess of £250,000 but less than £5,000,000 are revalued at least every three years. Properties with a value in excess of £100,000 but less than £250,000 are revalued at least every five years. Between formal valuations fair values are adjusted by the application of annual indexation.

u) Investment in joint ventures

A joint venture is a type of joint arrangement wherein the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investment in its joint venture is accounted for using the equity method. Under the equity method, the investment is initially recognised on the Statement of Financial Position at cost and is thereafter adjusted to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture.

v) Investment in associated undertakings

An associate is an entity over which the Group has significant influence, but not control. The results and assets and liabilities of associates are incorporated in these consolidated accounts using the equity method of accounting from the date on which the investee becomes an associate. Under the equity method, the investment is initially recognised on the balance sheet at cost and is thereafter adjusted to recognise the Group's share of the profit or loss and other comprehensive income of the associate.

Accounting Policies (continued)

x) Inventories

Inventories consist primarily of fuel, uniforms, and materials required for the operation of services and maintenance of infrastructure. Equipment and materials held for use in a capital programme are accounted for as inventory until they are issued to the project, at which stage they become part of assets under construction.

Inventories are stated at cost less a provision for excess and obsolete inventories. Cost comprises direct materials, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

y) Assets held for sale

Long-term assets (and disposal groups comprising a group of assets and potentially some liabilities that an entity intends to dispose of in a single transaction) are classified as held for sale if; their carrying amount will be recovered principally through sale rather than continuing use, they are available for immediate sale and sale is highly probable.

On initial classification as held for sale, long-term assets or disposal groups are measured at the lower of their previous carrying amount and fair value less costs to sell. No amortisation or depreciation is charged on long-term assets (including those in disposal groups) classified as held for sale.

z) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (those necessarily taking a substantial period of time to get ready for their intended use) are added to the cost of those assets, until such time as the assets are ready for their intended use. The Group has opted to use the date of transition to IFRS (1 April 2009) as the effective date for applying IAS 23 Borrowing Costs (IAS 23).

All other finance and borrowing costs are recognised in the Comprehensive Income and Expenditure Statement in the period in which they are incurred.

aa) Provisions

Provisions are recognised on the Balance Sheet when a present legal or constructive obligation exists for a future liability in respect of a past event and where the amount of the obligation can be estimated reliably. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Accounting Policies (continued)

ab) Foreign currencies

Transactions in currencies other than sterling are recognised at the rates of exchange prevailing at the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Accounting Policy aj) below for hedging accounting policies).

ac) Leases (the Group as lessee)

As explained above, the Group has changed its accounting policy for leases where the Group is the lessee. The new accounting policy is described below and the impact of the change is set out in note 45.

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

The lease liabilities arising from a lease are initially measured on a present value basis comprising the following lease payments:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option
- lease payments to be made under reasonably certain extension options

The lease payments are discounted using the TfL Group's incremental borrowing rate, being the rate the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Accounting Policies (continued)

TfL's incremental borrowing rate for each tenor consists of two elements: an underlying rate, which is the UK Gilt rate and a credit spread representing the percentage payable above the underlying rate to reflect the credit profile of the TfL Group. TfL has a number of outstanding public bonds that can be used to estimate the credit spread payable for a range of tenors. For rolling stock leased assets, an adjustment to the rate was made to reflect the additional credit risk inherent in these lease arrangements.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate takes effect, then the lease liability is re-measured using the changed cash flows and changed discount rate. Further, a corresponding adjustment is also made to the right-of-use asset.

Lease payments are allocated between the repayment of principal and a finance cost. The finance cost is charged to the Comprehensive Income and Expenditure Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use assets are measured at cost comprising the following:

- the amount of initial measurement of lease liability
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct costs, and
- restoration costs.

The right-of-use assets are generally depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. If it is reasonably certain that the Group will exercise a purchase option, then the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and with low-value assets are recognised on a straight-line basis as an expense in the Comprehensive Income and Expenditure Statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

IFRS 16 permits the use of a practical expedient that permits lessees to make an accounting policy election, by class of underlying asset, to account for each separate lease component of a contract and any associated non-lease components as a single lease component. Contracts for bus services contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. TfL's accounting policy is to apply this expedient to other equipment as a class of underlying asset. If the non-lease components over the contract duration total less than 5% of the total contract value or £500,000, whichever is lower, then the non-lease and lease components are treated as a single lease.

ad) Leases (the Group as lessor)

Lease income from operating leases is recognised as income on a straight-line basis over the lease term. The respective leased assets are included in the Balance Sheet within property, plant and equipment based on their nature.

Lease income from finance leases is recognised over the lease term at an amount that produces a constant periodic rate of return on the remaining balance of the net investment in the lease. The net investment in the lease is the sum of lease payments receivable during the lease term discounted at the interest rate implicit in the lease.

On lease commencement the carrying value of the asset is derecognised, the net investment in the lease is recognised as a finance lease receivable and any selling profit or loss is recognised in the Comprehensive Income and Expenditure Statement.

The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting IFRS 16.

ae) Private Finance Initiative (PFI) transactions and similar contracts

The Code requires the Group to account for infrastructure PFI schemes where it controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement. TfL therefore recognises such PFI assets as items of property, plant and equipment together with a liability to pay for them. The fair values of services received under the contract are recorded as operating expenses.

The annual unitary payment is separated into the following component parts, using appropriate estimation techniques where necessary:

a) The service charge
b) Repayment of the capital
c) The interest element (using the interest rate implicit in the contract)

Services received

The fair value of services received in the year is recorded under the relevant expenditure headings within ‘gross expenditure’.

Assets

Assets are recognised as property, plant and equipment or intangible assets when they come into use. The assets are measured initially at fair value in accordance with IPSAS 32 Service Concession Arrangements – Grantor (IPSAS 32).

Where the operator enhances assets already recognised in the Balance Sheet the fair value of the enhancement in the carrying value of the asset is recognised as an asset.

Accounting Policies (continued)

Liabilities

A PFI liability is recognised at the same time as the assets are recognised. It is measured initially at the same amount as the fair value of the PFI assets and is subsequently measured as a finance lease liability in accordance with IPSAS 32.

An annual finance cost is calculated by applying the implicit interest rate in the lease to the opening lease liability for the year and is charged to financing and investment expenditure within the Comprehensive Income and Expenditure Statement.

The element of the unitary payment that is allocated as a finance lease rental is applied to meet the annual finance cost and to repay the lease liability over the contract term.

Life cycle replacement

Components of the asset replaced by the operator during the contract (lifecycle replacement) are capitalised where they meet the Group's criteria for capital expenditure. They are capitalised at the time they are provided by the operator and are measured initially at their fair value.

PFI arrangements which are accounted for as operating leases are dealt with as detailed in Accounting Policy ac) above.

af) Impairment of non-financial assets

Goodwill recognised separately as an intangible asset is tested for impairment annually and whenever there is indication that the goodwill may be impaired. Other intangible assets, property, plant and equipment and investments in subsidiaries and associated companies are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

Impairment occurs when an asset's carrying value exceeds its recoverable amount. An asset's recoverable amount is the higher of its value in use and its fair value less costs to sell.

In accordance with the Code, when an asset is not held primarily for the purpose of generating cash flows but for service provision, value in use is the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential. This is the case for the majority of the Group's assets.

ag) Employee benefits

Defined benefit pension plans

The majority of the Group's employees are members of the Group's defined benefit plans, which provide benefits based on final pensionable pay. The assets of schemes are held separately from those of the Group.

Accounting Policies (continued)

On retirement, members of the schemes are paid their pensions from a fund which is kept separate from the Group. The Group makes cash contributions to the funds in advance of members' retirement.

Every three years the Group's schemes are subject to a full actuarial funding valuation using the projected unit method. Separate valuations are prepared for accounting purposes on an IAS 19 basis as at the balance sheet date. Pension scheme assets are measured using current market bid values. Pension scheme defined benefit obligations are measured using a projected unit credit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the defined benefit obligation.

The difference between the value of the pension scheme assets and pension scheme liabilities is a surplus or a deficit. A pension scheme surplus is recognised to the extent that it is recoverable and a pension scheme deficit is recognised in full. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is reflected immediately in the Balance Sheet with a charge or credit recognised in other comprehensive income in the period in which it occurs. Remeasurement recognised in other comprehensive income will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit obligation or asset. Defined benefit costs are categorised between; (a) service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), (b) net interest expense or income, and (c) remeasurement. The Group presents the first two components in profit or loss within the surplus on the provision of services before tax. Curtailment gains and losses are accounted for as past service costs.

Multi-employer exemption

For certain defined benefit schemes, the Corporation and/or the Group is unable to identify its share of the underlying assets and defined benefit obligations of the scheme on a consistent and reasonable basis. As permitted by the multi-employer exemption in the Code, these schemes are accounted for as defined contribution schemes. Contributions are therefore charged to the Comprehensive Income and Expenditure Statement as incurred.

Group schemes under common control

The Corporation and certain of its subsidiaries are members of a Group defined benefit plan wherein risks are shared between the entities under common control. There is no contractual arrangement in place to apportion the net defined benefit cost across the member entities. Accordingly, in line with the provisions of IAS 19, the total net defined benefit obligation is recognised in the individual financial statements of the sponsoring employer, the Corporation.

Accounting Policies (continued)

Unfunded pension schemes

Ex gratia payments are made to certain employees on retirement in respect of service prior to the establishment of pension funds for those employees. Supplementary payments are made to the pensions of certain employees who retired prior to the index linking of pensions. The Group also augments the pensions of certain employees who retire early under voluntary severance arrangements. In addition, certain employees also accrue benefits under an unfunded pension arrangement. These unfunded pension liabilities are provided for in the Balance Sheet.

Defined contribution plans

Some employees are members of defined contribution plans. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the Comprehensive Income and Expenditure Statement in the periods during which services are rendered by employees.

Other employee benefits

Other short and long-term employee benefits, including holiday pay and long service leave, are recognised as an expense over the period in which they accrue.

ah) Reserves

Reserves consist of two elements, usable and unusable.

Usable reserves are those that can be applied to fund expenditure. They are made up of the General Fund, Earmarked Reserves, the Capital Grants Unapplied Account and the Street Works Reserve. Amounts in the Street Works Reserve represent the net income/expenditure generated from lane rental revenues. These net revenues may only be employed in funding the reduction of disruption and other adverse effects caused by street works.

Unusable reserves cannot be applied to fund expenditure as they are not cash backed. They include the Capital Adjustment Account, Pension Reserve, the Hedging Reserve, the Financial Instruments Revaluation Reserve, the Financial Instruments Adjustment Account, the Retained Earnings Reserve in subsidiaries and the Fixed Asset Revaluation Reserve.

ai) Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (grants, business rates, etc.) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between TfL's operating segments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Accounting Policies (continued)

aj) Financial instruments

Financial instruments within the scope of IFRS 9 Financial Instruments (IFRS9) are classified as:

- Financial assets measured at amortised cost
- Financial assets measured at fair value through other Comprehensive Income and Expenditure (FVTOCI)
- Financial assets measured at fair value through the Comprehensive Income and Expenditure Statement (FVTPL)
- Financial liabilities measured at amortised cost
- Financial liabilities at fair value through the Comprehensive Income and Expenditure Statement (FVTPL)

The Group determines the classification of its financial instruments at initial recognition. Financial assets may be reclassified only when the Group changes its business model for managing financial assets, at which point all affected financial assets would be reclassified. Financial liabilities are not reclassified subsequent to initial recognition.

When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus any directly attributable transaction costs. The exception to this is for assets and liabilities measured at fair value, where transaction costs are immediately expensed.

The subsequent measurement of financial instruments depends on whether they are financial assets or financial liabilities and whether specified criteria are met:

Financial assets are measured at amortised cost if:

- it is the objective of the Group to hold the asset in order to collect contractual cash flows; and
- the contractual terms give rise to cash flows, which are solely repayments of a principle value and interest thereon.

After initial recognition, these assets are carried at amortised cost using the effective interest rate method if the time value of money is significant. Gains and losses are recognised in the Comprehensive Income and Expenditure Statement when the asset is derecognised or a loss allowance applied, as well as through the amortisation process.

Financial assets are measured at FVTOCI if:

- assets are non-derivative and held within a business model whose objective is to realise their value through either the collection of contractual cash flows or selling of the financial assets; and
- the contractual terms of the financial asset give rise to periodic cash flows that are the payment of principal and interest.

Accounting Policies (continued)

After initial recognition, interest is taken to the Comprehensive Income and Expenditure Statement using the effective interest rate method and the assets are measured at fair value with gains or losses being recognised in Other Comprehensive Income and Expenditure (and taken to the Financial Instruments Revaluation Reserve), except for impairment gains or losses, until the investment is derecognised, or reclassified at which time the cumulative fair value gain or loss previously reported in reserves is included in the Comprehensive Income and Expenditure Statement. For equity instruments, unlike debt instruments, there is no transfer of accumulated amounts in Other Comprehensive Income to the Comprehensive Income and Expenditure Statement.

Financial assets are measured at FVTPL if they are:

- Derivatives
- Not held as amortised cost or at FVTOCI
- Financial assets that were elected to be designated as measured at FVTPL

After initial recognition, assets are carried in the Balance Sheet at fair value with gains or losses recognised in the Comprehensive Income and Expenditure Statement.

Financial liabilities are measured at amortised cost if they are non-derivative with limited exceptions.

After initial recognition, non-derivative financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities are measured at FVTPL if they are:

- Derivatives
- Other liabilities held for trading
- Financial liabilities that were elected to be designated as measured at FVTPL

Loans to subsidiaries

Loans to subsidiaries are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Loans are classified as amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and investments that are readily convertible to cash and with an outstanding maturity, at the date of acquisition, of less than or equal to three months. Cash and cash equivalents are classified as financial assets at amortised cost.

Accounting Policies (continued)

Other investments

Short-term investments with an outstanding maturity, at the date of acquisition, of greater than three months and less than or equal to a year, are classified as short-term investments on the basis that they are not readily convertible to cash. Short-term investments are classified as financial assets at amortised cost.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently classified as financial assets at amortised cost.

Finance lease receivables

Finance lease receivables are recognised initially at fair value and subsequently classified as financial assets at amortised cost.

Trade and other creditors

Trade and other creditors are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method.

Interest bearing loans and borrowings

All loans and borrowings are classified as financial liabilities measured at amortised cost.

Obligations under leases and PFI arrangements

All obligations under leases and PFI arrangements are classified as financial liabilities measured at amortised cost.

Other financing liabilities

Other financing liabilities are classified as financial liabilities measured at amortised cost.

Financial derivative instruments

The Group uses financial derivative instruments to manage certain exposures to fluctuations in foreign currency exchange rates and interest rates. The Group does not hold or issue derivative instruments for speculative purposes. The use of derivatives is governed by the Group's Treasury Management policies, approved by the Board.

Derivative assets and derivative liabilities are classified as FVTPL. Such financial derivative instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of the foreign currency risk of firm commitments (cash flow hedges).

Accounting Policies (continued)

The fair value of hedging derivatives is classified as a long-term asset or a long-term liability if the remaining maturity of the hedge relationship is more than 12 months and as a short-term asset or a short-term liability if the remaining maturity of the hedge relationship is less than 12 months. Derivatives not designated into an effective hedge relationship are classified as a short-term asset or a short-term liability.

Hedge accounting

In order to qualify for hedge accounting, at inception of the transaction the Group formally designates and documents the hedging relationship, which includes the Group's risk management strategy and objective for undertaking the hedge, identification of the hedging instrument, the hedged item, the ratio between the amount of hedged item and the amount of hedging instrument, the nature of the risk being hedged and how the Group assesses that the hedging instrument is highly effective including analysis of potential sources of hedge ineffectiveness.

At the inception of the hedge relationship and prospectively on an ongoing basis, the Group assesses three criteria in determining the hedge is effective and qualifies for hedge accounting, namely:

- An economic relationship exists such that the fair value or cash flows attributable to the hedged risk will be offset by the fair value of the hedged instrument
- Credit risk does not dominate changes in the value of the hedging instrument or hedged item
- The hedge ratio used for hedge accounting purposes is the same as that used for risk management purposes and is to be maintained as initially set throughout the hedge relationship

Where derivatives or portions of hedges do not qualify for hedge accounting, they are recorded at fair value through the Comprehensive Income and Expenditure Statement and any change in value is immediately recognised in the Comprehensive Income and Expenditure Statement.

Cash flow hedges

Derivative instruments are classified as cash flow hedges when they hedge the Group's exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction. Derivative instruments qualifying for treatment as cash flow hedges are principally interest rate swaps and foreign currency forward exchange contracts.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred in reserves. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in reserves are recycled to profit or loss in the periods when the hedged items (the hedged asset or liability) are recognised in the Comprehensive Income and Expenditure Statement. When the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in reserves are transferred from reserves and are included in the initial measurement of the cost of the related asset or liability. For transaction-related hedged items, this will occur once the hedged transaction has taken place. For time-period related hedged items, the amount that is accumulated in reserves is amortised on a systematic and rational basis as a reclassification adjustment.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in reserves at that time remains in reserves and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in reserves is recognised immediately in profit or loss.

Fair value measurement of financial instruments

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date, within Level 1 of the fair value hierarchy as defined within IFRS 13.

Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and pricing models.

In the absence of quoted market prices, derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date). Hence, derivatives are within Level 2 of the fair value hierarchy as defined within IFRS 13.

Impairment of financial assets

At each reporting date, the Group assesses whether the credit risk on a significant financial asset measured at amortised cost or FVTOCI has increased significantly since initial recognition and subsequently measures an expected credit loss allowance for that financial instrument.

The expected loss allowance is a measurement based on the probability of default over the lifetime of the contract for trade receivables, lease receivables or contract assets in scope of IFRS 15. For other financial assets, the allowance is based on the probability of default occurring in 12 months providing credit risk is assessed as low.

Accounting Policies (continued)

The expected credit loss is based on a forward-looking probability-weighted measure considering reasonable and supportable information on past events, current conditions and the time value of money. Where financial assets are determined to have shared risk characteristics they are assessed collectively, otherwise, they are reviewed on an individual basis.

No loss allowance for expected credit loss is recognised on a financial asset where the counterparty is central government or a local authority and where relevant statutory provisions prevent default. Expected credit loss allowances are recognised in the Comprehensive Income and Expenditure Statement.

Embedded derivatives

Derivatives that are embedded in other financial instruments or other host contracts are treated as separate derivatives when:

- the host contract is a financial liability or an asset not within the scope of IFRS 9; and
- the derivative's risks and characteristics are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the host contracts are not carried at fair value.

In such cases, an embedded derivative is separated from its host contract and accounted for as a derivative carried on the Balance Sheet at fair value from inception of the host contract. Unrealised changes in fair value are recognised as gains/losses within the Comprehensive Income and Expenditure Statement during the period in which they arise.

1. Gross income

a) Group gross income

Year ended 31 March	2020 £m	% of total	2019 £m	% of total
Passenger income	**4,432.9**	**76.9**	4,533.7	80.2
Revenue in respect of free travel for older and disabled customers	**317.9**	**5.5**	320.3	5.7
Congestion Charging	**247.0**	**4.3**	229.9	4.1
Ultra Low Emission Zone charges	**149.1**	**2.6**	-	-
Low Emission Zone charges	**5.5**	**0.1**	5.8	0.1
Charges to London Boroughs and Local Authorities	**15.3**	**0.3**	12.9	0.2
Charges to transport operators	**10.2**	**0.2**	10.0	0.2
Road Network compliance income	**69.0**	**1.2**	56.8	1.0
Commercial advertising receipts	**158.3**	**2.7**	156.0	2.8
Rents receivable	**93.9**	**1.6**	86.7	1.5
Contributions from third parties to operating costs	**77.7**	**1.3**	73.4	1.3
Taxi licensing	**36.7**	**0.6**	32.9	0.6
Ticket and photocard commission income	**28.1**	**0.5**	30.5	0.5
ATM and car parking income	**21.7**	**0.4**	19.3	0.3
Museum income	**11.4**	**0.2**	9.4	0.2
Training and specialist services	**16.7**	**0.3**	11.0	0.2
Cycle hire scheme	**11.0**	**0.2**	11.7	0.2
Other	**59.8**	**1.1**	55.9	0.9
	5,762.2	**100.0**	5,656.2	100.0

1. Gross income (continued)

b) Corporation gross income

Year ended 31 March	2020 £m	% of total	2019 £m	% of total
Congestion Charging	**247.0**	**42.0**	229.9	60.9
Ultra Low Emission Zone charges	**149.1**	**25.4**	-	-
Low Emission Zone charges	**5.5**	**0.9**	5.8	1.5
Charges to London Boroughs and Local Authorities	**11.5**	**2.0**	11.8	3.1
Road Network compliance income	**69.0**	**11.7**	56.8	15.1
Commercial advertising receipts	**-**	**-**	6.0	1.6
Rents receivable	**0.4**	**0.1**	1.5	0.4
Contributions from third parties to operating costs	**39.6**	**6.7**	1.8	0.5
Taxi licensing	**36.2**	**6.2**	32.9	8.7
Training and specialist services	**13.4**	**2.3**	9.0	2.4
Other	**16.3**	**2.7**	21.9	5.8
	588.0	**100.0**	377.4	100.0

c) Congestion Charging

Year ended 31 March	Group and Corporation 2020 £m	Group and Corporation 2019 £m
Income	**247.0**	229.9
Toll facilities and traffic management	**(73.2)**	(66.5)
	173.8	163.4
Administration, support services and depreciation	**(11.7)**	(16.7)
Net income from Congestion Charging	**162.1**	146.7

Net income from the Congestion Charge, LEZ and ULEZ is spent on improving transport in line with the Mayor's Transport Strategy.

1. Gross income (continued)

d) Low Emission Zone (LEZ) Charging

Year ended 31 March	**Group and Corporation 2020 £m**	Group and Corporation 2019 £m
Income	**5.5**	5.8
Toll facilities and traffic management	**(1.7)**	(2.5)
	3.8	3.3
Administration, support services and depreciation	**-**	-
Net income from Congestion Charging	**3.8**	3.3

e) Ultra Low Emission Zone (ULEZ) Charging

Year ended 31 March	**Group and Corporation 2020 £m**	Group and Corporation 2019 £m
Income	**149.1**	-
Toll facilities and traffic management	**(78.7)**	(22.1)
	70.4	(22.1)
Administration, support services and depreciation	**(3.8)**	(16.7)
Net income from Congestion Charging	**66.6**	(38.8)

f) Street works

Year ended 31 March	**Group and Corporation 2020 £m**	Group and Corporation 2019 £m
Income	**9.1**	7.8
Allowable operating costs of managing the lane rental scheme	**(1.7)**	(2.2)
Application of Street Works Reserve to projects reducing the adverse effects caused by street works	**(4.1)**	(4.2)
Net income recognised within net cost of services	**3.3**	1.4
Allowable capital costs of managing the lane rental scheme	**(0.3)**	(0.3)
Net income for the year transferred to the Street Works Reserve	**3.0**	1.1

Under the London lane rental scheme, introduced in 2012, TfL receives payments where utilities carry out certain street works in circumstances significantly affecting traffic. The legislation (SI 2012/425) requires TfL to apply the net proceeds of these payments to reducing the adverse effects caused by street works. The net income shown above has been transferred to the Street Works Reserve.

2. Segmental analysis

2a) Segmental analysis

Decisions taken by the Board about resource allocation are made using internal management reports which show the net cost of operations before financing. These management reports are presented on a segmental basis as shown below.

Year ended 31 March 2020

	Underground £m	Elizabeth line £m	Buses £m	Streets £m	Rail £m	Other operations £m	Major projects £m	Property £m	Media £m	Total net operating deficit excluding grant income per internal management reports £m	Central items (note 2c(i)) £m	Total £m
Passenger income	2,729.0	118.0	1,431.0	-	414.0	59.0	-	-	-	4,751.0	(0.2)	4,750.8
Other operating income	33.0	29.0	9.0	355.0	22.0	297.0	22.0	102.0	154.0	1,023.0	(11.6)	1,011.4
Gross income	2,762.0	147.0	1,440.0	355.0	436.0	356.0	22.0	102.0	154.0	5,774.0	(11.8)	5,762.2
Direct operating cost	(1,979.0)	(354.0)	(2,183.0)	(496.0)	(469.0)	(297.0)	(21.0)	(33.0)	(4.0)	(5,836.0)	(1,330.7)	(7,166.7)
Indirect operating cost	(344.0)	(9.0)	(25.0)	(78.0)	(20.0)	(54.0)	(38.0)	(9.0)	(2.0)	(579.0)	-	(579.0)
Gross expenditure	(2,323.0)	(363.0)	(2,208.0)	(574.0)	(489.0)	(351.0)	(59.0)	(42.0)	(6.0)	(6,415.0)	(1,330.7)	(7,745.7)
Net surplus from/(cost of) services before exceptional items	439.0	(216.0)	(768.0)	(219.0)	(53.0)	5.0	(37.0)	60.0	148.0	(641.0)	(1,342.5)	(1,983.5)

2. Segmental analysis (continued)

Year ended 31 March 2019 (restated *)

	Underground £m	Elizabeth line £m	Buses £m	Streets £m	Rail £m	Other operations £m	Major Projects £m	Property £m	Media £m	Total net operating deficit excluding grant income per internal management reports £m	Central items (note 2c(i)) £m	Total £m
Passenger income	2,793.0	101.0	1,474.0	-	427.0	59.0	-	-	-	4,854.0	-	4,854.0
Other operating income	32.0	17.0	12.0	322.0	40.0	146.0	1.0	94.0	148.0	812.0	(9.8)	802.2
Gross income	2,825.0	118.0	1,486.0	322.0	467.0	205.0	1.0	94.0	148.0	5,666.0	(9.8)	5,656.2
Direct operating cost	(2,027.0)	(237.0)	(2,109.0)	(474.0)	(454.0)	(338.0)	(12.0)	(32.0)	(2.0)	(5,685.0)	(1,365.9)	(7,050.9)
Indirect operating cost	(383.0)	(9.0)	(27.0)	(74.0)	(21.0)	(50.0)	(36.0)	(8.0)	(2.0)	(610.0)	100.0	(510.0)
Gross expenditure	(2,410.0)	(246.0)	(2,136.0)	(548.0)	(475.0)	(388.0)	(48.0)	(40.0)	(4.0)	(6,295.0)	(1,265.9)	(7,560.9)
Net surplus from/(cost of) services before exceptional items	415.0	(128.0)	(650.0)	(226.0)	(8.0)	(183.0)	(47.0)	54.0	144.0	(629.0)	(1,275.7)	(1,904.7)

* Prior year figures have been restated to reflect the fact that Media and Property are now being reported as separate divisions, whereas Commercial Development as a discrete segment no longer exists. The recognition/derecognition of these operating divisions has also had a consequential impact on the historically reported allocation of indirect costs between divisions.

Notes to the Financial Statements

The segmental reporting analysis only deals with Group information and no disclosures are included for the Corporation. This is because the Corporation's results are not reported to the TfL Board on a segmental basis.

No balance sheet information is reported internally by segment and there is accordingly no requirement under the Code to disclose segmental balance sheet information in the Statement of Accounts.

2. Segmental analysis (continued)

2b) Reconciliation of the Operating Account as included in internal reports to management to the Group Comprehensive Income and Expenditure Statement

Although segmental information is only presented to management to the level of net cost of services, a full Operating Account at the consolidated TfL Group level is also included in internal management reports, published on TfL's website in the form of Quarterly Performance Reports (www.tfl.gov.uk/corporate/publications-and-reports/quarterly-progress-reports). The methodology for preparation and the presentation of figures within the Operating Account differs in several respects from the Group Comprehensive Income and Expenditure Statement as presented in these financial statements. To aid understanding of TfL information as reported in Quarterly Performance Reports, a reconciliation of the Operating Account to the Group Comprehensive Income and Expenditure Statement is presented on the following pages.

2. Segmental analysis (continued)

Reconciliation of the Operating Account as included in internal reports to management to the Group Comprehensive Income and Expenditure Statement (CI&E)

Year ended 31 March 2020	Note	Operating Account as reported to management £m	Items included in the CI&E but excluded from the Operating Account £m	Items included in the Operating Account but excluded from the CI&E £m	Reclassifications between line items £m	Items with different accounting treatment (see notes below) £m	Group Comprehensive Income and Expenditure Statement £m
Gross income/(total operating income)	2c(i)	5,774.0	-	-	-	(11.8)	5,762.2
Gross expenditure/(operating cost)	2c(i)	(6,415.0)	(1,404.1)	-	-	73.4	(7,745.7)
Net cost of services before exceptional items/(divisional net operating surplus/(deficit))		(641.0)	(1,404.1)	-	-	61.6	(1,983.5)
Exceptional items	6	-	(19.3)	-	-	-	(19.3)
Net cost of services after exceptional items		(641.0)	(1,423.4)	-	-	61.6	(2,002.8)
Other net operating expenditure	7	-	(30.9)	-	-	-	(30.9)
Grant income	2c(vi)	1,105.0	-	-	-	2,163.1	3,268.1
Group share of loss after tax of joint ventures	17	-	(0.1)	-	-	-	(0.1)
Group share of loss after tax of associated undertakings	18	-	(52.0)	-	-	-	(52.0)
(Capital renewals)	2c(ii)	(452.0)	-	452.0	-	-	-
(Net cost of operations before financing)		12.0	(1,506.4)	452.0	-	2,224.7	1,182.3
Financing and investment income	2c(iii)	-	965.9	-	21.3	(3.3)	983.9
Financing and investment expenditure	2c(iv), 2c(v)	-	(14.2)	-	(456.3)	(49.4)	(519.9)
(Net financing costs)		(435.0)	-	-	435.0	-	-
Surplus on the provision of services before tax/(net cost of operations)		(423.0)	(554.7)	452.0	-	2,172.0	1,646.3
Taxation expense	11	-	(242.5)	-	-	-	(242.5)
Surplus on the provision of services after tax		(423.0)	(797.2)	452.0	-	2,172.0	1,403.8

Where line item descriptors differ between the Operating Account and the Comprehensive Income and Expenditure Statement, those used in the Operating Account are shown within parentheses in the above table.

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2. Segmental analysis (continued)

Reconciliation of the Operating Account as included in internal reports to management to the Group Comprehensive Income and Expenditure Statement (CI&E)

Year ended 31 March 2019	Note	Operating Account as reported to management £m	Items included in the CI&E but excluded from the Operating Account £m	Items included in the Operating Account but excluded from the CI&E £m	Reclassifications between line items £m	Items with different accounting treatment (see notes below) £m	Group Comprehensive Income and Expenditure Statement £m
Gross income/(total operating income)	2c(i)	5,666.0	-	-	-	(9.8)	5,656.2
Gross expenditure/(operating cost)	2c(i)	(6,295.0)	(1,064.4)	-	-	(201.5)	(7,560.9)
Net cost of services/(divisional net operating surplus/(deficit))		(629.0)	(1,064.4)	-	-	(211.3)	(1,904.7)
Other net operating expenditure	7	-	(32.5)	-	-	-	(32.5)
Grant income	2c(vi)	1,050.0	-	-	-	1,965.5	3,015.5
Group share of loss after tax of associated undertakings	18	-	(94.5)	-	-	-	(94.5)
(Capital renewals)	2c(ii)	(388.0)	-	388.0	-	-	-
(Net cost of operations before financing)		33.0	(1,191.4)	388.0	-	1,754.2	983.8
Financing and investment income	2c(iii)	-	136.4	-	12.4	-	148.8
Financing and investment expenditure	2c(iv), 2c(v)	-	(9.7)	-	(466.4)	0.8	(475.3)
(Net financing costs)		(454.0)	-	-	454.0	-	-
Surplus on the provision of services before tax/(net cost of operations)		(421.0)	(1,064.7)	388.0	-	1,755.0	657.3
Taxation income	11	-	2.0	-	-	-	2.0
Surplus on the provision of services after tax		(421.0)	(1,062.7)	388.0	-	1,755.0	659.3

Where line item descriptors differ between the Operating Account and the Comprehensive Income and Expenditure Statement, those used in the Operating Account are shown within parentheses in the above table.

2. Segmental analysis (continued)

2c(i) Reconciliation of segmental information reported in internal management reports to amounts included in net cost of services

The segmental analysis is prepared using internal management reporting accounting methodologies. In some cases, these methodologies are different from the accounting policies used in the financial statements. Differences between the methodologies are collectively referred to as Central items. Those impacting on the net cost of services are explained below:

- The cost of retirement benefits in the management reports is based on cash flows rather than the current service costs of benefits accrued in the year
- Depreciation, amortisation and impairment charges are not included in the segmental analysis
- Internal management reporting includes a charge within operating expenditure, for the costs of right-of-use leases, calculated on an IAS 17 basis (the former lease accounting standard). In the net cost of services included within these financial statements, this charge has been stripped out and replaced with the depreciation charge in respect of right-of-use assets within net cost of services and a financing charge included within financing and investment expenditure in the Comprehensive Income and Expenditure Statement.
- Certain items which do not fit into any of the reporting segments are known internally as 'other Central items'. Other Central items are reported separately to management and are not included in the segmental analysis

A reconciliation of net operating deficit before grant income as reported per internal management reports to amounts included in these statutory financial statements is included in the analyses below.

Reconciliation of net operating deficit per internal management reports to net cost of services per the Comprehensive Income and Expenditure Statement for the year ended 31 March 2020

	Note	Gross income £m	Gross expenditure £m	Net cost of services £m
Net operating deficit excluding grant income per internal management reports		**5,774.0**	**(6,415.0)**	**(641.0)**
Central items:				
Amounts included in the Comprehensive Income and Expenditure Statement not reported in management reports				
Depreciation	3	**-**	**(1,032.9)**	**(1,032.9)**
Amortisation of right-of-use assets	3	**-**	**(334.8)**	**(334.8)**
Amortisation of software intangibles	3	**-**	**(36.4)**	**(36.4)**
		-	**(1,404.1)**	**(1,404.1)**
Amounts subject to differing accounting treatment between the Operating Account and the Comprehensive Income and Expenditure Statement				
Total lease expense recorded under previous accounting standard IAS 17		**-**	**350.1**	**350.1**
Pension costs		**-**	**(295.2)**	**(295.2)**
Other Central items		**(11.8)**	**18.5**	**6.7**
		(11.8)	**73.4**	**61.6**
Net cost of services before exceptional items per the Comprehensive Income and Expenditure Statement		**5,762.2**	**(7,745.7)**	**(1,983.5)**

2. Segmental analysis (continued)

Reconciliation of net operating deficit per internal management reports to net cost of services per the Comprehensive Income and Expenditure Statement for the year ended 31 March 2019 (restated)

	Note	Gross income £m	Gross expenditure £m	Net cost of services £m
Net operating deficit excluding grant income per internal management reports		5,666.0	(6,295.0)	(629.0)
Central items:				
Amounts included in the Comprehensive Income and Expenditure Statement not reported in management accounts				
Depreciation	3	-	(1,020.8)	(1,020.8)
Amortisation of software intangibles	3	-	(43.6)	(43.6)
		-	(1,064.4)	(1,064.4)
Amounts subject to differing accounting treatment between the Operating Account and the Comprehensive Income and Expenditure Statement				
Pension costs		-	(214.1)	(214.1)
Other Central items		(9.8)	12.6	2.8
		(9.8)	(201.5)	(211.3)
Net cost of services per the Comprehensive Income and Expenditure Statement		5,656.2	(7,560.9)	(1,904.7)

2. Segmental analysis (continued)

2c(ii) Capital renewals

The Operating Account includes a charge for capital renewals expenditure which, in the statutory financial statements, is included within additions to property, plant and equipment (see note 13). Renewals expenditure is included in the Operating Account for management reporting purposes to allow the Operating Account to present the ongoing, full, day-to-day cost of running and maintaining our existing network.

2c(iii) Financing and investment income items included in the Comprehensive Income and Expenditure Statement, but not in the Operating Account

The Operating Account excludes the net gain on disposal of investment properties and the change in fair value of investment properties that are included within financing and investment income in the Comprehensive Income and Expenditure Statement (see note 8). Fair value movements are excluded from management reporting as these gains or losses are unrealised. The net proceeds from disposals, meanwhile, are included in the Capital Account for management reporting purposes, as these income streams may only be employed by the Corporation to fund capital expenditure and do not represent an ongoing revenue stream that can be employed to meeting the day-to-day operating costs of the network.

2c(iv) Financing and investment expenditure items included in the Comprehensive Income and Expenditure Statement, but not in the Operating Account

The Operating Account excludes the net interest charge on defined benefit pension obligations included within financing and investment income in the Comprehensive Income and Expenditure Statement (see note 9). It instead includes the full cash payments made during the year to pension funds within operating costs. This better reflects the actual charge made to the General Fund in respect of pension costs which is calculated based on actual contributions paid as opposed to the charges flowing through the Comprehensive Income and Expenditure Statement as calculated under IAS 19.

The Operating Account also excludes the adjustment to financing expenditure made in respect of borrowing costs capitalised into qualifying assets (see note 9). Instead this charge is left within net financing costs so that amounts charged to the Operating Account reflect the full cost to the Group of financing its debt.

2c(v) Items where the accounting treatment for elements of financing and investment expenditure differs between the Operating Account and the Comprehensive Income and Expenditure Statement

Financing costs relating to right-of use lease liabilities are excluded from net operating expenditure in the Operating Account but are included within financing and investment expenditure in the Comprehensive Income and Expenditure Statement. Instead, the Operating Account includes a charge within operating expenditure, calculated on an IAS 17 basis (the previous lease accounting standard) for the cost of right-of-use leases.

The Operating Account also excludes the charge for derivative gains and losses recycled to profit or loss during the year (see the hedging reserve section of note 38).

2. Segmental analysis (continued)

2c(vi) Items where the accounting treatment for elements of grant income differs between the Operating Account and the Comprehensive Income and Expenditure Statement

Certain grants received (primarily Business Rates Retention) are treated as capital grant for management reporting purposes and are thus excluded from the Operating Account. However, for legal and statutory reporting purposes, these grants constitute resource grants, and may only be classified as capital grant where they have been applied to fund capital expenditure in the year.

3. Gross expenditure

Gross expenditure recognised in the Comprehensive Income and Expenditure Statement comprises:

Year ended 31 March	Note	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
Staff costs:					
Wages and salaries *		**1,427.7**	1,402.0	**390.4**	377.4
Social security costs		**164.1**	161.8	**45.0**	45.4
Pension costs	36	**587.6**	613.0	**368.6**	366.6
		2,179.4	2,176.8	**804.0**	789.4
Other service expenditure **		**4,162.2**	4,319.7	**514.9**	415.2
Depreciation	13	**1,032.9**	1,020.8	**125.5**	126.1
Amortisation right-of-use assets	14	**334.8**	-	**28.6**	-
Amortisation of software intangibles	12	**36.4**	43.6	**22.0**	30.5
		7,745.7	7,560.9	**1,495.0**	1,361.2

* Wages and salaries include amounts provided for the cost of voluntary severance.

** Included in the Corporation's other service expenditure is £164.2m (2018/19 £161.9m) relating to financial assistance to London Boroughs and other third parties (see note 42 for detailed analysis). Other service expenditure in 2018/19 also included payments made under operating leases for the year of £90.3m for the Group and of £23.5m for the Corporation. In 2019/20 the Group and Corporation applied IFRS 16 in accounting for their leased assets (see note 45).

The average number of persons employed in the year was:

Year ended 31 March	Group 2020 Number	Group 2019 Number	Corporation 2020 Number	Corporation 2019 Number
Permanent staff (including fixed term contracts)	**25,814**	26,372	**7,069**	7,419
Agency staff	**1,711**	1,350	**928**	624
	27,525	27,722	**7,997**	8,043

4. External audit fees

External audit fees are made up as follows:

Year ended 31 March	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
Auditor's remuneration:				
for statutory audit services	**1.4**	1.0	**0.3**	0.2
for non-statutory audit services	**0.1**	-	**0.1**	-
for non-audit services *	**-**	-	**-**	-
	1.5	1.0	**0.4**	0.2

* The Audit and Assurance Committee reviews and notes the nature and extent of non-audit services provided by TfL's external auditor to ensure that independence is maintained.

5. Remuneration

Disclosures in respect of the remuneration of employees (including senior employees) and of termination payments made during the year may be found in the Remuneration Report on pages XX to XX.

6. Exceptional items

Year ended 31 March	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
Exceptional costs relating to the coronavirus pandemic	**(19.3)**	-	**(7.8)**	-

Exceptional costs included in the table above comprise costs relating to the safe stop of capital projects during the lockdown phase of the pandemic.

7. Other operating expenditure

Year ended 31 March	**Group 2020 £m**	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Net loss on disposal of property, plant and equipment	**(30.9)**	(32.5)	**(0.3)**	(7.2)
Total other operating expenditure	**(30.9)**	(32.5)	**(0.3)**	(7.2)

8. Financing and investment income

Year ended 31 March	Note	**Group 2020 £m**	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Interest income on bank deposits and other investments		**14.5**	9.8	**14.1**	9.4
Interest income on loans to subsidiaries		**-**	-	**376.6**	362.6
Change in fair value of investment properties (including those classified as held for sale)	15, 22	**934.2**	4.9	**13.2**	1.5
Net gain on disposal of investment properties		**31.7**	131.5	**22.9**	96.5
Interest receivable on finance lease receivables		**3.2**	2.3	**-**	-
Other investment income		**0.3**	0.3	**-**	-
		983.9	148.8	**426.8**	470.0

9. Financing and investment expenditure

Year ended 31 March	Note	**Group 2020 £m**	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Interest payable on loans and derivatives		**422.2**	414.4	**401.5**	393.0
Interest payable on finance, PFI and right-of-use lease liabilities *		**67.8**	30.7	**17.8**	6.2
Contingent rentals on PFI contracts		**14.1**	15.5	**10.4**	9.9
Net interest on defined benefit obligation	36	**122.7**	113.4	**122.0**	112.8
Other financing and investment expenditure		**1.6**	5.0	**0.9**	0.9
		628.4	579.0	**552.6**	522.8
Less: amounts capitalised into qualifying assets	13	**(108.5)**	(103.7)	**-**	-
		519.9	475.3	**552.6**	522.8

* IFRS 16 Leases has been adopted for the first time in 19/20. 18/19 comparatives have not been restated for this change. Further information on the impact of the implementation of this new standard is set out in note 45.

10. Grant income

Year ended 31 March	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
Non ring-fenced resource grant from the DfT used to fund operations	**27.1**	27.1	**27.1**	27.1
Non ring-fenced Business Rates Retention from the GLA used to fund operations	**913.5**	1,704.0	**913.5**	1,704.0
Other revenue grant received	**89.9**	93.8	**89.9**	93.8
Council tax precept	**6.0**	6.0	**6.0**	6.0
Total grants allocated to revenue	**1,036.5**	1,830.9	**1,036.5**	1,830.9
Ring-fenced grant from the DfT used to fund capital expenditure relating to Crossrail	**-**	150.0	**-**	150.0
Ring-fenced grant from the GLA used to fund capital expenditure relating to Crossrail	**989.0**	365.0	**989.0**	365.0
Non ring-fenced Business Rates Retention from the GLA used to fund capital	**967.8**	219.1	**967.8**	219.1
Other capital grants and contributions received	**274.8**	450.5	**188.6**	342.6
Total grants allocated to capital	**2,231.6**	1,184.6	**2,145.4**	1,076.7
Total grants	**3,268.1**	3,015.5	**3,181.9**	2,907.6

Allocation of capital grants

Year ended 31 March	Note	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
Capital grant funding of subsidiaries		**-**	-	**566.5**	277.8
Applied capital grants	38	**2,231.6**	1,856.1	**1,578.9**	1,470.4
Transfer from unapplied capital grants	39	**-**	(671.5)	**-**	(671.5)
Total capital grants		**2,231.6**	1,184.6	**2,145.4**	1,076.7

11. Taxation

TfL Corporation is exempt from Corporation Tax, but its subsidiaries are assessable individually to taxation in accordance with current tax legislation.

a) Corporation Tax

The Group tax expense for the year, based on the rate of Corporation Tax of 19 per cent (2018/19 19 per cent) comprised:

Year ended 31 March	Group 2020 £m	Group 2019 £m
UK Corporation Tax - current year charge	-	0.1
UK Corporation Tax - adjustments in respect of prior years	-	(2.1)
Total current tax income	-	(2.0)
Deferred tax - current year	242.5	-
Total tax charge/(income) for the year	242.5	(2.0)

Reconciliation of tax expense/(income)

Year ended 31 March	Group 2020 £m	Group 2019 £m
Surplus on the provision of services before tax	1,646.3	657.3
Surplus/deficit on the provision of services before tax multiplied by standard rate of Corporation Tax in the UK of 19% (2018/19 19%)	312.8	124.9
Effects of:		
Non-taxable income/non-deductible expenses	92.7	118.9
Permanent difference in TfL Corporation	(280.3)	(179.7)
Amount charged to current tax for which no deferred tax was recognised	111.9	(62.5)
Tax losses carried forward for which no deferred tax was recognised	6.9	-
Utilisation of tax losses carried forward for which no deferred tax was recognised	(0.9)	(1.0)
Overseas earnings	(0.6)	(0.5)
Adjustments in respect of prior years	-	(2.1)
Total tax expense/(income) for the year	242.5	(2.0)

11. Taxation (continued)

b) Unrecognised deferred tax assets

The Group has a potential net deferred tax asset of £1,761.4m (2019 £1,613.6m) in respect of the following items:

	Group 2020 £m	Group 2019 £m
Deductible temporary differences	**758.7**	722.6
Tax losses	**1,002.7**	891.0
Unrecognised deferred tax asset	**1,761.4**	1,613.6

No net deferred tax asset has been recognised as it is not considered probable that there will be sufficient future taxable profits available against which the unused tax credits can be utilised. The tax losses and the deductible temporary differences do not expire under current tax legislation.

The net deferred tax asset excludes any amounts connected to the pension deficit.

c) Movement in recognised deferred tax assets and liabilities during the year

Deferred tax assets have been recognised to the extent that they are considered available to offset deferred tax liabilities as at the balance sheet date. Their movements during the year were in respect of the following items:

For the year ended 31 March 2020	Balance at 1 April 2019 £m	Movement in year £m	**Balance at 31 March 2020 £m**
Deferred tax assets			
Property, plant and equipment (net of losses)	77.2	(61.2)	**16.0**
Derivative financial instruments	17.3	6.0	**23.3**
Total	94.5	(55.2)	**39.3**
Deferred tax liabilities			
Investment properties	(77.9)	(186.0)	**(263.9)**
Assets held for sale	(16.6)	(1.3)	**(17.9)**
Total	(94.5)	(187.3)	**(281.8)**
Net deferred tax asset/(liability)	-	(242.5)	**(242.5)**

11. Taxation (continued)

c) Movement in recognised deferred tax assets and liabilities during the year (continued)

For the year ended 31 March 2019	Balance at 1 April 2018 £m	Movement in year £m	Balance at 31 March 2019 £m
Deferred tax assets			
Property, plant and equipment (net of losses)	80.0	(2.8)	77.2
Derivative financial instruments	19.0	(1.7)	17.3
Total	99.0	(4.5)	94.5
Deferred tax liabilities			
Investment properties	(84.9)	7.0	(77.9)
Assets held for sale	(14.1)	(2.5)	(16.6)
Total	(99.0)	4.5	(94.5)
Net deferred tax asset/(liability)	-	-	-

The key movements in the period were due to the following:

- The deferred tax liability arising on investment properties, including those classified as assets held for sale, has increased due to the revaluation movements recognised in financing and investment income during the year. The investment properties were revalued prior to transfer to TTL Properties Limited (a subsidiary of the Corporation), including properties that had not previously been revalued. Due to the level of deferred tax liability arising on the investment properties and the nature of the Group's deferred tax assets it is not considered that sufficient deferred tax assets will be available to offset this deferred tax liability in full
- The property, plant and equipment deferred tax asset has changed in the period due to assets acquired in the year, movements in the market value of assets held and capital allowances claimed
- Included in the deferred tax balances for property, plant and equipment is the deferred tax movement on revaluation gains recognised in Other Comprehensive Income
- The deferred tax asset arising in respect of derivative financial instruments has increased during 2019/20 due to movement in the fair value of derivatives

In September 2016 legislation was enacted setting the main rate of Corporation Tax to 17 per cent from 1 April 2020. However, the Finance Bill 2020 amends the main rate of Corporation Tax for all non-ring fenced profits to 19% from 1 April 2020. The Corporation Tax charge and the main rate will also be set at 19% from April 2021. As the Group's deferred tax balances are not expected to be settled until after April 2021, deferred tax balances at 31 March 2020 have been calculated at the rate of 19 per cent.

No deferred tax asset has been recognised on the Corporation's pension deficit of £4,082.3m as the principal employer is not a taxpaying entity. Future tax deductions for some contributions will be made in the taxable entities, however, as at 31 March 2020, no deferred tax assets have been recognised in these entities.

12. Intangible assets

a) Group intangible assets

	Note	Software costs £m	Intangible assets under construction £m	Goodwill £m	Total £m
Cost					
At 1 April 2018		456.5	3.8	351.8	812.1
Additions		-	38.0	-	38.0
Transfers between asset classes		39.1	(39.1)	-	-
Disposals		(3.2)	-	-	(3.2)
At 31 March 2019		492.4	2.7	351.8	846.9
Additions		**-**	**21.0**	**-**	**21.0**
Net transfers from property, plant and equipment	13	**21.5**	**-**	**-**	**21.5**
Transfers between asset classes		**7.2**	**(7.2)**	**-**	**-**
Disposals		**(57.4)**	**-**	**-**	**(57.4)**
At 31 March 2020		**463.7**	**16.5**	**351.8**	**832.0**
Amortisation and impairment					
At 1 April 2018		344.7	-	349.2	693.9
Amortisation charge for the year	3	43.6	-	-	43.6
Disposals		(3.2)	-	-	(3.2)
At 31 March 2019		385.1	-	349.2	734.3
Amortisation charge for the year	3	**36.4**	**-**	**-**	**36.4**
Disposals		**(57.4)**	**-**	**-**	**(57.4)**
At 31 March 2020		**364.1**	**-**	**349.2**	**713.3**
Net book value at 31 March 2020		**99.6**	**16.5**	**2.6**	**118.7**
Net book value at 31 March 2019		107.3	2.7	2.6	112.6

Intangible assets under construction comprise software assets under development by the Group.

12. Intangible assets (continued)

b) Corporation intangible assets

	Note	Software costs £m	Intangible assets under construction £m	Total £m
Cost				
At 1 April 2018		291.1	0.3	291.4
Additions		-	29.6	29.6
Transfers between asset classes		29.0	(29.0)	-
At 31 March 2019		320.1	0.9	321.0
Additions		**-**	**16.8**	**16.8**
Net transfers from property, plant and equipment	13	**4.6**	**-**	**4.6**
Transfers between asset classes		**7.2**	**(7.2)**	**-**
At 31 March 2020		**331.9**	**10.5**	**342.4**
Amortisation and impairment				
At 1 April 2018		212.2	-	212.2
Amortisation charge for the year	3	30.5	-	30.5
At 31 March 2019		242.7	-	242.7
Amortisation charge for the year	3	**22.0**	**-**	**22.0**
At 31 March 2020		**264.7**	**-**	**264.7**
Net book value at 31 March 2020		**67.2**	**10.5**	**77.7**
Net book value at 31 March 2019		77.4	0.9	78.3

Intangible assets under construction comprise software assets under development by the Corporation

13. Property, plant and equipment

a) Group property, plant and equipment at 31 March 2020 comprised the following elements:

	Note	Infrastructure and office buildings £m	Rolling stock £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost or valuation						
At 1 April 2019		33,608.2	5,411.0	2,034.5	17,443.9	58,497.6
Additions		389.7	9.6	27.6	2,246.3	2,673.2
Transfers to right-of-use assets	14	-	(407.7)	(0.4)	-	(408.1)
Transfers to intangible assets	12	-	-	-	(21.5)	(21.5)
Transfers to investment properties	15	(32.3)	-	-	-	(32.3)
Transfers between asset classes		356.6	(35.8)	97.4	(418.2)	-
Disposals		(133.2)	(0.5)	(29.4)	(4.7)	(167.8)
Revaluation		(6.6)	-	-	-	(6.6)
At 31 March 2020		**34,182.4**	**4,976.6**	**2,129.7**	**19,245.8**	**60,534.5**
Depreciation						
At 1 April 2019		13,904.7	2,358.6	1,419.1	-	17,682.4
Depreciation charge for the year	3	804.1	114.2	114.6	-	1,032.9
Transfers to investment properties	15	(18.9)	-	-	-	(18.9)
Transfers to right-of-use assets		-	(180.8)	(0.1)	-	(180.9)
Transfers between asset classes		102.2	(25.4)	(76.8)	-	-
Disposals		(1.3)	(0.5)	(28.9)	-	(30.7)
Revaluation		(36.0)	-	-	-	(36.0)
At 31 March 2020		**14,754.8**	**2,266.1**	**1,427.9**	**-**	**18,448.8**
Net book value at 31 March 2020		**19,427.6**	**2,710.5**	**701.8**	**19,245.8**	**42,085.7**
Net book value at 31 March 2019		19,703.5	3,052.4	615.4	17,443.9	40,815.2

13. Property, plant and equipment (continued)

b) Group property, plant and equipment at 31 March 2019 comprised the following elements:

	Note	Infrastructure and office buildings £m	Rolling stock £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost or valuation						
At 1 April 2018		32,604.2	5,495.6	1,917.6	15,964.1	55,981.5
Additions		0.8	6.2	7.3	3,353.0	3,367.3
Disposals		(2.6)	(377.9)	(9.5)	(416.0)	(806.0)
Write offs		-	-	-	(45.9)	(45.9)
Transfers to investment properties	15	(36.4)	-	-	-	(36.4)
Transfers between asset classes		1,005.1	287.1	119.1	(1,411.3)	-
Revaluation		37.1	-	-	-	37.1
At 31 March 2019		33,608.2	5,411.0	2,034.5	17,443.9	58,497.6
Depreciation						
At 1 April 2018		13,154.6	2,233.8	1,319.1	-	16,707.5
Depreciation charge for the year	3	775.4	135.9	109.5	-	1,020.8
Disposals		(2.5)	(11.1)	(9.5)	-	(23.1)
Revaluation		(22.8)	-	-	-	(22.8)
At 31 March 2019		13,904.7	2,358.6	1,419.1	-	17,682.4

The Group holds its office buildings at fair value. All other items of property, plant and equipment are held at cost.

Borrowing costs are included in the costs of qualifying assets to the extent that the asset is funded by borrowings. As a result, the total borrowing costs capitalised during the year were £108.5m (2019 £103.7m). The cumulative borrowing costs capitalised are £718.4m (2019 £609.9m). Borrowings are capitalised at the rate of interest directly incurred on the specific borrowings taken out to fund the asset in question.

At 31 March 2020, the Group had capital commitments which are contracted for but not provided for in the financial statements amounting to £1,237.9m (2019 £2,231.2m).

On 21 November 2019, the Corporation entered into an agreement with RiverLinx Limited for the Design, Build, Financing, Operations and Maintenance ("DBFOM") of Silvertown Tunnel, connecting the Greenwich Peninsula and the Royal Docks in London. Our financial obligations to make payments to RiverLinx Limited will start once the tunnel is open, currently planned in early 2025 (the 'Permit to Use Date'). From the Permit to Use Date, the Corporation will make performance-based availability payments, initially at £65m annually and indexed until the expiry date of the agreement in January 2050.

13. Property, plant and equipment (continued)

c) Group PFI assets and other leased assets

The net book value above includes the following amounts in respect of PFI assets and, as at 31 March 2019 other leased assets:

	Infrastructure and office buildings £m	Rolling stock £m	Plant and equipment £m	Total £m
Gross cost				
PFI assets	**976.6**	**45.3**	**16.7**	**1,038.6**
	976.6	**45.3**	**16.7**	**1,038.6**
Depreciation				
PFI assets	**549.8**	**45.3**	**16.7**	**611.8**
	549.8	**45.3**	**16.7**	**611.8**
Net book value at 31 March 2020	**426.8**	**-**	**-**	**426.8**
Net book value at 31 March 2019 *	465.1	228.5	0.3	693.9

* IFRS 16 Leases has been applied to these financial statements from 1 April 2019. The tables above include a net book value for other leased assets as at 31 March 2019 of £227.2m. On 1 April 2019 these assets were derecognised from property, plant and equipment and instead shown separately as 'right-of-use assets', measured under IFRS 16. See notes 45 and 14 for further detail.

d) Depreciation charge

The total depreciation charge for the Group for the year comprised:

Year ended 31 March	Note	2020 £m	2019 £m
Depreciation of owned assets		**993.0**	966.6
Depreciation of assets held under PFI		**39.9**	42.2
Depreciation of assets held under other finance leases *		**-**	12.0
Total depreciation	3	**1,032.9**	1,020.8

* IFRS 16 Leases has been applied to these financial statements from 1 April 2019. The table above includes a depreciation charge in respect of assets held under other finance leases in 2018/19. On 1 April 2019 these assets were derecognised from property, plant and equipment and instead included within 'right-of-use assets', measured under IFRS 16.

13. Property, plant and equipment (continued)

e) Group office buildings

The fair value of office buildings at 31 March 2020 has been arrived at on the basis of a valuation carried out at that date by CRBE, a property valuation company not connected with the Group, and by chartered surveyors working for TfL. Values are calculated under level 3 of the fair value hierarchy using a discounted cash flow approach and are based on current rental income plus anticipated uplifts at the next rent review, lease expiry or break option, taking into consideration lease incentives. Uplifts and the discount rate are derived from rates implied by recent market transactions on similar properties. In estimating fair value, the highest and best use of the properties is assumed to be their current use. There were no transfers of properties in or out of level 3 of the fair value hierarchy during the year (2018/19 none).

Properties are valued in accordance with the Red Book, RICS Valuation – Global Standards 2017 published by the Royal Institution of Chartered Surveyors.

Valuations are performed on a rolling basis, with approximately 75 per cent of the portfolio by value being valued each year. The value of these buildings at 31 March 2020 was £204.2m (2019 £321.7m) and the depreciated historic cost value was £25.7m (2019 £31.3m). A related revaluation gain for the year of £29.4m (2018/19 a gain of £59.9m) has been recognised within Other Comprehensive Income and Expenditure.

f) Group and Corporation heritage assets

Property, plant and equipment includes a number of assets of importance to the history of London transport which are classified as heritage assets in accordance with the Code. These comprise transport-related objects and material (including vehicles, posters and photographs) held to advance the preservation, conservation and education objects of London Transport Museum. The collection consists of over 400,000 items and is housed at the Museum's sites in Covent Garden and Acton.

These assets are primarily former operational assets of the TfL Group whose legal title is retained by the Corporation or another of its operating subsidiaries. Due to the diverse nature of the assets held and the lack of comparable market values, the cost of obtaining a valuation of TfL's heritage assets is such that it would not be commensurate with the benefits provided to users of the financial statements. The assets therefore remain recorded in the accounts at historical cost less accumulated depreciation. The collections have been externally valued for insurance purposes only. Management do not consider these insurance valuations to be necessarily indicative of open market fair value and hence have not incorporated the insurance values into the financial statements. As at 31 March 2020, the latest available insurance value for the collection was £37.5m (2019 £37.5m). The net book value of these assets at 31 March 2020 was £nil (2019 £nil).

13 Property, plant and equipment (continued)

g) Corporation property, plant and equipment at 31 March 2020 comprised the following elements:

	Note	Infrastructure and office buildings £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2019		**5,289.1**	**228.7**	**1,136.9**	**6,654.7**
Additions		**42.8**	**1.7**	**181.9**	**226.4**
Net transfers to intangible assets	12	**(8.4)**	**9.7**	**(5.9)**	**(4.6)**
Transfers to investment properties	15	**(3.2)**	**-**	**-**	**(3.2)**
Transfers between asset classes		**25.8**	**13.0**	**(38.8)**	**-**
Disposals		**(0.3)**	**-**	**-**	**(0.3)**
Revaluation		**11.1**	**-**	**-**	**11.1**
At 31 March 2020		**5,356.9**	**253.1**	**1,274.1**	**6,884.1**
Depreciation					
At 1 April 2019		**2,439.2**	**167.9**	**-**	**2,607.1**
Depreciation charge for the year	3	**110.0**	**15.5**	**-**	**125.5**
At 31 March 2020		**2,549.2**	**183.4**	**-**	**2,732.6**
Net book value at 31 March 2020		**2,807.7**	**69.7**	**1,274.1**	**4,151.5**
Net book value at 31 March 2019		2,849.9	60.8	1,136.9	4,047.6

13 Property, plant and equipment (continued)

h) Corporation property, plant and equipment at 31 March 2019 comprised the following elements:

	Note	Infrastructure and office buildings £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2018		5,149.5	204.0	1,068.8	6,422.3
Additions		-	-	239.6	239.6
Transfers to investment properties	15	(19.8)	-	-	(19.8)
Transfers between asset classes		139.6	24.7	(164.3)	-
Write offs		-	-	(7.2)	(7.2)
Revaluation		19.8	-	-	19.8
At 31 March 2019		5,289.1	228.7	1,136.9	6,654.7
Depreciation					
At 1 April 2018		2,327.6	153.4	-	2,481.0
Depreciation charge for the year	3	111.6	14.5	-	126.1
At 31 March 2019		2,439.2	167.9	-	2,607.1

The Corporation holds all its property, plant and equipment at depreciated cost.

Direct borrowing costs are included in the cost of qualifying assets to the extent that the asset is funded by borrowings. Total borrowing costs capitalised during the year were £nil (2019 £nil). The cumulative borrowing costs capitalised are also £nil (2019 £nil).

At 31 March 2020, the Corporation had capital commitments which are contracted for but not provided for in the financial statements amounting to £30.7m (2019 £86.3m).

In addition, and as described in section b) to this note, the Corporation has entered into an agreement with RiverLinx Limited for Design, Build, Financing, Operations and Maintenance ("DBFOM") of a Silvertown Tunnel, connecting the Greenwich Peninsula and the Royal Docks in London. Our financial obligations to make payments to RiverLinx Limited will start once the tunnel is open, currently planned in early 2025, initially at £65m annually and indexed until the expiry date of the agreement in January 2050.

13. Property, plant and equipment (continued)

i) Corporation PFI assets, and other leased assets

The net book value above includes the amounts in the table below in respect of PFI assets:

	Infrastructure and office buildings £m	Plant and equipment £m	Total £m
Gross cost			
PFI assets	**209.1**	**16.7**	**225.8**
Depreciation			
PFI assets	**93.7**	**16.7**	**110.4**
Net book value at 31 March 2020	**115.4**	**-**	**115.4**
Net book value at 31 March 2019	118.1	-	118.1

j) Depreciation charge

The total depreciation charge for the Corporation comprised:

Year ended 31 March	Note	**2020 £m**	2019 £m
Depreciation of owned assets		**123.4**	123.4
Depreciation of assets held under PFI		**2.7**	2.7
Total depreciation	3	**125.5**	126.1

k) Corporation office buildings and other infrastructure assets held at valuation

During 2019/20 and 2018/19 the Corporation transferred a car park and other operational land that had previously been classified as operational infrastructure and held at a depreciated net book value of £nil, into investment properties. In accordance with the provisions of IAS 40 Investment Property, the assets were revalued to their fair market value of £11.1m (2018/19 £19.8m) immediately prior to transfer. The resultant revaluation gains were recognised in the revaluation reserve.

The Corporation held no office buildings and no other property, plant or equipment at valuation at any point during the year (2018/19 none).

14. Right-of-use assets and related lease liabilities

This note provides information for leases where the Group and/or Corporation is a lessee. For leases where the Group and/or Corporation is a lessor, see note 19. For adjustments recognised on adoption of IFRS 16 on 1 April 2019, please refer to note 45.

The Group adopted IFRS 16 using the modified retrospective approach. Under this approach, the cumulative effect of adopting IFRS 16 was recognised as an adjustment to the opening balance of reserves at 1 April 2019, with no restatement of comparative information.

a) The Group balance sheet includes the following amounts relating to its right-of-use assets

	Note	Infrastructure and office buildings £m	Rolling stock £m	Buses £m	Motor vehicles £m	Other equipment £m	Total £m
Cost or valuation							
Assets held under finance leases at 1 April 2019 *	13	-	407.7	0.4	-	-	408.1
Assets held under operating leases at 1 April 2019		550.8	598.5	589.1	5.7	75.3	1,819.4
Additions		5.0	441.9	172.6	5.7	36.0	661.2
Revaluation		-	(63.4)	-	-	-	(63.4)
At 31 March 2020		555.8	1,384.7	762.1	11.4	111.3	2,825.3
Depreciation							
Assets held under finance leases at 1 April 2019 *	13	-	180.8	0.1	-	-	180.9
Charge for the year	3	38.3	64.7	213.7	2.5	15.6	334.8
At 31 March 2020		38.3	245.5	213.8	2.5	15.6	515.7
Net book value at 31 March 2020		517.5	1,139.2	548.3	8.9	95.7	2,309.6
Net book value at 1 April 2019 *		-	-	-	-	-	-

* In 2018/19, the Group only recognised leased assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. At 31 March 2019, these finance lease assets were presented in property, plant and equipment and the related finance lease liabilities were disclosed separately on the Balance Sheet. The net book value at 1 April 2019 in the table above represents the right-of-use assets recognised on transition to IFRS 16. See note 45 for further details.

14. Right-of-use assets and related lease liabilities (continued)

b) Group lease liabilities in relation to right-of-use assets

At 31 March	2020 £m	2019 £m*
Principal outstanding		
Short-term liabilities	318.2	-
Long-term liabilities	2,098.8	-
	2,417.0	-

c) Group maturity analysis of right-of-use lease liabilities

At 31 March	2020 £m	2019 £m*
Contractual undiscounted payments due in:		
Not later than one year	352.0	-
Later than one year but not later than two years	322.2	-
Later than two years but not later than five years	583.4	-
Later than five years	1,880.9	-
	3,138.5	-
Less:		
Present value discount	(720.8)	-
Prepaid amounts	(0.3)	-
Exempt cashflows	(0.4)	
Present value of minimum lease payments	2,417.0	-

* IFRS 16 Leases has been applied to these financial statements from 1 April 2019. For further detail on the impact of transition to the new standard, see note 45.

14. Right-of-use assets and related lease liabilities (continued)

d) Analysis of amounts included in the Group Comprehensive Income and Expenditure Statement

Year ended 31 March	Note	2020 £m	2019 £m
Amortisation of right-of-use assets	3	334.8	-
Interest payable on right-of-use lease liabilities		58.8	-
Expense relating to short-term leases (included in gross expenditure)		18.3	-
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in gross expenditure)		0.2	-
Income from sub-leasing right-of-use assets (included in gross income)		13.8	-

e) Analysis of amounts included in the Statement of Cash Flows

The total cash outflow in the Group in respect of leases in 2019/20 was £317.4m.

f) The Group's leasing activities and how these are accounted for

As a lessee, the Group leases various infrastructure and office buildings, rolling stock, buses, motor vehicles and other equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The accounting for these leases is described within the Accounting Policies, notes s) and ac).

g) Future cash flows to which the lessee is potentially exposed that are/are not reflected in the measurement of lease liabilities

Variable lease payments

Most of the Group's infrastructure and office buildings have variable lease payments linked to a consumer price index. Rolling stock contracts have variable lease payments interest linked to a floating rate. When there is a change in cash flows because of the change in consumer price index or change in floating rate, then the lease liability is re-measured to reflect those revised lease payments and corresponding adjustments are made to the right-of-use asset.

Extension and termination options

Some of the Group's lease contracts have extension and termination options. These options and related payments are only included when the Group is reasonably certain that it will exercise these options. At the date of these financial statements, there are no facts and circumstances that create an economic incentive for the Group to extend or terminate the lease.

14. Right-of-use assets and related lease liabilities (continued)

Leases not yet commenced to which the TfL Group as a lessee is committed

Two of the Group's rolling stock contracts has commenced. Whilst a certain number of units of rolling stock have been accepted and leased the entire quota in the contract not has yet been received or recognised as at 31 March 2020. The right-of-use asset in relation to the rolling stock accepted at 31 March 2020 is £927.8m and the related lease liability is £848.8m out of a total commitment of £914.0m out of a total commitment of £1,207.0m in the contract.

h) The Corporation balance sheet includes the following amounts relating to its right-of-use assets

	Note	Infrastructure and office buildings £m	Other equipment £m	Total £m
Cost or valuation				
Assets held under operating leases at 1 April 2019		**427.3**	**5.7**	**433.0**
Additions		**5.0**	**11.7**	**16.7**
At 31 March 2020		**432.3**	**17.4**	**449.7**
Depreciation				
Charge for the year	3	**25.2**	**3.4**	**28.6**
At 31 March 2020		**25.2**	**3.4**	**28.6**
Net book value at 31 March 2020		**407.1**	**14.0**	**421.1**
Net book value at 1 April 2019 * - -	-	-	-	-

* In 2018/19, the Corporation only recognised leased assets and lease liabilities in relation to leases that were classified as 'finance leases' in relation to PFI contracts under IAS 17 Leases. At 31 March 2019, these lease assets were presented in property, plant and equipment and the related finance lease liabilities were disclosed separately on the Balance Sheet. The net book value at 1 April 2019 in the table above represents the right-of-use assets recognised on transition to IFRS 16. See note 45 for further details.

14. Right-of-use assets and related lease liabilities (continued)

i) Corporation lease liabilities in relation to right-of-use assets

At 31 March	2020 £m	2019 £m*
Principal outstanding		
Short-term liabilities	25.7	-
Long-term liabilities	413.6	-
	439.3	-

j) Corporation maturity analysis of right-of-use lease liabilities

At 31 March	2020 £m	2019 £m*
Contractual undiscounted payments due in:		
Not later than one year	37.3	-
Later than one year but not later than two years	37.2	-
Later than two years but not later than five years	104.5	-
Later than five years	373.5	-
	552.5	-
Less:		
Present value discount	(113.2)	-
Present value of minimum lease payments	439.3	-

* IFRS 16 Leases has been applied to these financial statements from 1 April 2019. For further detail on the impact of transition to the new standard, see note 45.

k) Analysis of amounts included in the Corporation Comprehensive Income and Expenditure Statement

Year ended 31 March	Note	2020 £m	2019 £m
Depreciation on right-of-use assets	3	28.6	-
Interest payable on right-of-use lease liabilities		12.1	-
Expense relating to short-term leases (included in gross expenditure)		4.0	-
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in gross expenditure)		0.2	-
Income from sub-leasing right-of-use assets (included in gross income)		0.4	-

14. Right-of-use assets and related lease liabilities (continued)

l) Analysis of amounts included in the Corporation Statement of Cash Flows

The total cash outflow in the Corporation in respect of leases in 2019/20 was £26.5m.

m) The Corporation's leasing activities and how these are accounted for

As a lessee, the Corporation leases various office buildings. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The accounting for these leases is described within the Accounting Policies, notes s) and ac).

n) Future cash flows to which the lessee is potentially exposed that are/are not reflected in the measurement of lease liabilities.

Variable lease payments

Most of the Corporation's office buildings have variable lease payments linked to a consumer price index. When there is a change in cash flows because of the change in consumer price index or change in floating rate, then the lease liability is remeasured to reflect those revised lease payments and a corresponding adjustment is made to the right-of-use asset.

Extension and termination options

Some of the Corporation's lease contracts have extension and termination options. These options and related payments are only included when the Corporation is reasonably certain that it will exercise these options. At the date of these financial statements, there are no facts and circumstances that create an economic incentive for the Corporation to extend or terminate the lease.

Leases not yet commenced to which the Corporation as a lessee is committed

As at 31 March 2020 the Corporation is not party to any lease arrangements to which the Corporation as a lessee is committed but for which it has not yet recognised any right-of-use asset or liability on the Balance Sheet.

15. Investment properties

	Note	Group £m	Corporation £m
Valuation			
At 1 April 2018		537.2	11.0
Additions		52.5	52.3
Transfers to assets held for sale		(38.5)	(23.4)
Transfers from property, plant and equipment		36.4	19.8
Disposals		(99.8)	(54.4)
Fair value adjustments	8	4.2	1.5
At 31 March 2019		492.0	6.8
Additions		**2.7**	**2.7**
Transfers to subsidiary undertakings		**-**	**(10.0)**
Transfers to assets held for sale	22	**(4.8)**	**(3.2)**
Transfers from property, plant and equipment	13	**13.4**	**3.2**
Disposals		**(11.3)**	**(2.9)**
Fair value adjustments	8	**938.5**	**17.5**
At 31 March 2020		**1,430.5**	**14.1**

The fair value of the Group's investment properties at 31 March 2020 has been arrived at on the basis of valuations at that date by CBRE, a property valuation company not connected with the Group, and by chartered surveyors working for TfL. Values are calculated under level 3 of the fair value hierarchy using a discounted cash flow approach and are based on current rental income plus anticipated uplifts at the next rent review, lease expiry or break option, taking into consideration lease incentives. Uplifts and the discount rate are derived from rates implied by recent market transactions on similar properties. In estimating fair value, the highest and best use of the properties is assumed to be their current use. There were no transfers of properties in or out of level 3 of the fair value hierarchy during the year (2018/19 none).

Properties are valued in accordance with the Red Book, RICS Valuation – Global Standards 2017 published by the Royal Institution of Chartered Surveyors. Properties with a carrying value in excess of £5,000,000 are valued annually. Properties with a value in excess of £250,000 but less than £5,000,000 are revalued at least every three years. Properties with a value in excess of £100,000 but less than £250,000 are revalued at least every five years. Between formal valuations fair values are adjusted by the application of annual indexation.

During the year, in order to create a consolidated commercial property portfolio, assets previously held as operational have been identified and transferred into a designated investment portfolio alongside a range of existing investment properties, This is a vehicle to deliver homes under the Mayor's Transport Strategy, and a growing sustainable income stream, as well as to facilitate the ability to generate both debt and equity to fund capital requirements. In the year to 31 March 2020, therefore, a net revaluation uplift of £938.5m was recognised for the Group (2018/19 £4.2m).

Rental income earned in relation to investment properties is disclosed in note 1. Operating expenditure for the year in respect of investment properties totalled £24.3m for the Group (2018/19 £24.6m).

16. Investments in subsidiaries

Cost	Corporation 2020 £m	Corporation 2019 £m
At 1 April	**10,322.5**	8,762.5
Investments in year	**1,240.0**	1,560.0
At 31 March	**11,562.5**	10,322.5

During the year, the Corporation increased its investment in the ordinary share capital of Transport Trading Limited (TTL) by £1,240.0m (2018/19 £1,560.0m). TTL subsequently increased its investment in the ordinary share capital of Crossrail Limited by £1,160.0m (2018/19 £1,560.0m) and its investment in the ordinary share capital of London Bus Services Limited by £80.0m (2018/19 £nil).

The Group holds 100 per cent of the share capital of all subsidiaries. All companies listed in the table below, with the exception of London Transport Insurance (Guernsey) Limited, are registered in England and Wales; and their financial statements are lodged at Companies House and also at the Charity Commission for the London Transport Museum Limited. London Transport Insurance (Guernsey) Limited is registered in Guernsey.

16. Investments in subsidiaries (continued)

The Group's subsidiaries are:

Subsidiaries	Principal activity
City Airport Rail Enterprises Limited	Dormant company
Crossrail 2 Limited	Dormant company
Crossrail Limited	Construction of Crossrail infrastructure
Docklands Light Railway Limited	Passenger transport by rail
London Bus Services Limited	Passenger transport by bus
London Buses Limited	Dial-a-Ride services
London Dial-a-Ride Limited	Dormant company
London River Services Limited	Pier operator
London Transport Insurance (Guernsey) Limited	Insurance
London Transport Museum (Trading) Limited	Trading company
London Transport Museum Limited	Charitable company
London Underground Limited	Passenger transport by underground train
LUL Nominee BCV Limited	Dormant company
LUL Nominee SSL Limited	Dormant company
Rail for London Limited	Passenger transport by rail
Rail for London (Infrastructure) Limited	Infrastructure manager for the Crossrail Central Operating Section
TfL Trustee Company Limited	Pension Fund Trustee
Tramtrack Croydon Limited	Passenger transport by train
Transport for London Finance Limited	Manages financial risk of the Group
Transport Trading Limited	Holding company
TTL Blackhorse Road Properties Limited	Holding company
TTL Build to Rent Limited *	Holding company
TTL Earls Court Properties Limited	Holding company
TTL FCHB Properties Limited *	Dormant company
TTL Kidbrooke Properties Limited	Holding company
TTL Landmark Court Properties Limited	Dormant company
TTL Northwood Properties Limited	Dormant company
TTL Properties Limited	Holding company
TTL Southwark Properties Limited	Property investment
TTL South Kensington Properties Limited	Property investment
TTL Wembley Park Properties Limited *	Dormant company
Tube Lines Limited	Maintenance of underground lines
Tube Lines Pension Scheme Trustees Limited	Pension Fund Trustee
Victoria Coach Station Limited	Coach station
Woolwich Arsenal Rail Enterprises Limited	Dormant company

*Incorporated during the year

17. Investment in joint ventures

a) Connected Living London (BTR) Limited

In 2019/20, the Group via its subsidiary, TTL Build to Rent Limited, acquired a 49% interest in a joint arrangement called Connected Living London (BTR) Limited (CLL), which was set up as a partnership together with Grainger Plc, to fund the development of a major build to rent portfolio across London. The registered office address of CLL is Citygate, St James Boulevard, Newcastle Upon Tyne, Tyne & Wear, United Kingdom, NE1 4JE.

As the Group has joint control over the net assets and operations of its investment, it has equity accounted for its investment as a joint venture in these consolidated financial statements. The financial year end of CLL is 30 September. For the purposes of applying the equity method of accounting, management accounts from the date of incorporation of 25 April 2019 up to 31 March 2020 have been employed.

During 2019/20 the Group invested £7.3m in the equity of CLL. Summarised financial information in respect of the Group's investment is set out below:

Balance sheet of Connected Living London (BTR) Limited at the 100 per cent level

At 31 March	Group 2020 £m	Group 2019 £m
Long-term assets		
Investment property under construction	10.5	-
	10.5	-
Current assets		
Cash	6.6	-
Other short-term assets	5.0	-
	11.6	-
Current liabilities		
Other short-term liabilities	(7.4)	-
	(7.4)	-
Long-term liabilities		
Other long-term liabilities	-	-
	-	-

Reconciliation of net assets to amounts included in the consolidated Group accounts

At 31 March	Group 2020 £m	Group 2019 £m
Net assets at 100%	14.7	-
Percentage held by the TfL Group	49%	n/a
Carrying amount of the Group's equity interest in CCL	7.2	-

17. Investment in joint ventures (continued)

Group share of comprehensive income and expenditure of CCL

Year ended 31 March	Group 2020 £m	Group 2019 £m
Group share of loss from continuing operations	**(0.1)**	-
Group share of other comprehensive income	**-**	-
Total Group share of comprehensive income and expenditure for the year	**(0.1)**	-

The share of loss from continuing operations reflects administrative expenditure relating to the operations of the company.

18. Investment in associated undertakings

a) Earls Court Partnership Limited

The Group holds a 37 per cent holding in the ownership and voting rights of Earls Court Partnership Limited (ECP), a property development company incorporated in England and Wales. Through its voting rights and representation on the Board of Directors of ECP, the Group has significant influence but not control over the relevant activities of ECP. The Group's investment is therefore accounted for using the equity method in these consolidated accounts.

The Group has invested share capital and non-interest bearing loans into ECP. The loan notes are non-interest bearing and have no fixed repayment date. They have therefore been treated in these financial statements as an investment in the equity of ECP. As at 31 March 2019 and 31 March 2020 the Group had invested £44.4m in share capital and a further £413.1m in loan notes.

The financial year end of ECP is 31 December. For the purposes of applying the equity method of accounting, the financial statements of ECP for the year ended 31 December 2019 have been used, and appropriate adjustments made for the effects of significant transactions between that date and 31 March 2020.

Summarised financial information in respect of the Group's investment in ECP is set out below:

Balance sheet of Earls Court Partnership Limited at the 100 per cent level

At 31 December	Group 2019 £m	Group 2018 £m
Current assets	**10.4**	8.8
Long-term assets	**514.5**	731.2
Current liabilities	**(3.2)**	(5.7)
Long-term liabilities	**(71.7)**	(65.8)

Included within current assets above is £1.2m of cash (2019 £8.0m). Long-term liabilities represent third-party borrowings.

Reconciliation of net assets to amounts included in the consolidated Group accounts

	Group 2020 £m	Group 2019 £m
Net assets at 100% at 31 December	**450.0**	668.5
Percentage held by the TfL Group	**37%**	37%
TfL Group share of net assets at 31 December	**166.5**	247.3
Revaluation adjustment as at 31 March 2019	**-**	(27.7)
Investment in equity loan notes between 31 December 2018 and 31 March 2019	**-**	1.0
Carrying amount of the Group's equity interest in Earls Court Partnership Limited at 31 March	**166.5**	220.6

18. Investment in associated undertakings (continued)

Group share of comprehensive income and expenditure of Earls Court Partnership Limited

Year ended 31 March	Group 2020 £m	Group 2019 £m
Group share of loss from continuing operations	**(54.1)**	(94.5)
Group share of other comprehensive income	**-**	-
Total Group share of comprehensive income and expenditure for the year	**(54.1)**	(94.5)

The share of loss from continuing operations primarily reflects fair value losses recognised in respect of the revaluation of the Earl's Court development site.

b) Kidbrooke Partnership LLP

The Group, through its subsidiary, TTL Kidbrooke Properties Limited, holds a 49 per cent holding in the members' interest of Kidbrooke Partnership LLP (KP LLP), a property development partnership. Through its voting rights and representation on the Board of Members, the Group has significant influence but not control over the relevant activities of KP LLP. The Group's investment is therefore accounted for as an associate using the equity method in these consolidated accounts.

KP LLP has a 299 year lease over the land lying to the South East of Kidbrooke Park Road and is developing the site as a mixed use development incorporating affordable housing. The financial year end of KP LLP is 31 March.

Summarised financial information in respect of the Group's investment in KP LLP is set out below:

Balance sheet of Kidbrooke Partnership LLP at the 100 per cent level

At 31 March	Group 2020 £m	Group 2019 £m
Current assets	**30.8**	0.6
Long-term assets	**-**	25.9
Current liabilities	**(0.2)**	(0.2)
Long-term liabilities	**(0.6)**	-

Included within current assets in the table above is £1.8m of cash (2018/19 £nil).

18. Investment in associated undertakings (continued)

Reconciliation of net assets to amounts included in the consolidated Group accounts

At 31 March	Group 2020 £m	Group 2019 £m
Net assets at 100%	**30.2**	26.3
Percentage held by the TfL Group	**49%**	49%
Carrying amount of the Group's equity interest in KP LLP	**14.8**	12.9

KP LLP has recognised neither a profit nor loss in the year to 31 March 2020 (2018/19 £nil). There is therefore no impact on Group consolidated profits relating to the associate. The increase in the carrying amount of the Group's equity interest during the year represents an investment of £1.9m in additional equity share capital of KP LLP. The Group's percentage shareholding has remained unchanged.

c) Blackhorse Road Properties LLP

In 2019/20 the Group acquired a 49 per cent holding in the members' interest of Blackhorse Road Properties LLP (BRP LLP), a newly created property development partnership, for a cash consideration of £11.4m. The investment was purchased through a newly incorporated subsidiary of the Group, TTL Blackhorse Road Properties Limited. Through its voting rights and representation on the Board of Members, the Group has significant influence but not control over the relevant activities of BRP LLP. The Group's investment is therefore accounted for as an associate, using the equity method in these consolidated accounts.

During the year the Group granted a 999 year lease over land at Blackhorse Road to BRP LLP for a consideration of £15.9m. The financial year end of BRP LLP is 30 June.

Summarised financial information in respect of the Group's investment in BRP LLP is set out below. Amounts presented are taken from unaudited management accounts made up to 31 March.

18. Investment in associated undertakings (continued)

Balance sheet of BRP LLP at the 100 per cent level

At 31 March	Group 2020 £m	Group 2019 £m
Current assets	33.4	-
Long-term assets	-	-
Current liabilities	(5.9)	-
Long-term liabilities	-	-

Included within current assets in the table above is £14.6m of cash (2018/19 £nil).

Reconciliation of net assets to amounts included in the consolidated Group accounts

At 31 March	Group 2020 £m	Group 2019 £m
Net assets at 100%	27.5	-
Percentage held by the TfL Group	49%	n/a
Carrying amount of the Group's equity interest in BRP LLP	13.5	-

Group share of comprehensive income and expenditure of BRP LLP

Year ended 31 March	Group 2020 £m	Group 2019 £m
Group share of profit from continuing operations	2.1	-
Group share of other comprehensive income	-	-
Total Group share of comprehensive income and expenditure for the year	2.1	-

19. Finance lease receivables

Group finance lease receivables

The Group leases certain items of plant and equipment related to its media activities to a third party under a finance lease arrangement.

Finance lease receivables on the balance sheet are calculated as the present value of minimum lease payments outstanding. Interest is accrued at a rate of 6.29 per cent per annum.

	2020 £m	2019 £m
At 31 March 2020		
Minimum cash receipts in:		
Not later than one year	**205.5**	15.5
Later than one year but not later than five years	**39.8**	43.2
	245.3	58.7
Less unearned finance income	**(192.6)**	(6.5)
	52.7	52.2

As at 31 March	2020 £m	2019 £m
Principal outstanding		
Short-term	**15.7**	12.8
Long-term	**37.0**	39.4
	52.7	52.2

20. Inventories

As at 31 March	**Group 2020 £m**	Group 2019 £m
Raw materials and consumables	**58.1**	60.4
Goods held for resale	**0.8**	0.6
	58.9	61.0

There is no material difference between the balance sheet value of Group inventories and their net realisable value. The Corporation had no inventories as 31 March 2020 or 31 March 2019.

The movement on inventories was as follows:

	Group £m
Balance at 1 April 2018	64.2
Purchases in the year	68.6
Recognised as an expense in the year:	
Consumed in the year	(63.3)
Goods sold in the year	(1.7)
Net write offs in the year	(6.8)
Balance at 31 March 2019	61.0
Purchases in the year	**76.1**
Recognised as an expense in the year:	
Consumed in the year	**(71.7)**
Goods sold in the year	**-**
Net write offs in the year	**(6.5)**
Balance at 31 March 2020	**58.9**

21. Debtors

At 31 March	Group 2020 £m	Group 2019 £m
Short-term		
Trade debtors	**99.7**	155.2
Capital debtors	**22.7**	16.6
Other debtors	**22.8**	133.6
Other tax and social security	**61.1**	58.0
Grant debtors	**118.2**	89.4
Interest debtors	**1.7**	0.5
Contract assets: accrued income	**58.5**	133.4
Prepayments for goods and services	**128.1**	110.3
	512.8	697.0
Long-term		
Other debtors	**59.4**	63.5
Prepayments for goods and services	**38.0**	49.1
	97.4	112.6

Trade debtors are non-interest bearing and are generally paid within 28 days.

As at 31 March 2020, £424.9m (2019 £293.2m) was recognised as a provision for expected credit losses on trade and other debtors (see note 35).

Contract asset balances represent accrued income recognised where balances have not yet been invoiced to the customer. Upon completion of the terms of the contract and agreement with the customer/third party contributor, the amounts recognised as contract assets are reclassified to trade debtors.

21. Debtors (continued)

At 31 March	Corporation 2020 £m	Corporation 2019 £m
Short-term		
Trade debtors	**31.8**	28.4
Amounts due from subsidiary companies	**798.6**	407.6
Capital debtors	**6.4**	10.0
Other debtors	**5.7**	3.9
Other tax and social security	**(0.7)**	9.7
Grant debtors	**64.8**	77.5
Interest debtors	**1.5**	0.2
Contract assets: accrued income	**5.6**	56.0
Prepayments for goods and services	**25.1**	23.4
	938.8	616.7
Long-term		
Loans made to subsidiary companies	**11,106.2**	10,451.3
Other debtors	**42.8**	63.5
Prepayments for goods and services	**6.0**	2.8
	11,155.0	10,517.6

Trade debtors are non-interest bearing and are generally paid within 28 days. In 2020, £415.3m (2019 £285.7m) was recognised as a provision for expected credit losses on trade debtors (see note 35).

Contract assets balances represent accrued income recognised where balances have not yet been invoiced to the customer. Upon completion of the terms of the contract, the amounts recognised as contract assets are reclassified to trade debtors.

Long-term loans made to subsidiary companies accrue market rates of interest reflecting rates achieved on debt issued to third parties by the Corporation. The average rate of interest accruing on loans outstanding at 31 March 2020 was 3.6 per cent (2019 3.8 per cent).

22. Assets held for sale

	Note	Group £m	Corporation £m
Balance at 1 April 2018		83.2	-
Assets newly classified as held for sale:			
Investment properties		38.5	23.4
Revaluation gains			
Investment properties		0.7	-
Balance at 31 March 2019		122.4	23.4
Assets newly classified as held for sale:			
Investment properties	15	**4.8**	**3.2**
Revaluation losses			
Investment properties		**(4.3)**	**(4.3)**
Disposals			
Investment properties		**(9.5)**	**(3.2)**
Balance at 31 March 2020		**113.4**	**19.1**

As at 31 March 2020, certain development sites and surplus land were being actively marketed for sale. Disposals are expected to complete within the next 12 months, or, where agreements to sell have already been put in place, in line with the timing of those agreements.

23. Other investments

At 31 March	Group 2020 £m	Group 2019 £m
Short-term		
Investments held at amortised cost	**642.4**	215.9

At 31 March	Corporation 2020 £m	Corporation 2019 £m
Short-term		
Investments held at amortised cost	**623.5**	203.0

Short-term investments relate to investments in UK Treasury bills, other Sovereign bills, deposits with UK clearing banks, and repurchase agreement investments with a maturity of greater than three but less than twelve months.

24. Cash and cash equivalents

At 31 March	Group 2020 £m	Group 2019 £m
Cash at bank	**231.4**	181.4
Short term investments with a maturity of less than three months	**1,325.1**	1,456.0
Cash in hand and in transit	**10.3**	28.4
	1,566.8	1,665.8

At 31 March	Corporation 2020 £m	Corporation 2019 £m
Cash at bank	**85.6**	48.6
Short term investments with a maturity of less than three months	**1,325.1**	1,456.0
	1,410.7	1,504.6

Short term investments comprise fixed deposits, UK treasury bills and other tradeable instruments. These are classified as cash and cash equivalents as they have a maturity of less than three months.

25. Creditors

a) Group creditors at 31 March comprised:

	Group 2020 £m	Group 2019 £m
Short-term		
Trade creditors	**101.9**	134.8
Accrued interest	**109.9**	193.2
Capital works	**677.0**	575.5
Retentions on capital contracts	**8.5**	11.5
Capital grants received in advance	**26.8**	12.6
Wages and salaries	**144.6**	97.5
Other taxation and social security creditors	**47.9**	149.0
Contract liabilities: receipts in advance for Travelcards, bus passes and Oyster cards	**348.2**	394.5
Contract liabilities representing other deferred income	**58.7**	61.9
Accruals and other payables	**605.3**	536.7
	2,128.8	2,167.2
Long-term		
Trade creditors	**0.7**	0.2
Capital grants received in advance	**2.4**	2.5
Retentions on capital contracts	**4.7**	3.7
Contract liabilities representing other deferred income	**46.6**	48.0
Accruals and other payables	**7.2**	7.1
	61.6	61.5

Notes to the Financial Statements

25. Creditors (continued)

The level of outstanding long-term and short-term contract liabilities as at 31 March 2020 was broadly consistent with the prior year. The remaining performance obligations expected to be met in more than one year relate to:

i. Amounts received for the redevelopment of a depot amounting to £16.3m (2019 £nil), of which £6.5m relates to obligations that are to be satisfied within two to three years and the remaining £9.8m to obligation expected to be satisfied over 5 years
ii. License revenue and funding received from developers for improvements to bus services, which together total £20.4m (2019 £19.1m), of which £16.6m (2019 £14.3m) relates to obligations that are to be satisfied within two to three years, and £3.8m (2019 £4.8m) within five years
iii. Maintenance income of £5.2m (2019 £5.3m), expected to be released over 30 years
iv. Other miscellaneous contracts, together totalling £4.7m (2019 £2.1m)

At 31 March 2019, contract liabilities with performance obligations expected to be met in more than one year also included £21.5m of lease incentives received in respect of head office buildings of that were expected to be released within 18 to 24 years. On implementation of IFRS 16, on 1 April 2019, this balance was released and instead included in the calculation of the right-of-use lease liability outstanding.

Set out below is the amount of revenue recognised by the Group during the year from:

Year ended 31 March	Group 2020 £m	Group 2019 £m
Amounts included in contract liabilities at 1 April	**294.3**	369.5
Performance obligations satisfied in previous years	**-**	-

25. Creditors (continued)

b) Corporation creditors at 31 March comprised:

At 31 March	Corporation 2020 £m	Corporation 2019 £m
Short-term		
Trade creditors	**50.2**	54.0
Accrued interest	**107.8**	190.8
Capital works	**118.9**	61.4
Capital grants received in advance	**11.7**	9.5
Amounts due to subsidiary companies	**594.4**	10.9
Wages and salaries	**28.3**	24.3
Other taxation and social security creditors	**1.8**	1.9
Contract liabilities representing other deferred income	**18.3**	14.1
Accruals and other payables	**194.5**	168.8
	1,125.9	535.7
Long-term		
Capital grants received in advance	**2.4**	2.5
Contract liabilities representing other deferred income	**18.4**	16.2
	20.8	18.7

The total long-term contract liabilities balances are broadly consistent with the prior year, whereas the total short-term contract liabilities has increased due to retention money received on projects.

At 31 March 2020, the significant balance of remaining performance obligations expected to be recognised in more than one year relates to license revenue totalling £11.5m (2019 £9.6m), of which £10.6m is expected to be satisfied within three years (2019 £8.3m) and £0.9m (2019 £1.3m) within five years. Maintenance income of £5.2m (2019 £5.3m) is expected to be released over 30 years. Balances relating to other miscellaneous contracts totalled £1.7m (2019 £1.3m).

Set out below is the amount of revenue recognised during the year from:

Year ended 31 March	Corporation 2020 £m	Corporation 2019 £m
Amounts included in contract liabilities at 1 April	**11.1**	14.7
Performance obligations satisfied in previous years	**-**	-

26. Borrowings and overdrafts

At 31 March	Group 2020 £m	Group 2019 £m
Short-term		
Borrowings	**936.5**	745.9
Long-term		
Borrowings	**10,752.5**	10,398.7

At 31 March	Corporation 2020 £m	Corporation 2019 £m
Short-term		
Borrowings	**936.5**	745.9
Long-term		
Borrowings	**10,757.5**	10,404.5

Further information about the maturity and interest rate profiles of the Group and Corporation's borrowings is provided in note 35 (Funding and financial risk management).

We have a number of loan facilities with the European Investment Bank (EIB) and Export Development Canada (EDC). In addition, we have direct access to the UK Debt Management Office (DMO) via the Public Works Loan Board (PWLB). Borrowing from these sources has contributed to the financing of a range of projects during the year. Further, we utilised our £2bn Commercial Paper programme throughout the year to manage our liquidity requirements.

A total of £516m was borrowed from the PWLB and £100m was drawn under our EDC facilities, at fixed interest rates, during the year. As at 31 March 2020, a further £100m is fixed, under our EDC facilities, for drawdown in 2020/21. This borrowing is expected to form part of our incremental borrowing agreed with Government and has not been recognised as a liability in these financial statements in accordance with IFRS 9 Financial Instruments.

26. Borrowings and overdrafts (continued)

Changes in liabilities arising from financing activities

	Group 2020 £m	Group 2019 £m
Balance at 1 April		
Short-term	**816.2**	916.1
Long-term	**10,879.6**	9,987.6
	11,695.8	10,903.7
Right-of-use lease liabilities recognised on the implementation of IFRS 16 *	**2,006.9**	-
Borrowings drawn down	**640.9**	924.2
Net additions to right-of-use lease liabilities	**410.1**	-
Additions to other financing liabilities	**3.3**	141.5
Repayment of borrowings	**(96.0)**	(196.7)
Repayment of PFI lease liabilities	**(54.2)**	(55.2)
Repayment of other finance lease liabilities	**-**	(14.4)
Repayment of other financing liabilities	**-**	(8.8)
Repayment of overdraft	**-**	(0.1)
Other movements **	**(0.5)**	1.6
At 31 March	**14,606.3**	11,695.8
Short-term	**1,272.1**	816.2
Long-term	**13,095.4**	10,879.6
	14,367.5	11,695.8

* IFRS 16 Leases has been adopted for the first time in 2019/20. 2018/19 comparatives have not been restated for this change. Further information on the impact of the implementation of this new standard is set out in note 45.

** Other movements are non-cash and relate to the unwind of discounts and fees.

26. Borrowings and overdrafts (continued)

Changes in liabilities arising from financing activities

	Corporation 2020 £m	Corporation 2019 £m
Balance at 1 April		
Short-term	**756.9**	856.9
Long-term	**10,524.8**	9,707.3
	11,281.7	10,564.2
Right-of-use lease liabilities recognised on the implementation of IFRS 16 *	**447.2**	-
Borrowings drawn down	**640.9**	924.2
Additions to right-of-use lease liabilities	**-**	-
Repayment of borrowings	**(96.0)**	(196.7)
Net repayment of right-of-use lease liabilities	**(7.9)**	-
Repayment of PFI lease liabilities	**(11.1)**	(10.8)
Other movements **	**(1.3)**	0.8
At 31 March	**12,253.5**	11,281.7
Short-term	**971.2**	756.9
Long-term	**11,282.3**	10,524.8
	12,253.5	11,281.7

* IFRS 16 Leases has been adopted for the first time in 2019/20. 2018/19 comparatives have not been restated for this change. Further information on the impact of the implementation of this new standard is set out in note 45.

** Other movements are non-cash and relate to the unwind of discounts and fees.

27. Other finance lease liabilities

Other finance lease liabilities

The Group and Corporation hold a proportion of their property, plant and equipment under PFI arrangements as outlined in note 13. In 2018/19 the Group also held a further proportion of property, plant and equipment under other finance lease arrangements.

Other finance lease liabilities on the Balance Sheet under IAS 17 were calculated as the present value of minimum lease payments outstanding. IFRS 16 Leases has been applied from 1 April 2019, and all other lease liabilities thenceforth have been recognised and measured as 'right-of-use' lease liabilities under this new standard. See 45 for the impact of implementation of IFRS 16 and note 14 for details of right-of-use lease liabilities recognised on the Balance Sheet at 31 March 2020. See note 28 for the value of PFI liabilities held as at 31 March 2020.

Group other finance lease liabilities

	Minimum lease payments £m	Interest £m	Principal (present value of minimum lease payments) £m
At 31 March 2019			
Not later than one year	33.6	(17.5)	16.1
Later than one year but not later than five years	135.3	(55.5)	79.8
Later than five years	177.4	(34.5)	142.9
	346.3	(107.5)	238.8

At 31 March	2019 £m
Principal outstanding	
Short-term	16.1
Long-term	222.7
	238.8

28. Private finance initiative contracts

Private Finance Initiative contracts

The Group is party to the following PFI arrangements where the Group controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement. These arrangements are treated as service concession arrangements and, as stipulated by the Code, are accounted for in accordance with IPSAS 32 Service Concession Arrangements – Grantor (IPSAS 32).

The Group therefore recognises PFI assets as items of plant, property and equipment together with a liability to pay for them (see note 13 for details of PFI assets). The fair values of services received under the contract are recorded as operating expenses.

The unitary charge is apportioned between the repayment of the liability, financing costs and charges for services. The service is recognised as an expense in net operating costs and the finance costs are charged to financial expenses in the Comprehensive Income and Expenditure Statement.

Contract	Contract dates	Description
TfL		
A13 Thames Gateway contract	2000 to 2030	Design and construction of improvements to the A13 infrastructure (including communication and traffic signals systems) and ongoing maintenance and operation of the A13 between Butcher Row and Wennington. The contract requires TfL to make an annual unitary payment, charged monthly and calculated according to the service provided by the concession company and the payment mechanisms defined in the contract.

28. Private finance initiative contracts (continued)

Contract	Contract dates	Description
London Underground Limited (LU)		
Connect	1999 to November 2019	Design, installation, management and maintenance of an integrated digital radio system. The contract required LU to make an annual unitary payment which is adjusted for indexation and performance as specified in the contract.
British Transport Police (London Underground)	1999 to 2021	Provision and ongoing management and maintenance of operational infrastructure to support efficient policing of the Jubilee Line Extension and the delivery of the long-term policing strategy for LU. The contract requires LU to make a base annual unitary payment which is adjusted for indexation and performance as specified in the contract.
Docklands Light Railway Limited (DLR)		
Greenwich	1996 to 2021	Design, construction and ongoing maintenance of the Greenwich extension to the Docklands Light Railway. The contract requires DLR to make payments, which are charged monthly and adjusted for any penalties relating to adverse performance against output measures describing all relevant aspects of the contract.

28. Private finance initiative contracts (continued)

PFI finance lease liabilities

	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
At 1 April	**179.7**	234.9	**131.3**	142.1
Payments	**(62.9)**	(67.1)	**(16.8)**	(17.0)
Interest	**8.7**	11.9	**5.7**	6.2
At 31 March	**125.5**	179.7	**120.2**	131.3

Group

Amounts payable under the PFI arrangements cover payments for repayment of capital, payments of interest and payment of service charges. The total amount payable breaks down as follows:

	Payments of interest £m	Repayment of capital £m	Payments for service charges £m	Total amount payable under non-cancellable PFI arrangements £m
At 31 March 2020				
Less than 1 year	**5.5**	**13.9**	**42.8**	**62.2**
Between 1 and 5 years	**16.6**	**50.4**	**125.9**	**192.9**
Between 6 and 10 years	**6.6**	**60.4**	**140.1**	**207.1**
Between 11 and 15 years	**-**	**0.8**	**1.8**	**2.6**
	28.7	**125.5**	**310.6**	**464.8**
At 31 March 2019				
Less than 1 year	8.7	54.2	66.9	129.8
Between 1 and 5 years	18.8	48.7	137.3	204.8
Between 6 and 10 years	9.7	71.7	149.9	231.3
Between 11 and 15 years	0.2	5.1	23.4	28.7
	37.4	179.7	377.5	594.6

28. Private finance initiative contracts (continued)

Corporation

Amounts payable under the PFI arrangements cover payments for repayment of capital, payments of interest and payment of service charges. The total amount payable breaks down as follows:

	Payments of interest £m	Repayment of capital £m	Payments for service charges £m	Total amount payable under non-cancellable PFI arrangements £m
At 31 March 2020				
Less than 1 year	**5.2**	**9.0**	**22.8**	**37.0**
Between 2 and 5 years	**16.5**	**50.0**	**120.9**	**187.4**
Between 6 and 10 years	**6.6**	**60.4**	**140.1**	**207.1**
Between 11 and 15 years	**-**	**0.8**	**1.8**	**2.6**
	28.3	**120.2**	**285.6**	**434.1**
At 31 March 2019				
Less than 1 year	5.8	11.0	22.4	39.2
Between 2 and 5 years	18.4	43.6	112.3	174.3
Between 6 and 10 years	9.7	71.7	149.9	231.3
Between 11 and 15 years	0.2	5.0	23.4	28.6
	34.1	131.3	308.0	473.4

29. Other financing liabilities

Group other financing liabilities at 31 March comprised:

	Group 2020 £m	Group 2019 £m
Deferred capital payments	**3.5**	-
Long-term		
Deferred capital payments	**132.5**	132.7

Other financing liabilities comprise deferred capital payments in respect of the acquisition of property, plant and equipment. Gross payments with a nominal value of £159.7m (2019 £159.7m) fall due over the period to March 2033. These have been discounted back at an effective rate of interest of 2.5 per cent (2019 2.5 per cent) to the present value recorded in the table above.

30. Provisions

a) Group provisions

	At 1 April 2019 £m	Payments in the year £m	Charge for the year £m	Releases in the year £m	**At 31 March 2020 £m**
Compensation and contractual	253.0	(107.0)	29.8	(78.7)	**97.1**
Capital investment activities	89.9	(17.6)	5.1	(0.5)	**76.9**
Environmental harm	1.4	-	-	-	**1.4**
Severance and other	56.2	(29.3)	68.3	(20.0)	**75.2**
	400.5	(153.9)	103.2	(99.2)	**250.6**

At 31 March	**2020 £m**	2019 £m
Due		
Short-term	**192.6**	345.9
Long-term	**58.0**	54.6
	250.6	400.5

b) Corporation provisions

	At 1 April 2019 £m	Payments in the year £m	Charge for the year £m	Releases in the year £m	**At 31 March 2020 £m**
Compensation and contractual	37.5	(16.3)	3.4	(5.5)	**19.1**
Capital investment activities	89.9	(17.6)	5.1	(0.5)	**76.9**
Severance and other	21.8	(20.2)	53.3	(3.3)	**51.6**
	149.2	(54.1)	61.8	(9.3)	**147.6**

At 31 March	**2020 £m**	2019 £m
Due		
Short-term	**124.6**	127.8
Long-term	**23.0**	21.4
	147.6	149.2

30. Provisions (continued)

c) Nature of provisions

Compensation and contractual

The Group has provisions for expected compensation and contractual claims that arise in respect of disputes arising in the ordinary course of business. The provisions recorded as at 31 March are based on management's best estimate at the balance sheet date of the likely loss to be incurred through settlement. Reflecting the inherent uncertainty with many legal proceedings and claim settlements, the timing and amount of the outflows could differ from the amount provided. Based on current estimates management expects that these amounts, which are based on known facts and take account of past experience for similar items, will be settled within the next one to five years. Where material the provision held is discounted to its present value.

Capital investment activities

Capital investment activities include compulsory purchases, claims in respect of structural damage or diminution in value of properties affected by transport schemes, and other related third-party claims. Estimates are made with reference to relevant market trends. Compulsory Purchase Order provision amounts have been based on the professional estimates of lawyers and surveyors of the land acquisition, development value, disturbance, statutory interest and professional fees for both sides of the negotiation on a case by case basis. Due to the nature of these liabilities and the need to negotiate settlement amounts, there is considerable uncertainty regarding when Compulsory Purchase Order cases will be settled and payments made. At present management expects these provisions to be settled within the next five years.

Environmental harm

Environmental harm relates to potential costs associated with damage to the environment as a result of actions taken in the past. Management expects this provision to be settled within the next five years.

Severance and other

Severance and other provisions include voluntary severance costs arising from reorganisations and other smaller claims. Management expects these provisions to be settled within the next year.

31. Derivative financial instruments

Group cash flow hedges

At 31 March	Fair value 2020 £m	Notional amount 2020 £m	Fair value 2019 £m	Notional amount 2019 £m
Long-term assets				
Interest rate swaps	**-**	**-**	2.7	96.0
Foreign currency forward contracts	**1.5**	**20.1**	4.1	49.6
	1.5	**20.1**	6.8	145.6
Current assets				
Foreign currency forward contracts	**3.4**	**40.5**	7.8	272.4
Foreign currency options	**-**	**-**	4.0	299.0
	3.4	**40.5**	11.8	571.4
Current liabilities				
Interest rate swaps	**(0.3)**	**25.0**	(1.2)	150.0
Foreign currency forward contracts	**(26.0)**	**688.4**	(1.8)	220.9
	(26.3)	**713.4**	(3.0)	370.9
Long-term liabilities				
Interest rate swaps	**(50.9)**	**408.6**	(43.0)	334.9
Foreign currency forward contracts	**(12.2)**	**316.6**	(3.5)	74.4
	(63.1)	**725.2**	(46.5)	409.3

The Corporation has not entered into any derivative financial instrument contracts.

32. Contingencies

There are a number of uncertainties surrounding projects, including claims in the course of negotiations, which may affect the Group's financial performance. Where claims are possible but not probable, or unquantifiable, such claims are treated as contingent liabilities. Contingent liabilities are not recognised in the financial statements, but are monitored to ensure that, where a possible obligation has become probable or a transfer of economic benefits has become probable, a provision is made.

The impact of these contingent liabilities on the Group's financial performance, liquidity or financial position is not considered to be material.

33. Guarantees

Section 160 of the GLA Act 1999 (the GLA Act) sets out the conditions under which the Corporation may give certain guarantees, indemnities or similar arrangements. Under section 161 of the GLA Act TfL is obliged to disclose in its annual report details of all guarantees etc. so given.

TfL and its subsidiaries have entered into joint and several guarantees in favour of HSBC Bank plc as security for any bank indebtedness outstanding from time to time. TfL has also separately guaranteed any liabilities owing to HSBC Bank plc by its subsidiary, Crossrail Limited.

The Corporation has given guarantees in respect of some of its subsidiary companies' contracts. The amount that could be payable under the guarantees (as described below) varies depending on a number of factors, including, inter alia, responsibility for the costs arising from an early termination of the underlying contract, which are not known before the event. For information only, the approximate maximum amounts of debt that were envisaged to be drawn by the counterparty at the signing of the agreements are disclosed below. For the avoidance of doubt, these amounts do not represent the amounts that could be payable by TfL under the guarantees but are shown here to give an indication of the relative size of each contract.

	Estimated maximum debt drawn by counterparty at start of contract £m
Agreement with 345 Rail Leasing Limited	886
Agreement with CityLink Telecommunications Ltd	502
Agreements with QW Rail Leasing Ltd	380
Agreement with London Rail Leasing Ltd	350
Agreement with Lloyds Bank PLC	107
Agreement with Pittville Leasing Ltd	51
Agreement with Lombard North Central Plc	7
Agreement with APSLL	4

In addition, TfL also guarantees the payments of certain of its subsidiaries under a number of other service and construction contracts. It guarantees pension liabilities due to the London Pension Fund Authority from Briggs Marine Contractors Limited in respect of employees working on the Woolwich Ferry. It has guaranteed amounts owed by London Bus Services Limited to the Fuel Cells and Hydrogen Joint Undertaking under a Grant agreement for the 3EMOTION Environmentally Friendly, Efficient Electric Motion project.

33. Guarantees (continued)

It has guaranteed London Underground Limited's payment obligations as a tenant in respect of an operating lease for the Stratford City Business District. It has also provided an indemnity to Berkeley 55 Limited in respect of future Mayoral CIL payments that Berkeley 55 Limited may be charged in relation to the fit out of the Crossrail station at Woolwich.

Unlike the agreements listed above, these contracts are not based on an initial amount of debt and so cannot be quantified in a similar manner.

TfL also acts as a guarantor in respect of all liabilities under third party derivative contracts entered into by its subsidiary, Transport for London Finance Limited. The fair value of net liabilities outstanding under derivative contracts at 31 March 2020 is £84.5m (2019 £30.9m).

No arrangements were entered into with another person under which that person gives a guarantee which TfL has power to give under section 160 (4) of the GLA Act and no indemnities associated with the guarantees were given by virtue of section 160 (5) of the GLA Act.

The majority of guarantees granted by TfL are in respect of the obligations of its subsidiaries. These obligations are, in any case, recorded as liabilities on the Group Balance Sheet. The probability of any amounts becoming payable by the Corporation under the above guarantees and indemnities is considered remote. As at 31 March 2020 the fair value of all financial guarantees granted has been recorded as £nil (2019 £nil).

34. Financial commitments

a) Operating leases – The Group as lessee

Up to and including 31 March 2019 the Group applied IAS 17 Leases to accounting for its obligations in respect of leased assets. The Group's commitments under operating lease agreements as at 31 March 2019 are therefore set out below. They primarily related to office space, motor vehicles and rail access. All leases were entered into on commercial terms. For lease obligations as at 31 March 2020, recognised under IFRS 16, see note 14.

The Group was committed to the following future minimum lease payments under non-cancellable operating leases:

	Land and buildings £m	Rail access £m	Motor vehicles £m	Rolling stock £m	Total £m
At 31 March 2019					
Within one year	51.9	10.8	2.4	16.4	81.5
Between one and two years	46.9	11.1	1.9	37.4	97.3
Between two and five years	137.4	13.0	2.6	128.1	281.1
Later than five years	606.0	21.4	-	748.5	1,375.9
	842.2	56.3	6.9	930.4	1,835.8

34. Financial commitments (continued)

b) Operating leases – The Group as lessor

The Group leases out commercial, retail and office property, rail access and land that it holds as a result of its infrastructure holdings.

At the balance sheet date, the Group had contracted with customers for the following future minimum lease payments:

	Land and buildings £m	Rail access* £m	Total £m
At 31 March 2020			
Within one year	**73.8**	**-**	**73.8**
Between one and two years	**64.8**	**-**	**64.8**
Between two and five years	**148.5**	**-**	**148.5**
Later than five years	**611.6**	**-**	**611.6**
	898.7	**-**	**898.7**
At 31 March 2019			
Within one year	65.4	5.2	70.6
Between one and two years	57.1	5.4	62.5
Between two and five years	127.0	8.1	135.1
Later than five years	693.0	7.2	700.2
	942.5	25.9	968.4

* Under IFRS 16, the Rail access arrangements are no longer classified as a lease. Only prior year commitments under IAS 17 are shown.

34. Financial commitments (continued)

c) Operating leases – The Corporation as lessee

Up to and including 31 March 2019 the Corporation applied IAS 17 Leases to accounting for its obligations in respect of leased assets. The Corporation's commitments under operating lease agreements as at 31 March 2019 are therefore set out below. They primarily related to office space. It also leased motor vehicles under operating leases from a subsidiary undertaking. All leases were entered into on commercial terms. For lease obligations as at 31 March 2020, recognised under IFRS 16, see note 14.

The Corporation was committed to the following future minimum lease payments under non-cancellable operating leases:

	Land and buildings £m	Motor vehicles £m	Total £m
At 31 March 2019			
Within one year	33.4	0.1	33.5
Between one and two years	32.0	0.1	32.1
Between two and five years	95.3	0.1	95.4
Later than five years	395.4	-	395.4
	556.1	0.3	556.4

34. Financial commitments (continued)

d) Operating leases – The Corporation as lessor

The Corporation leases out commercial, retail and office property and land that it holds as a result of its infrastructure holdings.

At the balance sheet date, the Corporation had contracted with customers for the following future minimum lease payments:

	Land and buildings £m	Total £m
At 31 March 2020		
Within one year	**3.7**	**3.7**
Between one and two years	**3.1**	**3.1**
Between two and five years	**6.9**	**6.9**
Later than five years	**53.4**	**53.4**
	67.1	**67.1**
At 31 March 2019		
Within one year	5.3	5.3
Between one and two years	4.9	4.9
Between two and five years	8.6	8.6
Later than five years	8.6	8.6
	27.4	27.4

35. Funding and financial risk management

Introduction

TfL is a statutory corporation established under the GLA Act 1999. TfL is funded by revenues (predominantly passenger income), grant and prudential borrowing. The Group's debt is issued by the statutory corporation, Transport for London, in the form of loans from the PWLB, the EIB and EDC, Medium Term Notes under the £5bn TfL Euro Medium Term Note programme, and short-term Commercial Paper under the £2bn TfL Euro Commercial Paper programme.

Treasury Management

TfL has a Treasury Management Strategy which is required to be updated on at least an annual basis and is approved by the TfL Board, prior to the commencement of each financial year.

The Treasury Management Strategy for 2019/20 was prepared having regard to the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended), the key recommendations of the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (2017 Edition) (the Treasury Management Code) and the Prudential Code for Capital Finance in Local Authorities (2017 Edition) (the Prudential Code), both issued by CIPFA, as well as the key recommendations of the Statutory Guidance on Local Authority Investments (2010 Edition) issued by the former Department for Communities and Local Government (the Investment Guidance).

The Group's principal financial instruments comprise borrowings, investments, derivatives, lease liabilities and receivables, PFI liabilities and cash and cash equivalents. These financial instruments are used to manage funding and liquidity requirements. Other financial instruments that arise directly from the Group's operations include trade receivables and payables and other financing liabilities.

The Group monitors the risk profile of its borrowing, investment and derivative programmes against approved benchmarks and provides regular reports to the Chief Finance Officer. Semi-annual reports on overall performance against the approved strategy are considered by the Finance Committee (a committee of the TfL Board). Section 49 of the TfL Act 2008 confers upon TfL the powers to use derivative financial instruments for risk management purposes only via qualifying subsidiaries.

35. Funding and financial risk management (continued)

The Prudential Borrowing Regime

TfL has the power to borrow as it is treated as a local authority for the purposes of financial management under the Local Government Act 2003. In accordance with this Act, the Mayor, in consultation with TfL, sets an affordable borrowing limit for external debt (including direct borrowing and other long-term liabilities). In setting this limit, the Mayor and TfL are required by regulation to have regard to the Prudential Code. In accordance with the Prudential Code and Treasury Management Code, the TfL Board annually approves a long-term capital strategy and a set of indicators, for prudent and affordable borrowing, for estimates of capital expenditure, for interest rate exposures and the maturity profile of its borrowing.

TfL also agrees its maximum annual incremental borrowing capacity with Government.

Financial Risks and Risk Management

The Group is exposed to a number of financial risks in the normal course of its business operations, the key ones being:

- Credit risk
- Market risk
- Liquidity risk

Each of these risks is managed in accordance with the Group's comprehensive risk management process. The TfL Board, through its Finance Committee, has approved and monitors the risk management processes, including documented treasury policies, counterparty limits, and controlling and reporting structures.

Credit risk

Credit risk is managed on a Group-wide basis. Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet contractual obligations. The following categories comprise the main credit exposures of the Group.

35. Funding and financial risk management (continued)

(i) Trade receivables and contract assets

The Group earns the majority of its revenue through prepaid fares. Financial assets arise from: penalty charges, fare revenues not earned on a prepaid basis, commercial activities such as property rental or advertising and amounts due under contractual arrangements from partners or suppliers. The maximum exposure to credit risk at the reporting date is the carrying value disclosed in note 21.

A significant portion of the financial assets arising in the Corporation are with other Group companies. Per note 33, the Corporation has granted guarantees in respect of the obligations of its subsidiaries, mitigating credit risk attached to settlement of these intercompany financial assets.

Customer credit risk is managed by a central credit control function subject to TfL's policy, procedures and control framework. Counterparties are assessed individually for their creditworthiness at the time of entering into contracts and an internal credit rating is assigned.

At each reporting date, the Group applies the IFRS 9 simplified approach to measuring expected credit losses. This approach uses a lifetime expected loss allowance for all trade receivables and contract assets. In determining the expected loss rates, trade receivables and contract assets are considered together based on shared credit risk characteristics. Historical loss rates over the short to medium term are applied to groupings of various customer segments within trade receivables and contract assets. These rates are adjusted to reflect expectations about future credit losses. There is a rebuttable presumption that default has occurred if assets are more than 90 days past due.

Despite the application of a loss allowance, these balances remain subject to enforcement activity and recoveries will be credited against the same line item as the expected credit loss within operating profit. On that basis, the loss allowance as at 31 March 2020 was determined as follows for both trade receivables and contract assets:

Age of trade and other debtors: Group

	Not overdue £m	Overdue by less than 3 months £m	Overdue by between 3 and 6 months £m	Overdue by between 6 months and 1 year £m	Overdue by more than 1 year £m	Total £m
At 31 March 2020						
Expected credit loss rate	**0.3%**	**48.1%**	**93.8%**	**99.9%**	**100.0%**	**48.8%**
Estimated total gross carrying amount at default	**422.7**	**40.1**	**42.2**	**71.8**	**293.2**	**870.0**
Expected credit loss allowance	**(1.1)**	**(19.3)**	**(39.6)**	**(71.7)**	**(293.2)**	**(424.9)**
At 31 March 2019						
Expected credit loss rate	0.2%	27.1%	77.2%	92.9%	100.0%	31.1%
Estimated total gross carrying amount at default	621.5	31.0	19.7	36.5	234.7	943.4
Expected credit loss allowance	(1.0)	(8.4)	(15.2)	(33.9)	(234.7)	(293.2)

35. Funding and financial risk management (continued)

Age of trade and other debtors: Corporation

	Not overdue £m	Overdue by less than 3 months £m	Overdue by between 3 and 6 months £m	Overdue by between 6 months and 1 year £m	Overdue by more than 1 year £m	Total £m
At 31 March 2020						
Expected credit loss rate	**-**	**64.0%**	**97.4%**	**100.0%**	**100.0%**	**3.3%**
Estimated total gross carrying amount at default	**12,051.1**	**29.7**	**37.9**	**68.3**	**291.1**	**12,478.1**
Expected credit loss allowance	**-**	**(19.0)**	**(36.9)**	**(68.3)**	**(291.1)**	**(415.3)**
At 31 March 2019						
Expected credit loss rate	-	45.7%	79.5%	93.7%	100.0%	2.5%
Estimated total gross carrying amount at default	11,092.8	17.5	17.6	34.9	231.0	11,393.8
Expected credit loss allowance	-	(8.0)	(14.0)	(32.7)	(231.0)	(285.7)

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there may be no reasonable expectation of recovery include, amongst other things; failure of a debtor to engage in a repayment plan or advice from TfL's legal department.

(ii) Investments

All cash balances are invested in accordance with TfL's Treasury Management Strategy, which was developed with regard to the Treasury Management Code and the Investment Guidance, and which requires a prudent approach to the investment of surplus funds with priority given to security and liquidity.

Investments are made within limits approved by the TfL Board annually. Counterparty limits are set according to the assessed risk of each counterparty and are linked to the credit rating of the institution. Exposures are monitored against these limits on a regular basis.

TfL considers the risk of the overall portfolio as well as individual investments, seeking to diversify its investments and has regard to the exposure to any one counterparty, country, industry, investment type and credit. The investment portfolio is allocated across sovereigns, government agencies, financial institutions, corporates and money market funds.

Certain banks hold collateral on TfL's account to provide security for TfL's reverse repurchase agreement investments. As at 31 March 2020, the fair value of the collateral held amounted to £nil (2019 £270m).

The centrally managed cash reserves at 31 March 2020 totalled £1,949.1m (2019 £1,659.0m).

35. Funding and financial risk management (continued)

As at 31 March funds managed centrally on behalf of the Group and placed on deposit by the Corporation were as follows:

	Amount £m	Minimum Credit Rating (S&P/ Moody's/ Fitch)	Weighted average days to maturity
At 31 March 2020			
UK Debt Management Office	**742**	**P-1/A-1+**	**28**
Other Government Agencies	**480.6**	**P-1/A-1+/F1+**	**47**
Banks (including Gilt backed repos)	**377**	**P-1/A-1+/F1+**	**34**
Corporates	**349.5**	**P-2/A-2/F2**	**37**
Total	**1,949.1**		**35**
At 31 March 2019			
UK Debt Management Office	336.3	P-1/A-1+	49
Other Government Agencies	278.1	P-1/A-1+/F1+	55
Money Market Funds	280.0	AAA/AAA/AAA	1
Banks (including Gilt backed repos)	604.0	P-2/A-2/F1	28
Corporates	160.6	P-2/A-2/F2	42
Total	1,659.0		33

All of the entity's cash and investments are considered to have low credit risk; they are highly rated by major rating agencies, have a low risk of default and the counterparties have a strong capacity to meet obligations in the near term. While low risk, these remain subject to the impairment requirements of IFRS 9 at each reporting date. The identified 12 month expected loss allowance at 31 March 2020 and as at 31 March 2019 was immaterial.

35. Funding and financial risk management (continued)

(iii) Derivative financial instruments

Counterparty limits are established and monitored in accordance with TfL's Policy relating to the use of Derivative Investments, which is approved by the TfL Board. The Group spreads its exposure over a number of counterparties and has strict policies on how much exposure can be assigned to each counterparty.

The Group's maximum credit risk exposure relating to financial derivative instruments is noted in the maturity profile of derivatives tables within the market risk section of this note. The credit risk with regard to financial derivative instruments is limited because TfL has arrangements in place with each bank wherein, should the derivative be in an asset position for TfL and the market value reaches a contractually defined threshold, TfL can call upon the bank to post collateral in cash or eligible securities. TfL only envisages using these rights in the event that the financial strength of the institution has deteriorated since the limits were approved.

(iv) Guarantees

The Corporation provides guarantees to third parties under section 160 of the GLA Act, as disclosed in note 33, which are deemed necessary for the fulfilment of its policies. The Group's policy is to recognise financial guarantees at the higher of an expected credit loss allowance and the amount initially recognised as fair value less any amortisation that has occurred to date. As at 31 March 2020, the fair value of the Corporation's financial guarantees has been assessed as £nil (2019 £nil).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and inflation will affect the Group's income, expenditure or the value of its holdings of financial instruments. The Group, through its wholly owned subsidiary, Transport for London Finance Limited, uses derivatives (hedging instruments) to reduce exposure to interest rate and foreign exchange rate movements (the hedged risks) on existing contracts and highly probable future transactions. The Group does not use derivative financial instruments for speculative purposes.

On inception, all interest rate derivatives and foreign currency derivative instruments hedging commercial contracts are designated in highly effective hedge relationships and hedge accounting is applied. If a derivative should no longer satisfy the hedging criteria in accordance with adopted IFRS 9 Financial Instruments (IFRS 9), hedge accounting ceases and the derivative is fair valued immediately through the Comprehensive Income and Expenditure Statement.

The use of derivative instruments can itself give rise to credit and market risk. Market risk is the possibility that future changes in interest rates may make a derivative more or less valuable. Since the Group uses derivatives for risk management, market risk relating to derivative instruments is principally offset by changes in the cash flows of the transactions being hedged.

For the years ended 31 March 2020 and 2019, no ineffectiveness was recognised and all derivatives in designated hedge relationships were assessed as highly effective. Accordingly, the movement in the fair value of those derivatives was taken to reserves.

35. Funding and financial risk management (continued)

(i) Foreign exchange risk

During 2019/20, TfL held certain short-term investments denominated in Euros and US Dollars. These foreign currency denominated investments were swapped back to GBP through the use of forward foreign exchange contracts. These contracts were not in formally designated hedging relationships for accounting purposes, as the currency gain or loss on retranslation of the investments is offset within net cost of services at the Group level by the movement in the fair value of the derivative instruments. As at 31 March 2020, the Group held foreign exchange contracts to hedge €720.4m future Euro receipts in relation to its Euro investments (2019 €285.7m). Throughout the year, the hedging strategy provided an effective offset of fair value movements due to holding foreign currency investments. The unrealised exchange net gain was £0.7m as at 31 March 2020 (2018/19 a net loss of £0.4m). These derivative instruments mature in the period to 27 August 2020.

For 2019/20, the broad policy on managing transactional foreign exchange risk arising from contractual obligations with overseas providers was to retain the risk where there was a value in doing so, where the exposure was highly probable and the risk profile highly certain. For exposures not meeting these criteria, the exchange risk was passed on to the vendor. These exchange rate exposures were managed through the use of forward foreign exchange contracts and call options whose critical terms are closely aligned to the exposure, such as notional amount, expected maturity date and currency. Hedge accounting is applied to these derivative instruments.

Where funds were received in specific currencies in which the Group expected to have future exposures, the Treasury Management Strategy made allowances to place these funds on deposit. This gave the Group the flexibility to offer certain payments in specific foreign currencies where required.

Effects of hedge accounting - Foreign currency hedges in relation to capital expenditure

At 31 March 2020, the Group held forward foreign derivative contracts in Euros, Canadian Dollars, Swiss Francs, Swedish Krona and Chinese Yuan Renminbi. These forward contracts hedge planned foreign currency capital expenditure payments with a nominal value of £443.1m (2019 £187.1m). At 31 March 2020, these contracts had a combined net fair value of £(10.5)m (2019 £3.5m). The fair value of forward contracts were recognised in equity at 31 March 2020 and once hedged purchases occur, the subsequent realised gain or loss will be transferred to fixed asset additions as a basis adjustment.

The hedge ratio is 1:1. The economic relationship of all hedging relationships have been assessed as effective and the change in value of hedged items since 1 April 2019 has been offset by the change in value of hedging instruments.

35. Funding and financial risk management (continued)

It is expected that the hedged purchases will take place in the period to 22 September 2025. Detail on the maturity of these contracts is disclosed later in this note.

The Group has no other material financial assets or liabilities denominated in foreign currencies, and thus has no general translation exposure to gains or losses arising from movements in exchange rates.

Sensitivity analysis on foreign exchange risk

	2020 Net nominal value £m	2020 Fair value £m	2020 Fair value after a 10% increase in GBP against other currency	2020 Fair value after a 10% decrease in GBP against other currency	2019 Net nominal value £m	2019 Fair value £m	2019 Fair value after a 10% increase in GBP against other currency	2019 Fair value after a 10% decrease in GBP against other currency
Net sell								
Euros	**264.7**	**(33.3)**	**(6.3)**	**(66.5)**	-	-	-	-
Net buy								
Euros	**-**	**-**	**-**	**-**	91.2	5.6	18.1	(18.0)
Canadian dollars	**62.3**	**2.5**	**(3.4)**	**9.6**	96.0	7.3	0.2	15.4
Swiss Francs	**2.3**	**(0.1)**	**(0.3)**	**0.2**	2.8	(0.2)	(0.5)	0.1
Swedish Krona	**22.5**	**(2.9)**	**(4.4)**	**(0.5)**	26.1	(2.5)	(4.6)	0.2
Chinese Yuan Renminbi	**6.4**	**0.5**	**(0.1)**	**1.3**	6.4	0.4	(0.2)	1.2
Total asset/(liability)	**n/a**	**(33.3)**	**(14.5)**	**(55.9)**	n/a	10.6	13.0	(1.1)

35. Funding and financial risk management (continued)

(ii) Interest rate risk

The Group is mainly exposed to interest rate risk on its planned future borrowings, which are agreed with Government. As TfL is required by legislation to produce a balanced Budget and produces a balanced Business Plan annually, any uncertainty over the cost of future borrowing requires funding to be set aside in the Business Plan against that risk rather than being invested in the transport system.

The Group is also exposed to interest rate risk in respect of its investments. Investments are made in accordance with the Treasury Management Strategy, which prioritises security and liquidity over yield.

In order to achieve certainty over the cost of a portion of its planned borrowings, TfL, through its wholly owned subsidiary, Transport for London Finance Limited, employs a number of interest rate swaps and gilt locks of both highly probable and existing borrowings. Transport for London Finance Limited also holds interest rate swaps to fix the floating interest rate risk within committed lease payments for rolling stock. The critical terms of these derivative instruments are closely aligned to the payment schedules and hedge accounting is applied.

Effects of IBOR reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as interbank offered rates ('IBORs') has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes. The Group's most significant risk exposure affected by these changes relates to its LIBOR linked floating rate borrowing and lease payments.

The notional amount of interest rates swaps designated as hedges relating to LIBOR is disclosed below.

In assessing whether the hedge is expected to be highly effective on a forward-looking basis, the Group has assumed that the GBP LIBOR interest rate, upon which the cashflows of the interest rate swaps and the cashflows attributable to the hedged risk are based, are not altered by IBOR reform. In effect, no changes to the terms of the hedging instrument or hedged item are anticipated.

Effects of hedge accounting - Interest rate swaps

As at 31 March 2020, the Group, through its wholly owned subsidiary, Transport for London Finance Limited, held 9 interest rate swaps at a total notional value of £433.6m (2019 12 interest rate swaps at a total notional value of £580.9m). The net fair value of these contracts at 31 March 2020 was a liability of £51.2m (2019 £41.5m). The fair value is recognised in equity at 31 March 2020 and will be transferred to net financing costs within the Comprehensive Income and Expenditure Statement as the hedged payments occur.

The hedge ratio is 1:1. The economic relationship of all hedging relationships has been assessed as effective and the change in value of hedged items since 1 April 2019 has been offset by the change in value of hedging instruments.

35. Funding and financial risk management (continued)

It is expected that the hedged interest payments will take place in the period to December 2042. Details on the maturity of these contracts are disclosed later in this note.

Sensitivity analysis on interest rate risk

(a) Fair value sensitivity analysis for fixed interest instruments

All of the Group's non-derivative financial instruments with fixed rates of interest are accounted for at amortised cost. Fluctuations in market interest rates would therefore have no impact on the balance sheet or net income figures in respect of these items.

(b) Fair value sensitivity analysis for derivative instruments

As at 31 March 2020, the Group holds interest rate derivative contracts with a combined notional value of £433.6m (2019 £580.9m) which are designated as cash flow hedges.

An increase/(decrease) of 100 basis points in interest rates would increase/(decrease) the fair value of the derivative instruments by £31.9m/£(30.3)m (2019 £34.5m/£(32.6)m).

(iii) Inflation risk

The Group has a number of exposures to inflation including staff pay awards and passenger income. The Group has not entered into any derivative instrument to manage its exposure to inflation risk. Historically this risk has been partially offset with index linked revenues and index linked costs creating a natural hedge within the Group.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Maintaining sufficient cash reserves and having access to a diverse range of flexible funding sources ensures the Group has sufficient liquidity to meet its liabilities, in both normal and stressed conditions.

35. Funding and financial risk management (continued)

Liquidity risk is primarily managed by maintaining a minimum level of cash reserves of at least 60 days' worth of forecast annual operating expenditure, equivalent to approximately £1.2bn.

The Corporation has access to several external sources of financing, which are sufficient to meet anticipated funding requirements, within the affordable borrowing limit set by the Mayor. Providing market conditions permit access, the Corporation can raise debt on the capital markets through its established £5bn Medium Term Note programme and £2bn Commercial Paper programme. Alternatively, and in addition, TfL has direct access to reliable funding from the Public Works Loan Board and has an arranged, uncommitted, £0.2bn overdraft facility. Funding facilities are not subject to financial covenants. TfL can also secure financing from financial institutions and has a committed undrawn facility with the Export Development Canada which it will likely utilise over the course of the next financial year.

Debt maturities are diversified over short-, medium- and long-term horizons that broadly equate to the lives of the assets that were funded by this source. This ensures refinancing risk is minimised. The contractual maturities of the Group and Corporation's borrowing and other financial liabilities are listed later in this note.

Due to the active liquidity management and mitigations outlined, there is no significant risk that TfL will be unable to fund its planned financial commitments.

35. Funding and financial risk management (continued)

Maturity profile of derivatives

The Group's foreign currency derivatives have the following maturities:

At 31 March	2020 Average exchange rate	2020 Fair value £m	2020 Notional amount £m	2019 Average exchange rate	2019 Fair value £m	2019 Notional amount £m
Foreign currency forward contracts						
Buy euro						
Less than one year	0.925	(3.1)	128.3	0.862	0.1	102.1
Between one and two years	0.935	(2.8)	93.7	0.893	(0.3)	20.2
Between two and five years	0.945	(4.3)	127.6	0.912	(0.7)	37.4
Sell euro						
Less than one year	0.853	(23.1)	614.2	0.870	2.8	340.0
Total euro	0.883	(33.3)	963.8	0.880	1.9	499.7
Buy Canadian Dollars						
Less than one year	0.542	1.8	38.4	0.518	3.3	31.6
Between one and two years	0.550	0.7	23.6	0.515	2.5	24.4
Between two and five years	0.590	-	0.3	0.513	1.2	12.5
Total Canadian Dollars	0.545	2.5	62.3	0.516	7.0	68.5

35. Funding and financial risk management (continued)

Maturity profile of derivatives (continued)

The Group's foreign currency derivatives have the following maturities:

At 31 March	2020 Average exchange rate	2020 Fair value £m	2020 Notional amount £m	2019 Average exchange rate	2019 Fair value £m	2019 Notional amount £m
Foreign currency forward contracts						
Buy Swiss Francs						
Less than one year	0.864	-	0.9	0.851	-	0.5
Between one and two years	0.878	(0.1)	1.0	0.864	(0.1)	0.9
Between two and five years	0.899	-	0.4	0.885	(0.1)	1.4
Total Swiss Francs	0.877	(0.1)	2.3	0.872	(0.2)	2.8
Buy Swedish Krona						
Less than one year	0.093	(1.0)	7.6	0.093	(0.4)	3.6
Between one and two years	0.093	(1.1)	8.7	0.093	(0.7)	7.6
Between two and five years	0.094	(0.8)	6.2	0.093	(1.4)	14.9
Total Swedish Krona	0.093	(2.9)	22.5	0.093	(2.5)	26.1
Buy Chinese Yuan Renminbi						
Less than one year	0.104	0.8	9.8	0.106	0.6	9.1
Between one and two years	0.100	0.1	0.8	0.104	0.3	3.8
Between two and five years	-	-	-	0.100	-	0.4
Sell Chinese Yuan Renminbi						
Less than one year	0.104	(0.4)	3.8	0.106	(0.5)	6.5
Between one and two years	0.100	-	0.4	0.101	-	0.4
Total Chinese Yuan Renminbi	0.104	0.5	14.8	0.105	0.4	20.2
Grand total	n/a	(33.3)	1,065.7	n/a	6.6	617.3

At 31 March 2019 the Group held foreign currency call options which were out of the money and as such would not be exercised. The fair value of the foreign currency call options was a net asset of £4.0m. However, as no future cashflows were expected to arise these derivatives were excluded from the maturity table.

35. Funding and financial risk management (continued)

Maturity profile of derivatives (continued)

The Group's interest rate derivatives have the following maturities:

At 31 March	2020 Average contracted fixed interest rate (%)	2020 Fair value £m	2020 Notional amount £m	2019 Average contracted fixed interest rate (%)	2019 Fair value £m	2019 Notional amount £m
Interest rate hedges						
Less than one year	**3.548**	**(0.2)**	**25.0**	3.849	(1.1)	150.0
Between one and two years	**3.837**	**(3.6)**	**75.0**	3.548	(0.9)	25.0
Between two and five years	**4.325**	**(13.1)**	**125.0**	4.142	(20.7)	200.0
After five years	**2.306**	**(34.3)**	**208.6**	2.293	(18.8)	205.9
Total	**3.224**	**(51.2)**	**433.6**	3.385	(41.5)	580.9

TfL was conferred the legal powers to enter into derivatives for the purpose of risk mitigation via qualifying subsidiaries. The Corporation does not itself have the legal powers to enter into derivative transactions. TfL has entered into these contracts for the purpose of risk management and intends to hold these contracts to maturity as hedges against the underlying transactions.

35. Funding and financial risk management (continued)

Maturity profile of derivatives (continued)

The following tables detail the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

	Less than one year £m	Between one and two years £m	Between two and five years £m	More than five years £m	Total £m
Group – at 31 March 2020					
Derivatives settled gross					
Foreign exchange forward contracts:					
Amounts receivable	**721.8**	**128.7**	**154.8**	**41.7**	**1,047.0**
Amounts payable	**(744.4)**	**(131.3)**	**(161.0)**	**(43.6)**	**(1,080.3)**
Derivatives settled net					
Interest rate swaps	**(11.4)**	**(10.6)**	**(16.4)**	**(15.8)**	**(54.2)**
	(34.0)	**(13.2)**	**(22.6)**	**(17.7)**	**(87.5)**
Group – at 31 March 2019					
Derivatives settled gross					
Foreign exchange forward contracts:					
Amounts receivable	302.8	58.0	65.7	-	426.5
Amounts payable	(296.8)	(56.5)	(66.6)	-	(419.9)
Derivatives settled net					
Interest rate swaps	(11.7)	(9.1)	(15.1)	(4.7)	(40.6)
	(5.7)	(7.6)	(16.0)	(4.7)	(34.0)

The total asset or liability due to the Group as recognised on the Balance Sheet is the fair value of the derivatives, as this represents the cost to terminate. As such it differs from the total net contractual payments shown in the table above. At 31 March 2020, the fair value of the interest rate derivatives was a net liability of £51.2m (2019 a net liability of £41.5m). The fair value of forward exchange derivatives was a net asset of £33.3m (2019 a net asset of £6.6m). At 31 March 2019, the Group also held foreign currency call options. These were out of the money and, as such, were not expected to be exercised. The fair value of these call options at 31 March 2019 was a net asset of £4.0m; however as no future cashflows were expected to arise these derivatives were excluded from the maturity table. The Group had no outstanding foreign currency call options as at 31 March 2020.

35. Funding and financial risk management (continued)

Contractual maturity of financial liabilities

The following table details the Group and the Corporation's remaining contractual maturity for their non derivative financial liabilities. The table has been drawn up on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group or Corporation can be required to pay and, therefore differs from the carrying value and the fair value. The table includes both interest and principal cash flows.

	Less than one year £m	Between one and two years £m	Between two and five years £m	More than five years £m	Total £m
Group - as at 31 March 2020					
Trade and other creditors	**1,695.1**	**12.6**	**-**	**-**	**1,707.7**
Borrowings - principal	**938.5**	**360.2**	**964.6**	**9456.2**	**11,719.5**
Borrowings - interest	**401.7**	**390.7**	**1103.5**	**5675.9**	**7,571.8**
Right-of-use lease liabilities	**352.0**	**322.2**	**583.4**	**1,880.9**	**3,138.5**
PFI lease liabilities	**19.4**	**14.8**	**52.2**	**67.8**	**154.2**
Other financing liabilities	**6.9**	**12.7**	**38.2**	**101.9**	**159.7**
	3,413.6	**1,113.2**	**2,741.9**	**17,182.7**	**24,451.4**
Group - as at 31 March 2019					
Trade and other creditors	1,698.2	11.0	-	-	1,709.2
Borrowings - principal	746.9	113.5	952.1	9,362.8	11,175.3
Borrowings - interest	478.6	389.9	1,043.0	6,024.8	7,936.3
PFI lease liabilities	62.9	19.3	48.2	86.7	217.1
Other finance lease liabilities	33.6	33.8	101.5	177.4	346.3
Other financing liabilities	-	6.9	38.2	114.6	159.7
	3,020.2	574.4	2,183.0	15,766.3	21,543.9
Corporation - as at 31 March 2020					
Trade and other payables	**1,095.9**	**-**	**-**	**-**	**1,095.9**
Borrowings - principal	**938.5**	**360.2**	**964.6**	**9,456.2**	**11,719.5**
Borrowings - interest	**401.7**	**390.7**	**1,103.50**	**5,675.9**	**7,571.8**
Right-of-use lease liabilities	**37.3**	**37.2**	**104.5**	**373.5**	**552.5**
PFI lease liabilities	**14.2**	**14.4**	**52.1**	**67.8**	**148.5**
	2,487.6	**802.5**	**2,224.7**	**15,573.4**	**21,088.2**
Corporation - as at 31 March 2019					
Trade and other payables	512.1	-	-	-	512.1
Borrowings - principal	746.9	113.5	952.1	9,362.8	11,175.3
Borrowings - interest	478.6	389.9	1,043.0	6,024.8	7,936.3
PFI lease liabilities	16.7	14.2	47.7	86.8	165.4
	1,754.3	517.6	2,042.8	15,474.4	19,789.1

35. Funding and financial risk management (continued)

Fair values

In accordance with IFRS 13, the fair values of the financial assets and liabilities are calculated as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents – approximates to the carrying amount
- Short-term investments – approximates to the carrying amount because of the short maturity of these instruments
- Long-term investments – by reference to bid prices at the close of business on the balance sheet date, within Level 1 of the fair value hierarchy as defined within IFRS 13
- Trade and other debtors - approximates to the carrying amount
- Derivative financial instruments – In the absence of quoted market prices, derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date). Hence, derivatives are within Level 2 of the fair value hierarchy as defined within IFRS 13:
    - Forward exchange contracts – based on market data and exchange rates at the balance sheet date
    - Interest rate swaps and forward starting interest rate swaps – based on the net present value of discounted cash flows
- Trade and other creditors - approximates to the carrying amount
- Long-term borrowings – determined by calculating the discounted value of the future cash flows (redemption and interest) using appropriate discount rates, based on observable market data, in effect at the balance sheet date at Level 2 of the fair value hierarchy. Fair value approximates to the carrying amount in the case of short-term commercial paper
- Finance lease liabilities – approximates to the carrying amount
- Other financing liabilities – approximates to the carrying amount

35. Funding and financial risk management (continued)

Fair values (continued)

The fair values of the Group's financial assets and liabilities together with the carrying amounts recorded in the balance sheets are illustrated below:

At 31 March	2020 Carrying value £m	2020 Fair value £m	2019 Carrying value £m	2019 Fair value £m
Cash and cash equivalents	**1,566.8**	**1,566.8**	1,665.8	1,665.8
Short-term investments	**642.4**	**642.4**	215.9	215.9
Trade and other debtors	**444.1**	**444.1**	650.2	650.2
Finance lease receivables	**52.7**	**52.7**	52.2	52.2
Derivative financial instruments	**4.9**	**4.9**	18.6	18.6
Total financial assets	**2,710.9**	**2,710.9**	2,602.7	2,602.7
Trade and other creditors	**(1,707.7)**	**(1,707.7)**	(1,709.2)	(1,709.2)
Borrowings	**(11,689.0)**	**(15,669.7)**	(11,144.6)	(15,367.7)
Right-of-use lease liabilities	**(2,417.0)**	**(2,417.0)**	-	-
PFI lease liabilities	**(125.5)**	**(125.5)**	(179.7)	(179.7)
Other finance lease liabilities	**-**	**-**	(238.8)	(238.8)
Other financing liabilities	**(136.0)**	**(136.0)**	(132.7)	(132.7)
Derivative financial instruments	**(89.4)**	**(89.4)**	(49.5)	(49.5)
Total financial liabilities	**(16,164.6)**	**(20,145.3)**	(13,454.5)	(17,677.6)
Net financial liabilities	**(13,453.7)**	**(17,434.4)**	(10,851.8)	(15,074.9)

35. Funding and financial risk management (continued)

The fair values of financial assets and liabilities of the Corporation determined in accordance with IFRS 13, together with the carrying amounts recorded in the balance sheet are:

At 31 March	2020 Carrying value £m	2020 Fair value £m	2019 Carrying value £m	2019 Fair value £m
Cash and cash equivalents	**1,410.7**	**1,410.7**	1,504.6	1,504.6
Short-term investments	**623.5**	**623.5**	203.0	203.0
Trade and other debtors	**12,062.7**	**12,062.7**	11,108.1	11,108.1
Total financial assets	**14,096.9**	**14,096.9**	12,815.7	12,815.7
Trade and other creditors	**(1,095.9)**	**(1,095.9)**	(512.1)	(512.1)
Borrowings	**(11,694.0)**	**(15,669.7)**	(11,150.4)	(15,367.7)
Right-of-use lease liabilities	**(439.3)**	**(439.3)**	-	-
PFI lease liabilities	**(120.2)**	**(120.2)**	(131.3)	(131.3)
Total financial liabilities	**(13,349.4)**	**(17,325.1)**	(11,793.8)	(16,011.1)
Net financial assets/(liabilities)	**747.5**	**(3,228.2)**	1,021.9	(3,195.4)

36. Pensions

The majority of the Group's staff were members of the Public Sector Section of the TfL Pension Fund. The majority of the Group's remaining staff were members of London Pension Fund Authority Pension Fund, the Principal Civil Service Pension Scheme, the Crossrail Shared Cost Section of the Railways Pension Scheme (Crossrail Section) or the Tube Lines defined contribution scheme.

a) Amount included in net cost of services

For the year ended 31 March	Note	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
TfL Pension Fund		**581.3**	605.4	**371.9**	369.1
Local Government Pension Fund		**2.3**	2.0	**2.3**	2.0
Crossrail Section of the Railways Pension Scheme		**3.5**	4.2	**-**	-
Unfunded schemes provision		**6.5**	9.6	**5.2**	6.2
Total for schemes accounted for as defined benefit		**593.6**	621.2	**379.4**	377.3
Principal Civil Service Pension Scheme		**0.6**	0.5	**0.6**	0.5
Other schemes		**6.8**	3.4	**1.8**	0.8
Amounts included in net cost of services		**601.0**	625.1	**381.8**	378.6
Less: scheme expenses		**(13.4)**	(12.1)	**(13.2)**	(12.0)
Amount included in staff costs	3	**587.6**	613.0	**368.6**	366.6

36. Pensions (continued)

b) Defined benefit schemes

This section deals with those pension funds to which the Group contributes that are accounted for under IAS 19 as defined benefit schemes.

Public Sector Section of the TfL Pension Fund (TfL Pension Fund)

The TfL Pension Fund is a final salary scheme established under trust. The Fund's Trustee is the TfL Trustee Company Limited, a wholly owned subsidiary of TfL. Under the rules of the Fund, its 18 Trustee Directors are nominated in equal numbers by TfL and on behalf of the Fund's membership.

Every three years, the TfL Pension Fund actuary makes valuations and recommends the level of contributions to be made by the participating employers to ensure the long-term solvency of the Fund. The latest available valuation of the Fund was carried out as at 31 March 2018 by the Actuary, a partner of consulting actuaries Willis Towers Watson, using the projected unit method. A revised Schedule of Contributions was agreed between the Trustee and the employers following the formal funding valuation of the Public Sector Section.

Under the valuation report, the deficit of the Fund was £603m as at 31 March 2018. Assets totalled £10,321m and the defined benefit obligation totalled £10,924m. Employer's contributions for the period from 1 April 2019 until 31 March 2020 represented future service contributions at the rate of 26.9 per cent. From 1 April 2020 until 31 March 2026, employer contributions will rise to 33.3 per cent, comprising the future service contributions of 26.9 per cent, plus additional deficit recovery repayments at 6.4 per cent of pensionable pay. Additional contingent payments may be made from 1 April 2020 if the funding position deteriorates. The recovery plan states that the expectation is that the funding shortfall will be eliminated by March 2026.

The underlying assets and defined benefit obligation of the TfL Pension Fund cover a number of Group entities and cannot be readily split between each undertaking. No contractual agreement is in place to allocate the total net obligation between the member entities. Thus, in accordance with IAS 19, the Corporation, as the Scheme sponsor, has recognised the total net defined benefit obligation in its own individual accounts.

A separate valuation of the TfL Pension Fund has been prepared, by actuaries at the XPS Pensions Group, for accounting purposes on an IAS 19 basis as at 31 March 2020. The assumptions used by the actuaries are the best estimates chosen from a range of possible actuarial assumptions, while the present value of the schemes' defined benefit obligation is derived from cash flow projections. Due to the timescale covered, neither the assumptions nor the cash flow projections may necessarily be borne out in practice.

The defined benefit obligation for the TfL Pension Fund has been calculated using the mortality assumptions adopted for the latest available funding valuation as at 31 March 2018. Standard mortality tables were used, adjusted to reflect the recent mortality experience of the Fund's pensioners at that date. An allowance was made for future mortality improvements based on the CMI 2019 projections with a long term improvement rate of 1.25 per cent per annum.

The discounted scheme liabilities have an average duration of 18 years.

Notes to the Financial Statements

36. Pensions (continued)

b) Defined benefit schemes (continued)

London Pension Fund Authority Pension Fund (Local Government Pension Fund)

The London Pension Authority Pension Fund is a funded multi-employer defined benefit scheme, administered by the London Pensions Fund Authority. The Corporation is able to identify its share of the assets and defined benefit obligation of the scheme and this scheme has therefore been accounted for as a defined benefit scheme under IAS 19. Employer's contributions were payable at the rate of 15.9 per cent for 2019/20 (2018/19 15.9 per cent) of pensionable pay, plus a lump sum deficit reduction payment of £1.2m (2018/19 £1.2m). The Corporation's share of the underlying assets and defined benefit obligation resulted in an IAS 19 deficit as at 31 March 2020 of £41.9m (2019 £45.6m). The discounted scheme liabilities have an average duration of 21 years.

The last full actuarial valuation available was carried out at 31 March 2016. The annual report and financial statements for the whole scheme can be found on the London Pensions Fund Authority website (www.lpfa.org.uk). A separate valuation as at 31 March 2020 has been prepared for accounting purposes on an IAS 19 basis by Barnett Waddington LLP.

Crossrail Shared Cost Section of the Railways Pension Scheme (Crossrail Section)

Crossrail Limited (CRL) participates in the Crossrail Section of the Railways Pension Scheme which is accounted for in these financial statements as a defined benefit pension scheme under IAS 19.

A full actuarial valuation of the Scheme was carried out at 31 December 2016. The report showed a funding surplus of £5.9m. This was translated into a continuing current employer contribution level of 20.9 per cent. A separate valuation has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2020 by actuaries at the XPS Pensions Group. The Group's share of the underlying assets and defined benefit obligation resulted in a deficit, as at 31 March 2020, of £18.3m (2019 £29.9m). The discounted Crossrail Section liabilities have a duration of approximately 21 years.

The defined benefit obligation for the Crossrail Section has been calculated using the mortality assumptions adopted for the latest available funding valuation as at 31 December 2016. Standard mortality tables were used, adjusted to reflect the recent mortality experience of the Scheme's pensioners at that date. An allowance was made for future mortality improvements based on the CMI 2019 projections with a long-term improvement rate of 1.25 per cent per annum.

36. Pensions (continued)

Unfunded pension costs

The Corporation bears the cost of the augmentation of the pensions of certain employees, who retire early under voluntary severance arrangements.

In addition, the Corporation also bears the cost of:

- Ex-gratia payments which are made to certain former employees on retirement in respect of service prior to the establishment of pension funds for those employees
- Supplementary pensions, which are made to certain former employees who retired prior to index linking of pensions
- Pensions of London Regional Transport (LRT) former board members who did not qualify to join the TfL Pension Fund
- Other unfunded defined benefit pensions accruing to certain employees

XPS Pensions Group, consulting actuaries, were instructed to report on the financial position of the unfunded pension defined benefit obligation as at 31 March 2020 for the purpose of IAS 19 only. The report does not constitute a formal actuarial valuation of the unfunded pension defined benefit obligation. The valuation as at 31 March 2020 was £99.9m (2019 £105.7m), and is fully provided for in these financial statements.

36. Pensions (continued)

(b) Defined benefit schemes (continued)

Assumptions for defined benefit sections

The main actuarial assumptions used for the TfL Pension Fund, the Crossrail Shared Cost Section of the Railways Pension Scheme, the Local Government Pension Scheme (together 'the Schemes') and unfunded schemes were:

	IAS 19 valuation at 31 March 2020 %	IAS 19 valuation at 31 March 2019 %
RPI Inflation	**2.35-2.70**	3.15-3.40
CPI Inflation	**1.45-2.40**	2.15-2.40
Rate of increase in salaries	**2.35-2.90**	3.15-3.90
Rate of increase in pensions in payment and deferred pensions	**1.45-2.40**	2.03-3.15
Discount rate	**2.30-2.35**	2.35-2.40

The Group's retirement benefit plans typically expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk. Sensitivity analyses for the most significant actuarial assumptions made in relation to these risks are as set out below. The analyses have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate were 0.1 per cent higher/(lower), the defined benefit obligation would decrease by £279.6m/(increase by £288.1m)
- If the expected salary growth were increased/(decreased) by 0.1 per cent, the defined benefit obligation would increase by £77.0m/(decrease by £75.9m)
- If life expectancy were increased/(decreased) by one year, the defined benefit obligation would increase by £467.2m/(decrease by £467.2m)
- If the inflation rate were 0.1 per cent higher/(lower), the defined benefit obligation would increase by £276.6m/(decrease by £269.1m)

The sensitivity analyses presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

36. Pensions (continued)

c) Accounting for defined benefit schemes

The total assets in the schemes were:

At 31 March	Value 2020 £m	Value 2019 £m
Equities and alternatives	**7,949.0**	8,098.4
Bonds	**2,527.5**	2,435.7
Cash and other	**163.3**	467.2
Total fair value of assets	**10,639.8**	11,001.3

The TfL Pension Fund, the Crossrail Shared Cost Section of the Railways Pension Scheme and the Local Government Pension Scheme assets consist of the following categories, by proportion of the total assets held:

At 31 March	2020 %	2019 %
Equities	**75**	74
Bonds	**24**	22
Cash and other assets	**1**	4
	100	100

The unfunded pension schemes have no assets to cover their defined benefit obligation.

36. Pensions (continued)

Total pension deficit at 31 March

Group	**2020 £m**	2019 £m
Fair value of scheme assets	**10,639.8**	11,001.3
Actuarial valuation of defined benefit obligation	**(14,740.4)**	(16,371.9)
Deficit recognised as a liability in the balance sheet	**(4,100.6)**	(5,370.6)

Group	**2020 £m**	2019 £m
TfL Pension Fund	**(3,941.7)**	(5,189.4)
Local Government Pension Fund	**(40.7)**	(45.6)
Crossrail Section of the Railways Pension Scheme	**(18.3)**	(29.9)
Unfunded schemes provision	**(99.9)**	(105.7)
Deficit recognised as a liability in the balance sheet	**(4,100.6)**	(5,370.6)

Corporation	**2020 £m**	2019 £m
Fair value of scheme assets	**10,563.3**	10,927.0
Actuarial valuation of defined benefit obligation	**(14,645.6)**	(16,267.7)
Deficit recognised as a liability in the balance sheet	**(4,082.3)**	(5,340.7)

Corporation	**2020 £m**	2019 £m
TfL Pension Fund	**(3,941.7)**	(5,189.4)
Local Government Pension Fund	**(40.7)**	(45.6)
Unfunded schemes provision	**(99.9)**	(105.7)
Deficit recognised as a liability in the balance sheet	**(4,082.3)**	(5,340.7)

36. Pensions (continued)

Analysis of amounts included in the Comprehensive Income and Expenditure Statement

Analysis of amounts charged to net cost of services

Year ended 31 March	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
Current service cost	573.6	551.6	570.3	547.5
Less contributions paid by subsidiaries	-	-	(210.7)	(239.7)
Past service cost	6.6	57.5	6.6	57.5
Total included in staff costs	580.2	609.1	366.2	365.3
Scheme expenses	13.4	12.1	13.2	12.0
Total amount charged to net cost of services	593.6	621.2	379.4	377.3

Amounts charged to financing and investment expenditure

Year ended 31 March	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
Net interest expense on scheme defined benefit obligation	122.7	113.4	122.0	112.8

Amount recognised in other comprehensive income and expenditure

Year ended 31 March	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
Net remeasurement (gains)/losses recognised in the year	(1,687.9)	336.7	(1,673.7)	335.7

Analysis of scheme defined benefit obligation into amounts arising from schemes that are wholly or partly funded and wholly unfunded

At 31 March	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
Wholly unfunded schemes	99.9	105.7	99.9	105.7
Wholly or partly funded schemes	14,640.5	16,266.2	14,545.7	16,162.0
Total scheme defined benefit obligation	14,740.4	16,371.9	14,645.6	16,267.7

36. Pensions (continued)

Reconciliation of defined benefit obligation

	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
Actuarial value of defined benefit obligation at 1 April	**16,371.9**	15,087.0	**16,267.7**	14,991.3
Current service cost	**573.6**	551.6	**570.3**	547.5
Interest cost	**380.9**	373.3	**378.4**	371.1
Employee contributions	**54.2**	53.8	**53.8**	53.3
Remeasurement losses/(gains) on scheme liabilities:				
Net remeasurement - financial	**(2,082.0)**	733.9	**(2,066.5)**	729.1
Net remeasurement - experience	**(202.4)**	266.5	**(202.4)**	266.5
Net remeasurement - demographic	**29.8**	(366.8)	**29.6**	(365.0)
Actual benefit payments	**(392.2)**	(384.9)	**(391.9)**	(383.6)
Past service cost	**6.6**	57.5	**6.6**	57.5
Actuarial value of defined benefit obligation at 31 March	**14,740.4**	16,371.9	**14,645.6**	16,267.7

Reconciliation of fair value of the scheme assets

	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
Fair value of assets at 1 April	**11,001.3**	10,379.7	**10,927.0**	10,310.1
Expected return on assets net of expenses	**258.2**	259.9	**256.4**	258.3
Scheme expenses	**(13.4)**	(12.1)	**(13.2)**	(12.0)
Return on assets excluding interest income	**(566.7)**	296.9	**(565.6)**	294.9
Actual employer contributions	**293.0**	402.8	**80.7**	161.1
Contributions paid by subsidiaries	**-**	-	**210.7**	239.7
Employee contributions	**54.2**	53.8	**53.8**	53.3
Actual benefits paid	**(386.8)**	(379.7)	**(386.5)**	(378.4)
Fair value of assets at 31 March	**10,639.8**	11,001.3	**10,563.3**	10,927.0

36. Pensions (continued)

The expected return on scheme assets is set equal to the discount rate. The actual return on scheme assets in the year was a loss of £308.5m (2018/19 a gain of £556.8m).

Total contributions of £368.1m are expected to be made to the schemes in the year ending 31 March 2020.

d) Other pension arrangements

Principal Civil Service Pension Scheme and Alpha – Civil Servants and Others Pension Scheme

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. From 1 April 2015 most PCSPS members switched to the new Civil Servants and Others Pension Scheme, (also known as Alpha). The Group is unable to identify its share of the underlying assets and defined benefit obligations of these schemes on a consistent and reasonable basis and, as permitted by the multi-employer exemption in IAS 19, the Group treats contributions to the PCSPS and Alpha as if they were contributions to a defined contribution plan. A full actuarial valuation was last carried out at 31 March 2016. Details can be found in the Civil Service Superannuation Resource Accounts (www.civilservicepensionscheme.org.uk/).

During 2019/20 employers' contributions represented an average of 27.3 per cent of pensionable pay (2018/19 21.1 per cent). Employer contributions are reviewed every four years. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Docklands Light Railway Pension Scheme

The Docklands Light Railway Pension Scheme (DLR) is a defined benefit scheme established under trust in the UK that provides both pensions in retirement and death benefits to members. The Trustees are responsible for the operation and governance of the DLR Scheme, including making decisions regarding funding and investment strategy in conjunction with Docklands Light Railway Limited (DLR), a subsidiary of the TfL Group, as the Principal Employer of the Scheme.

Every three years the Scheme Actuary of the DLR Scheme carries out a valuation to assess the funding position and to determine the future levels of contributions. The most recent valuation was effective 1 April 2018. The schedule of contributions agreed following the 1 April 2018 valuation is dated 28 June 2019.

Keolis Amey Docklands Limited (KAD) was awarded the franchise to operate the Docklands Light Railway from 7 December 2014 and is a Participating Employer in the DLR Scheme. The contributions payable by KAD to the DLR Scheme are set out in the franchise agreement between DLR and KAD dated 17 July 2014. These are to pay 35.7% per annum of Pensionable Salaries into the Scheme, the PPF levy and additional contributions if actual pensionable salary increases exceed RPI + 1.5% per annum.

36. Pensions (continued)

DLR, as the Principal Employer of the DLR Scheme, is responsible for meeting any further costs towards the cost of accruing benefits and removing the deficit, over and above the contributions payable by KAD, if necessary. Following the completion of the 2018 valuation, it was agreed that DLR would pay 22.6% per annum of Pensionable Salaries towards future benefit accrual from 1 April 2018, plus additional contributions towards the deficit of £0.8m per annum, with the first instalment paid on or before 31 July 2019 and the remaining instalments due on or before each 10 April from 2020 to 2024 inclusive. In addition, it was agreed that DLR would pay additional contributions if actual Pensionable Salary growth exceeds RPI inflation + 0.5% per annum (up to RPI inflation + 1.5% per annum).

Over the year beginning 1 April 2020 the contributions payable to the DLR Scheme are expected to be around £5.5m from KAD and £4.3m from DLR, based on the schedule of contributions currently in force. This makes no allowance for additional contributions that may arise if Pensionable Salary growth exceeds RPI inflation + 0.5% per annum.

A valuation of the DLR Scheme has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2020. The assumptions used by the actuary are best estimates chosen from a range of possible actuarial assumptions, whilst the present value of the DLR Scheme's defined benefit obligation is based on future cash flow projections. Neither the assumptions nor the cash flow projections may necessarily be borne out in practice.

The discounted DLR Scheme liabilities have a duration of approximately 20 years.

The scheme's funding arrangements outlined above mean that DLR is currently unable to identify its share of this obligation on a consistent and reasonable basis. The Group has therefore taken the exemption permitted under IAS 19 for multi-employer schemes and treats contributions to the DLR Scheme as if they were contributions to a defined contribution plan. No defined benefit obligation has been recognised in the balance sheet in respect of this scheme.

Contributions totalling £2.2m were paid by DLR in 2019/20, with an additional £5.9m being paid by KAD (2018/19 £3.0m paid by DLR and £6.6m by KAD).

Defined contribution schemes

The Group contributes to a number of defined contribution schemes, with total contributions, including contributions to the DLR, PCSPS and Alpha schemes as outlined in the paragraphs above, amounting to £7.4m (2018/19 £3.9m).

37. Cash flow notes

a) Adjustments to net surplus for non-cash movements

	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
Depreciation of property, plant and equipment and amortisation of intangibles	**1,404.1**	1,064.4	**176.1**	156.6
Loss on disposal of property, plant and equipment and intangibles	**30.9**	32.5	**0.3**	7.2
Net gain on sale of investment properties	**(31.7)**	(131.5)	**(22.9)**	(96.5)
Movements in the value of investment properties	**(934.2)**	(4.9)	**(13.2)**	(1.5)
Reversal of unrealised net losses on retranslation of foreign currency investments	**-**	0.1	**-**	0.1
Reversal of fair value movements on derivatives not in hedging relationships for accounting purposes	**-**	0.3	**-**	-
Financing income	**(18.0)**	(12.4)	**(390.7)**	(372.0)
Financing expense	**519.9**	475.3	**552.6**	522.8
Capital grants received	**(2,231.6)**	(1,184.6)	**(2,145.4)**	(1,076.7)
Capital grants paid to subsidiaries	**-**	-	**566.5**	277.8
Reversal of share of losses from associated undertakings	**52.1**	94.5	**-**	-
Reversal of defined benefit pension service costs	**593.6**	621.2	**590.1**	377.3
Reversal of taxation credit	**242.5**	(2.0)	**-**	-
Adjustments to net surplus for non-cash movements before movements in working capital	**(372.4)**	952.9	**(686.6)**	(204.9)
(Decrease)/increase in creditors	**(47.7)**	84.1	**637.2**	(97.1)
Decrease/(increase) in debtors	**221.3**	(195.3)	**(347.5)**	279.9
Decrease in inventories	**2.1**	3.2	**-**	-
(Decrease)/increase in provisions	**(136.9)**	(26.8)	**11.4**	(9.2)
Adjustments to net surplus for non-cash movements after movements in working capital	**(333.6)**	818.1	**(385.5)**	(31.3)
Net cash payments for employers' contributions to defined benefit pension funds and direct payments to pensioners	**(298.4)**	(408.0)	**(296.8)**	(166.3)
Taxation received	**(0.1)**	2.0	**-**	-
Total adjustments to net surplus for non-cash movements	**(632.1)**	412.1	**(682.3)**	(197.6)

37. Cash flow notes (continued)

b) Investing activities

Year ended 31 March	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
Interest and other investment income received	**16.8**	12.6	**389.4**	372.4
Capital grants received	**2,216.9**	1,139.2	**2,160.2**	1,036.9
Capital grants paid to subsidiaries	**-**	-	**(566.5)**	(277.8)
Purchase of property, plant and equipment and investment property	**(2,589.2)**	(3,525.9)	**(184.6)**	(293.1)
Purchase of intangible assets	**(21.0)**	(38.0)	**(16.8)**	(29.6)
Proceeds from the sale of property, plant and equipment and intangible assets	**106.2**	796.3	**3.6**	-
Net (purchases)/sales of other investments	**(400.3)**	476.4	**(420.5)**	466.8
Issue of loans to subsidiaries	**-**	-	**(654.9)**	(917.4)
Repayments of loans to subsidiaries	**-**	-	**-**	454.1
Finance leases granted in year	**(17.9)**	(35.6)	**-**	-
Finance leases repaid in year	**17.5**	9.0	**-**	-
Proceeds from sale of investment property	**46.4**	231.3	**59.6**	87.6
Investment in equity loan notes of associated undertakings	**-**	(9.0)	**-**	-
Investment in share capital of associated undertakings	**(20.4)**	-	**-**	-
Investment in share capital of subsidiaries	**-**	-	**(1,240.0)**	(1,560.0)
Net cash flows from investing activities	**(645.0)**	(943.7)	**(470.5)**	(660.1)

c) Financing activities

Year ended 31 March	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
Cash payments for reduction of the outstanding liabilities relating to lease and PFI arrangements	**(302.6)**	(69.6)	**(35.7)**	(10.8)
Cash payments for reduction of other financing liabilities	**-**	(8.8)	**-**	-
Net proceeds from new borrowing	**640.9**	924.2	**640.9**	924.2
Repayments of borrowings	**(96.0)**	(196.7)	**(96.0)**	(196.7)
Purchase of derivative option	**0.7**	(4.7)	**-**	-
Interest paid	**(468.7)**	(345.8)	**(514.9)**	(402.8)
Net cash flows from financing activities	**(225.7)**	298.6	**(5.7)**	313.9

38. Unusable reserves

At 31 March	2020 £m	2019 £m
Group		
Capital adjustment account	**27,913.6**	26,481.8
Pension reserve	**(4,082.3)**	(5,340.7)
Accumulated absences reserve	**(14.3)**	(10.2)
Retained earnings reserve in subsidiaries	**2,005.0**	1,550.0
Revaluation reserve	**333.6**	345.1
Hedging reserve	**(119.4)**	(105.5)
Cost of hedging reserve	**(4.4)**	(0.7)
Financial instruments adjustment account	**(147.5)**	(159.3)
Merger reserve	**466.1**	466.1
	26,350.4	23,226.6

At 31 March	2020 £m	2019 £m
Corporation		
Capital adjustment account	**15,356.1**	13,857.9
Pension reserve	**(4,082.3)**	(5,340.7)
Accumulated absences reserve	**(14.3)**	(10.2)
Revaluation reserve	**27.7**	19.8
Financial instruments adjustment account	**(147.5)**	(159.3)
	11,139.7	8,367.5

38. Unusable reserves (continued)

Capital adjustment account

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

	Note	**Group 2020 £m**	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Balance at 1 April		**26,481.8**	25,812.6	**13,857.9**	12,434.6
Charges for depreciation and impairment of non-current assets		**(176.1)**	(156.6)	**(176.1)**	(156.6)
Gain on disposal of investment properties		**22.9**	96.5	**22.9**	96.5
Transfer from revaluation reserve of historic revaluation gains on office properties transferred to investment properties during the year		**3.2**	-	**3.2**	-
Movements in the market value of investment properties		**13.2**	1.5	**13.2**	1.5
Capital grants and contributions	10	**2,231.6**	1,856.1	**1,578.9**	1,470.4
Transfer from street works reserve		**0.3**	-	**0.3**	
Transfer of capital grant funding from retained earnings reserve in subsidiaries		**1.0**	-	**-**	-
Minimum revenue provision		**56.1**	18.7	**56.1**	18.7
Loss on disposal of property, plant and equipment		**(0.3)**	(7.2)	**(0.3)**	(7.2)
Adjustments between Group and Corporation financial statements	*	**(720.1)**	(1,139.8)	**-**	-
Balance at 31 March		**27,913.6**	26,481.8	**15,356.1**	13,857.9

* The adjustment between the Group financial statements and the Corporation financial statements arises due to an alignment of the accounting policies between the Group and its subsidiaries. Under the Code, capital grants are recognised in the Comprehensive Income and Expenditure Statement and are then transferred to the Capital Adjustment Account (CAA) when utilised. No amortisation of grants or disposal of grants is recognised in the Comprehensive Income and Expenditure Statement. TfL's subsidiary companies account under full EU-adopted IFRS (rather than the Code) and are required to recognise deferred capital grants on the balance sheet and recognise grant amortisation in arriving at their retained earnings. An accounting policy alignment is performed on consolidation to recognise the grant receipts in the Comprehensive Income and Expenditure Statement (from where they are then transferred to the CAA). Equally, the amortisation and grant disposals are removed from the Comprehensive Income and Expenditure Statement and are shown in the CAA so that the total CAA adjustment is equal to the deferred capital grant carried in the subsidiaries' books.

38. Unusable reserves (continued)

Pension reserve

The pension reserve represents pension and other post-retirement defined benefit obligations shown on the balance sheet, excluding those reflected on the balance sheets of the subsidiary companies. The pension reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Group and Corporation account for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the defined benefit obligations recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Group and Corporation make employer's contributions to pension funds or eventually pay any pensions for which they are directly responsible. The debit balance on the pension reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources that have been set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	Group 2020 £m	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Balance at 1 April	**(5,340.7)**	(4,681.2)	**(5,340.7)**	(4,681.2)
Net remeasurement gains/(losses) on pension assets and defined benefit obligations	**1,673.7**	(335.7)	**1,673.7**	(335.7)
Reversal of charges relating to retirement benefits	**(712.1)**	(729.8)	**(501.4)**	(490.1)
Employer's pension contributions, contributions from subsidiaries and direct payments to pensioners payable in the year	**296.8**	406.0	**86.1**	166.3
Balance at 31 March	**(4,082.3)**	(5,340.7)	**(4,082.3)**	(5,340.7)

38. Unusable reserves (continued)

Accumulated absences reserve

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

	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
Balance at 1 April	**(10.2)**	(7.5)	**(10.2)**	(7.5)
Settlement or cancellation of accrual made at the end of the preceding year	**10.2**	7.5	**10.2**	7.5
Amounts accrued at the end of the current year	**(14.3)**	(10.2)	**(14.3)**	(10.2)
Balance at 31 March	**(14.3)**	(10.2)	**(14.3)**	(10.2)

Retained earnings reserve in subsidiaries

The retained earnings reserve in subsidiaries represents the retained earnings in the Group's subsidiary companies. These are disclosed as unusable reserves as unless and until they are paid up in dividends to the Corporation, they are not available to fund the expenditure of the Corporation.

	Group 2020 £m	Group 2019 £m
Balance at 1 April	**1,550.0**	1,066.1
Surplus/(deficit) on the provision of services after tax in subsidiaries	**339.2**	(286.7)
Transfer of current year capital grants and contributions to the Capital Adjustment Account	**(652.7)**	(385.7)
Transfer of capital grants brought forward to the Capital Adjustment Account	**(1.0)**	-
Transfer of adjustments between Group and Corporation financial statements to the Capital Adjustment Account	**720.1**	1,139.8
Adjustment to reserves for the implementation of IFRS 16 (see note 45)	**(2.5)**	-
Remeasurement gains/(losses) on defined benefit pension plan assets and liabilities	**14.2**	(1.0)
Release of revaluation reserve relating to the difference between fair value depreciation and historic cost depreciation, and to historic revaluation gains recognised in respect of properties disposed during the year	**37.7**	17.5
Balance at 31 March	**2,005.0**	1,550.0

38. Unusable reserves (continued)

Revaluation reserve

The revaluation reserve contains the accumulated gains made arising from increases in the value of property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation
- Disposed of and the gains are transferred to retained earnings

	Note	**Group 2020 £m**	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Balance at 1 April		**345.1**	302.7	**19.8**	-
Revaluation of assets	12	**29.4**	59.9	**11.1**	19.8
Transfer to capital adjustment account of historic revaluation gains on office properties transferred to investment properties during the year		**(3.2)**	-	**(3.2)**	-
Release of revaluation reserve to the retained earnings reserve in subsidiaries relating to the difference between fair value depreciation and historic cost depreciation		**(37.7)**	(17.5)	**-**	-
Balance at 31 March		**333.6**	345.1	**27.7**	19.8

Hedging reserve

The hedging reserve holds the gain or loss on a hedging instrument that is determined to be an effective hedge. The ineffective portion, if any, is recognised immediately through the Comprehensive Income and Expenditure Statement. The gain or loss deferred in reserves is recognised in the Comprehensive Income and Expenditure Statement in the period(s) during which the hedged forecast transaction affects profit or loss.

	Group 2020 £m	Group 2019 £m
Balance at 1 April	**(105.5)**	(115.4)
Net change in fair value of cash flow interest rate hedges	**(9.6)**	2.6
Net change in fair value of cash flow foreign exchange hedges	**(13.3)**	(1.3)
Recycling of interest rate fair value losses to profit and loss	**9.0**	8.6
Balance at 31 March	**(119.4)**	(105.5)

The Corporation does not have a hedging reserve as it has not entered into any derivative transactions, nor does it have legal powers to do so.

38. Unusable reserves (continued)

Cost of hedging reserve

The cost of hedging reserve holds the gain or loss on a hedging instrument arising from changes in the fair value of the time value of an option when the intrinsic value of the option has been designated in an effective hedging relationship. The gain or loss deferred in reserves is recognised in the Comprehensive Income and Expenditure Statement in the period(s) during the period when the hedged forecast transaction affects profit or loss. The ineffective portion, if any, is recognised immediately through the Comprehensive Income and Expenditure Statement.

	Group 2020 £m	Group 2019 £m
Balance at 1 April	**(0.7)**	-
Net change in fair value of cash flow foreign exchange hedges	**(3.9)**	(0.7)
Recycling of cashflow foreign exchange hedge (gains)/losses to the Balance Sheet	**0.2**	-
Balance at 31 March	**(4.4)**	(0.7)

The Corporation does not have a cost of hedging reserve as it has not entered into any derivative transactions, nor does it have legal powers to do so.

Financial instruments adjustment account

The financial instruments adjustment account provides a balancing mechanism between the different rates at which gains and losses (such as premium on the early repayment of debt) are recognised under the Code and are required by statute to be met from the General Fund.

	Group 2020 £m	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Balance at 1 April	**(159.3)**	(171.0)	**(159.3)**	(171.0)
Release of premium	**11.8**	11.7	**11.8**	11.7
Balance at 31 March	**(147.5)**	(159.3)	**(147.5)**	(159.3)

38. Unusable reserves (continued)

Merger reserve

The merger reserve of £466.1m arose as a result of the transfer of the net assets of London Regional Transport, including the share capital of London Underground Limited (LU), to TfL in 2003. It represents the share capital of LU and was taken as a credit to the merger reserve. The Group has taken advantage of the exemption in IFRS 1 not to restate business combinations occurring prior to the transition date of 1 April 2009.

	Group 2020 £m	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Balance at 1 April and 31 March	**466.1**	466.1	**-**	-

39. Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Corporation in the year in accordance with proper accounting practice in order to determine the resources that are specified by statutory provisions as being available to the Corporation to meet future capital and revenue expenditure. The General Fund reserve represents monies available to finance the day to day activities of TfL.

39. Adjustments between accounting basis and funding basis under regulations (continued)

Corporation

Year ended 31 March 2020	Note	**General fund £m**	**Capital adjustment account £m**	**Pension reserve £m**	**Street works reserve £m**	**Financial instruments adjustment account £m**	**Accumulated absences reserve £m**
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement							
Charges for depreciation, amortisation and impairment of non-current assets	3	**176.1**	**(176.1)**	**-**	**-**	**-**	**-**
Net gain on disposal of investment properties	8	**(22.9)**	**22.9**	**-**	**-**	**-**	**-**
Movements in the market value of investment properties	8	**(13.2)**	**13.2**	**-**	**-**	**-**	**-**
Capital grants and contributions	10	**(1,578.9)**	**1,578.9**	**-**	**-**	**-**	**-**
Loss on disposal of non-current assets	7	**0.3**	**(0.3)**	**-**	**-**	**-**	**-**
Reversal of items relating to retirement benefits		**501.4**	**-**	**(501.4)**	**-**	**-**	**-**
Transfers to/from street works reserve		**(3.3)**	**(300.0)**	**-**	**(3.0)**	**-**	**-**
Difference between the remuneration charged on an accruals basis and the remuneration chargeable in accordance with statutory requirements		**4.1**	**-**	**-**	**-**	**-**	**(4.1)**
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement which are required to be charged in accordance with statutory requirements							
Employer's pension contributions and direct payments to pensioners payable in the year		**(86.1)**	**-**	**86.1**	**-**	**-**	**-**
Minimum Revenue provision	41	**(56.1)**	**56.1**	**-**	**-**	**-**	**-**
Amortisation of premium on financing		**(11.8)**	**-**	**-**	**-**	**11.8**	**-**
		(1,090.4)	**1,194.7**	**(415.3)**	**(3.0)**	**11.8**	**(4.1)**

39. Adjustments between accounting basis and funding basis under regulations (continued)

Corporation

Year ended 31 March 2019	Note	General fund £m	Capital adjustment account £m	Pension reserve £m	Street works reserve £m	Financial instruments adjustment account £m	Accumulated absences reserve £m
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement							
Charges for depreciation, amortisation and impairment of non-current assets	3	156.6	(156.6)	-	-	-	-
Net gain on disposal of investment properties	8	(96.5)	96.5	-	-	-	-
Movements in the market value of investment properties	8	(1.5)	1.5	-	-	-	-
Capital grants and contributions	10	(1,470.4)	1,470.4	-	-	-	-
Unapplied capital grants	10	671.5	-	-	-	-	-
Loss on disposal of non-current assets	7	7.2	(7.2)	-	-	-	-
Reversal of items relating to retirement benefits		490.1	-	(490.1)	-	-	-
Transfers to/from street works reserve		(1.1)	-	-	1.1	-	-
Difference between the remuneration charged on an accruals basis and the remuneration chargeable in accordance with statutory requirements		2.7	-	-	-	-	(2.7)
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement which are required to be charged in accordance with statutory requirements							
Employer's pension contributions and direct payments to pensioners payable in the year		(166.3)	-	166.3	-	-	-
Minimum Revenue provision	41	(18.7)	18.7	-	-	-	-
Amortisation of premium on financing		(11.7)	-	-	-	11.7	-
		(438.1)	1,423.3	(323.8)	1.1	11.7	(2.7)

40. Sources of finance

Capital expenditure analysed by source of finance:

Year ended 31 March	Note	Corporation 2020 £m	Corporation 2019 £m
Capital expenditure			
Intangible asset additions	12	**16.8**	29.6
Property, plant and equipment additions	13	**226.4**	239.6
Investment property	15	**-**	52.3
Investments in year	16	**1,240.0**	1,560.0
Loans made to subsidiaries in year for capital purposes		**654.9**	917.4
Capital grants allocated to subsidiaries in year	10	**566.5**	277.8
Total capital expenditure		**2,704.6**	3,076.7
Sources of finance			
Business Rates Retention used to fund capital	10	**967.8**	219.1
Community infrastructure levy and other third-party contributions	10	**188.6**	342.6
Crossrail specific grant	10	**989.0**	515.0
Adjusted by amounts transferred from/(to) Capital Grants Unapplied Account	10	**-**	671.5
Prudential borrowing		**544.9**	727.5
Repayment of loans to subsidiaries		**-**	454.1
Capital receipts		**29.0**	150.9
Transfer from street works reserve		**0.3**	1.1
Net repayment of finance leases		**-**	(10.8)
Working capital		**(15.0)**	5.7
Total sources of finance		**2,704.6**	3,076.7

41. Minimum revenue provision

The Local Government and Housing Act 1989 requires a Minimum Revenue Provision (MRP) to be set aside for the redemption of external debt. As a statutory corporation regulated as if it were a local authority, TfL is required to comply with the Local Authorities Capital Finance Regulations. New regulations were approved by the Secretary of State in February 2008. TfL is required to approve an Annual MRP Statement determining the amount of MRP which it considers to be prudent.

The Ministry of Housing, Communities and Local Government issued guidance setting out four possible methods which are deemed automatically prudent, but also states that 'approaches differing from those exemplified should not be ruled out… the broad aim of prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.'

While statutory guidance suggests four potential methods for calculating MRP it also allows for other methods and approaches to be used. Since 2016/17 TfL has applied the principles inherent in the statutory guidance on MRP, to make an annual provision in TfL (the Corporation), that aims to build up a reserve on the Balance Sheet over the average useful economic life of the assets funded by borrowings in the Corporation, such that, at the end of that useful economic life, that reserve may be employed to either repay borrowings or to finance replacement capex for those assets that have reached the end of their lives. An MRP is effectively already made for borrowings passed down to the subsidiaries through TfL's existing processes for funding those entities. The MRP provision for 2019/20, shown as a transfer from the General Fund to the Capital Adjustment Account in the Group and Corporation Movement in Reserves Statements, was a total of £56.1m (2018/19 £18.7m).

42. Financial assistance

TfL may give financial assistance to any body or person in respect of expenditure incurred or to be incurred by that body or person in doing anything which, in the opinion of TfL, is conducive to the provision of safe, integrated, efficient and economic transport facilities or services to, from or within Greater London, and also to London Transport Museum Limited.

Financial assistance given under section 159 of the GLA Act 1999 is outlined below:

Year ended 31 March	Corporation 2020 £m	Corporation 2019 £m
Financial assistance to subsidiaries		
Transport Trading Limited	**56.6**	291.6
London Underground Limited	**906.4**	499.0
London Bus Services Limited	**413.6**	596.1
London River Services Limited	**5.0**	20.5
Victoria Coach Station	**0.5**	-
London Buses Limited	**8.2**	5.9
London Transport Museum Limited	**3.1**	3.1
Docklands Light Railway Limited	**42.9**	43.1
Rail for London Limited	**200.3**	327.8
Crossrail Limited	**26.5**	5.5
Tramtrack Croydon Limited	**39.1**	29.7
Rail for London (Infrastructure) Limited	**29.1**	12.9
	1,731.3	1,835.2

Year ended 31 March	Note	Corporation 2020 £m	Corporation 2019 £m
Financial assistance to London Boroughs and other third parties			
Local Implementation Plan		**98.1**	102.6
Crossrail Complementary Measures		**4.3**	3.4
Taxicard		**8.5**	10.1
Cycling		**35.0**	33.2
Bus priority		**10.0**	6.4
Other		**8.3**	6.2
Total financial assistance to London Boroughs and other third parties	3	**164.2**	161.9

43. Related parties

TfL is required by the Code and IAS 24 Related Party Disclosures (IAS 24) to disclose material transactions with related parties. Related parties are entities or individuals who have the potential to control, indirectly control or significantly influence TfL or to be controlled, indirectly controlled or significantly influenced by TfL.

TfL is a statutory corporation established by section 154 of the GLA Act 1999. It is a functional body of the Greater London Authority and is controlled by the Mayor of London. TfL is classified as a government entity in accordance with IAS 24, as it is controlled by the GLA, through the Mayor. The GLA and its other functional bodies are considered to be related parties of TfL and its subsidiaries, as they are all under the control of the Mayor. Other related parties include TfL's Board Members, members of the TfL Executive Committee (including Managing Directors, the Commissioner, the Chief Finance Officer and General Counsel), the Mayor of London and the TfL Pension Fund. In addition, central Government has the potential to influence TfL by providing the statutory framework within which TfL operates and through the provision of funding in the form of grants and borrowing facilities.

Disclosure of related party transactions allows readers to assess the extent to which the Corporation might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with it.

GLA and functional bodies

Details of amounts received from the Business Rates Retention, and the Council Tax precept paid to TfL by the GLA are shown in note 10.

During 2019/20 TfL had the following other transactions with the GLA and functional bodies:

	Total income during the year £m	Total expenditure during the year £m	Outstanding balance at 31 March 2020 £m
GLA	6.1	(2.9)	0.7
Mayor's Office for Policing and Crime (MOPC)	0.1	-	-
London Legacy Development Corporation (LLDC)	0.5	-	-
London Fire Commissioner	-	-	-

43. Related parties (continued)

Board Members and Officers

Board Members, the Mayor of London, and key management (including the Commissioner and the TfL Executive Committee), are required to complete a declaration regarding any related party transactions. During the year, none of the Corporation Board, key management personnel or parties related to them have undertaken any material transactions with the Corporation or its subsidiaries (2018/19 none). Details of the remuneration of the Commissioner and all employees earning a base salary in excess of £150,000 are disclosed in the Remuneration Report (see note 5).

TfL Pension Fund

The Accounts of the TfL Pension Fund are prepared separately and are subject to a separate audit opinion. Contributions payable to the TfL Pension Fund by TfL as employer are disclosed in note 36.

Central Government

The DfT sets the permitted levels of borrowing for TfL through the spending review process. The most recent funding agreement was dated 27 March 2017 and covered permitted levels of borrowing for the period up to 31 March 2021. In addition to the borrowings set out in this agreement, the DfT made a grant of £150m towards the funding of the Crossrail project in July 2018. In December 2018 the Mayor of London and the Government agreed a further financial package to cover Crossrail overruns. The GLA will borrow up to £1.3bn from the DfT. The GLA will repay this loan from the existing Business Rate Supplement (BRS) and Mayoral Community Infrastructure Levy (MCIL). The GLA will also provide a £100m cash contribution, taking its total contribution to £1.4bn which it will provide as a grant to TfL for the Crossrail project.

Because the final costs of the Crossrail project are yet to be confirmed, a contingency arrangement was also agreed between TfL and the Government. This takes the form of a loan facility from the DfT of up to £750m.

Other public bodies

TfL provides financial assistance to London Boroughs to support Borough schemes that improve the local travelling environment. Financial assistance provided is disclosed in note 42.

TfL receives income from the London Boroughs for the provision of free travel for older and disabled customers, and students. This income is set out in note 1.

TfL has borrowings outstanding from the PWLB and pays interest to PWLB in respect of those borrowings.

TfL makes payments to the British Transport Police for the provision of policing services on the Underground and Overground railways.

TfL makes payments to the Metropolitan Police Service for policing services provided by the Safer Transport Command.

Transactions between the Corporation and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

44. Trust Funds

The Corporation acts as the sole trustee for the TfL Healthcare Trust, a trust established for the purpose of providing certain benefits relating to medical treatment for eligible employees of the Group and their family members. The Trust is administered by AXA PPP Healthcare Administration Services Limited, an independent third party. Under the terms of the Trust deed the funds held by the Trust do not represent the assets of the Corporation or its subsidiaries. Hence the Trust has not been consolidated into these financial statements.

	Income £m	Expenditure £m	Assets £m	Liabilities £m
At 31 March 2020				
TfL Healthcare Trust	**4.6**	**4.1**	**4.2**	**-**
At 31 March 2019				
TfL Healthcare Trust	4.9	3.9	3.1	(0.1)

45. Application of IFRS 16 Leases

As outlined in the Accounting Policies, on adoption of IFRS 16 on 1 April 2019, the Group and Corporation recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the TfL Group's incremental borrowing rate as of 1 April 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 2.43%. The corresponding right-of-use assets were recognised at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognised on the Balance Sheet immediately prior to the date of initial application.

For leases previously classified as finance leases the Group and Corporation recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. Any remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

Practical expedient applied

In applying IFRS 16 for the first time, the Group and Corporation have used the following exemptions available in the standard in respect of: lease contracts for which the lease terms ends within 12 months as of the date of initial application; lease contracts for which the underlying asset is of low value; the application of a single discount rate to a portfolio of leases with similar characteristics; exclusion of initial direct costs from the measurement of the right-of-use asset; and use of hindsight, for example, in determining the lease term where the contract contains options to extend or terminate the lease.

Measurement of total lease liabilities

	Group £m	Corporation £m
Operating lease commitments disclosed as at 31 March 2019	1,835.8	556.4
Less: rail access commitments no longer considered a lease under IFRS 16	(56.3)	-
Discounted using the TfL Group's incremental borrowing rate at the date of initial application	1,166.2	441.5
Effects of:		
Addition of other finance lease liabilities as at 31 March 2019	238.8	-
Less: finance lease liabilities adjustment from IFRS 16	(60.8)	-
Addition of contracts reassessed as lease contracts	663.0	5.7
Exemption for leases with less than 12 months of lease term at 1 April 2019	(0.3)	-
Right-of-use lease liability as at 1 April 2019	2,006.9	447.2

45. Application of IFRS 16 Leases (continued)

Measurement of right-of-use assets

Newly recognised right-of-use assets were measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognised on the Balance Sheet as at 31 March 2019.

Reconciliation of Summarised Group Balance Sheet as at 1 April 2019

	As previously reported £m	Application of IFRS 16 Leases £m	Restated £m
Assets			
Intangible assets	112.6	-	112.6
Property, plant and equipment	40,815.2	(227.2)	40,588.0
Right-of-use assets	-	1,985.9	1,985.9
Investment property	492.0	-	492.0
Equity accounted investment in associated undertakings	233.5	-	233.5
Derivative financial instruments	18.6	-	18.6
Finance lease receivables	52.2	-	52.2
Debtors	809.6	(14.6)	795.0
Inventories	61.0	-	61.0
Assets held for sale	122.4	-	122.4
Cash and short-term investments	1,881.7	-	1,881.7
	44,598.8	1,744.1	46,342.9
Liabilities			
Creditors	(2,228.7)	21.5	(2,207.2)
Current tax liability	(0.1)		(0.1)
Borrowings and overdrafts	(11,144.6)	-	(11,144.6)
Right-of-use lease liabilities	-	(2,006.9)	(2,006.9)
Other finance lease liabilities	(238.8)	238.8	-
PFI lease liabilities	(179.7)	-	(179.7)
Other long-term financing liabilities	(132.7)	-	(132.7)
Derivative financial instruments	(49.5)	-	(49.5)
Provisions	(400.5)	-	(400.5)
Retirement benefit obligation	(5,370.6)	-	(5,370.6)
	(19,745.2)	(1,746.6)	(21,491.8)
Net assets	24,853.6	(2.5)	24,851.1
Reserves			
Usable reserves	1,627.0	-	1,627.0
Unusable reserves	23,226.6	(2.5)	23,224.1
Total reserves	24,853.6	(2.5)	24,851.1

45. Application of IFRS 16 Leases (continued)

Reconciliation of Summarised Corporation Balance Sheet as at 1 April 2019

	As previously reported £m	Application of IFRS 16 Leases £m	Restated £m
Assets			
Intangible assets	78.3	-	78.3
Property, plant and equipment	4,047.6	-	4,047.6
Right-of-use assets	-	433.0	433.0
Investment property	6.8	-	6.8
Investments in subsidiaries	10,322.5	-	10,322.5
Debtors	11,134.3	(7.3)	11,127.0
Assets held for sale	23.4	-	23.4
Cash and short-term investments	1,707.6	-	1,707.6
	27,320.5	425.7	27,746.2
Liabilities			
Creditors	(554.4)	21.5	(532.9)
Borrowings and overdrafts	(11,150.4)	-	(11,150.4)
Right-of-use lease liabilities	-	(447.2)	(447.2)
Other finance lease liabilities	-	-	-
PFI lease liabilities	(131.3)	-	(131.3)
Provisions	(149.2)	-	(149.2)
Retirement benefit obligation	(5,340.7)	-	(5,340.7)
	(17,326.0)	(425.7)	(17,751.7)
Net assets	9,994.5	-	9,994.5
Reserves			
Usable reserves	1,627.0	-	1,627.0
Unusable reserves	8,367.5	-	8,367.5
Total reserves	9,994.5	-	9,994.5

Lessor accounting

Neither the Group nor the Corporation needed to make any adjustments to the accounting for assets held as lessor under finance leases (see note 13) or operating leases (see note 34) as a result of adoption of IFRS 16.

46. Events after the balance sheet date

The impact of the coronavirus pandemic on the Group's operations is discussed in the Narrative Report and Financial Review.

As at 31 March 2020, the lockdown had started in the UK and TfL had begun to experience a significant reduction in its weekly revenues. As outlined in the going concern section of the Accounting Policies note to these financial statements, we have modelled the severe, but possible, downside scenario for coronavirus and the steps being undertaken to address the risks contained therein. We have agreed an Extraordinary Funding and Financing package with the Secretary of State to ensure we are able to meet any funding shortfall necessary to allow us to continue providing services.

We have considered the impact of the pandemic and the changes in public transport advice on the values at which income, assets and liabilities have been recorded in these accounts. We do not consider that there has been any post-balance sheet event that would require a further adjustment being made to the carrying values at 31 March 2020 as reported in these financial statements. As at the date of signing of the accounts, TfL continues to provide a near-full level of service.

We will continue to work closely with the DfT and the Mayor of London to determine what further sources of funding will be made available to progress our capital investment programme. We will make decisions regarding the future of assets under construction at the balance sheet date as and when Government priorities in relation to future Transport investment, and the quantum of likely future funds, become clearer. We consider any possible future impairments of the carrying value of existing assets or assets under construction to be non-adjusting post balance sheet events for the purposes of these financial statements.

Audit and Assurance Committee

Date: **8 June 2020**

Item: **EY Report to Those Charged with Governance**

This paper will be considered in public

1 Summary

1.1 To report to the Audit and Assurance Committee the key risks addressed and the status of the audit work performed to date by Ernst & Young (EY) during the course of their audit of the Statement of Accounts for the Transport for London Group for the year ended 31 March 2020.

2 Recommendation

2.1 **The Committee is asked to note the report.**

3 Background

3.1 EY have, as required by International Auditing Standards, prepared a report for the benefit of those charged with governance. The report outlines the respective responsibilities of the auditor and TfL, and provides an overview of the status of the audit and accounting policy changes. The report also comments on judgemental areas within the accounts. EY's report is attached for the Committee's review.

List of appendices to this report:

Appendix 1: EY's Report to Those Charged with Governance

List of Background Papers:

None

Contact: Antony King, Group Finance Director
Statutory Chief Finance Officer
Number: 020 7126 2880
Email: AntonyKing@TfL.gov.uk

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Transport for London
Audit status update

Year ended 31 March 2020

3 June 2020

Building a better working world

Private and Confidential

3 June 2020

Transport for London
Palestra
197 Blackfriars Road
UK SW1H 0BD

Dear Members of the Audit and Assurance Committee,

Audit status update

The implications of COVID-19 for Transport for London Group (TfL Group) are extensive and the company's response efforts are rightly the focus of management at this difficult time. However, supported by management we have made substantial progress in the year end audit, which we report to the Members of the Audit and Assurance Committee in the attached report.

Key procedures remain outstanding including in significant risk areas, the impact of funding packages and our work on the Annual Report. This report therefore provides an update on key risks, including changes arising from the impact of COVID-19 and the status of our work in respect of our areas of audit focus

This report is intended solely for the information and use of the Audit and Assurance Committee and management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 8 June 2020.

Yours faithfully,

Karl Havers

Partner

For and on behalf of Ernst & Young LLP

Contents

The contents of this report are subject to the terms and conditions of our appointment as set out in our TTL engagement letter of 06/03/2018.

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies”. It is available from the via the PSAA website (www.PSAA.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment (updated February 2017)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Assurance Committee and management of TfL in accordance with our engagement letter. Our work has been undertaken so that we might state to the Audit and Assurance Committee and management of TfL those matters we are required to state to them in this 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 Audit and Assurance Committee and management of TfL for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of the TfL Group. This report sets out the status of our work in each of those areas. Given that there remain a large number of areas remain incomplete, we cannot conclude at this stage. We will provide our Results Report when we have completed our testing and will report our summary of audit differences at that point.

Following the COVID-19 outbreak, we have reviewed its impact on our original Audit Plan, particularly in respect of our audit risk assessment, group oversight and remote audit, materiality and scope.

Status of the audit

Our audit work in respect of the group opinion is still in progress. The following key matters relating to the completion of our audit procedures were outstanding at the date of this report (this is not a comprehensive list of outstanding items):

- Pensions – EY review of actuarial reports and RSM's audit report of investment fund/asset values and membership data;
- Fares revenue – KPMG's ISAE3402 and Agreed Upon Procedures report over contactless ticketing and Oyster pay as you go;
- Assessment of impairment of assets;
- Valuation of investment property;
- PFI Silvertown;
- IFRS 16;
- Going concern and assessment of funding;
- Completion of the technical review of the financial statements;
- Post balance sheet events up to the date of approval of the financial statements; and
- Receipt of signed letter of representation.

Until the above procedures are completed, we cannot reach our overall conclusion.

Executive Summary

Value for money

Due to the current unprecedented times, we are in the process of obtaining information to form our conclusion on value for money.

Our work is ongoing in the two key areas of significant risks identified in our audit plan:

- Informed decision making – Despite sound governance arrangements around budgeting and the financial planning for TfL as a whole, the governance arrangements relating to Crossrail's delivery of the Elizabeth Line is still an area of significant scrutiny in our 2019/20 audit.
- Sustainable resource deployment –We understand that several factors like reductions in external funding and delay of Elizabeth line, have increased pressures on TfL's operations. We had also noted weaknesses in TfL's procurement processes in the prior year, which carried into this year. Therefore, our conclusions for this significant risk will focus on these key areas.

Whole of government accounts

- We have not yet initiated our audit for Whole of Government (WGA) requirements. We will commence our work on the WGA following approval of the financial statements in order to meet the deadline of 4 December 2020.

Audit Certificate

- The audit certificate is issued to demonstrate that the full requirements of the National Audit Office's 2015 Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate once the work on Whole of Government Accounts is complete.

Independence

Overall, we consider that the safeguards adopted appropriately mitigate the principal threats identified on main audit areas, i.e. grant claims and debt issuance, we therefore confirm that EY is independent and the objectivity and independence of Karl Havers, your audit engagement partner and the audit engagement team have not been compromised.

Please refer to separate report, note we will include our final independence confirmation in our final Audit Results Report.

02 Areas of Audit Focus

Significant risk and key audit matter

Impact of COVID-19

What is the risk?

We have reviewed our risk assessment from planning in light of COVID-19 and its potential impact on TfL and have identified various areas within the Group impacted. We have assessed the impact of COVID-19 on our materiality thresholds used, we deem our thresholds to be appropriate.

We will continue monitoring this as the situation evolves, through our execution of our planned procedures and will continue to monitor this through our post balance sheet events procedures.

What judgements are we focused on?

We have assessed the impact of COVID-19 on the annual financial statements. Judgements impacted by COVID-19 relate to the assessment of impairment of assets, recoverability of debtors, refund of tickets and pension valuation. Other areas identified include going concern and disclosures in the annual accounts.

Procedures

Based on this and other management inquiries, we are in progress to complete the additional procedures to address the risks identified as impacting TfL as a result of Covied-19:

- Investment properties – impact on valuation;
- Impairment of assets and capital projects;
- Debtors – recoverability;
- IFRS16 - impact on credit rating/discount rates and lease liabilities at year-end;
- Provisions – any new provisions as a result of COVID-19;
- Accruals for sick pay/holiday pay;
- Pensions valuation – issues faced as a of result current market conditions and discount rates;
- Revenue – refund for of tickets due to travel restrictions;
- Funding risk – the risk associated with the impact on a project's cash flow and review of Emergency budget.

We have commenced our procedures on management's draft paper and emergency budget/forecast outlining the potential accounting implications of the COVID-19 impact.

Group oversight and remote audit

As a result of COVID-19, all non-essential travel is currently prohibited. As such, we have utilised our technology to perform the reviews of working papers remotely which combined with regular video/conference calls will provide sufficient oversight for the group audit. We planned to utilise our technology to enable us to work remotely when performing the underlying audit work, including information sharing and addressing audit queries. We held regular status calls between EY and management throughout the audit.

What are our conclusions?

We cannot conclude on the impact of COVID-19 on the various areas within the annual financial statements as our work is not complete.

Significant risk and key audit matter (continued)

Management override of controls, required by ISA (UK and Ireland) 240

What is the risk?

Management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every engagement under ISA (UK & Ireland) 240.

What judgements are we focused on?

As part of our risk assessment we consider the current objectives of TfL and areas where there might be judgement with potential for bias to present a particular result, such as reduced operating expenditure.

During the prior year, weaknesses were identified by management and internal audit in procurement controls, management has been implementing of action plans to address these weaknesses during 2019/20.

What did we do?

For both TfL, TTL groups and subsidiaries, we have:

- Robustly challenged management's assumptions on capitalising expenditure;
- Critically reviewed fares revenue;
- Applied professional scepticism by questioning whether management's explanations are logical, reasonable and in line with relevant historic trends supported by sufficient appropriate evidence;
- Reviewed the business rationale for unusual transactions;
- Tested significant transactions that are outside the normal course of business or that appear unusual;
- Performed journal entries testing with specific focus on journals related to cost capitalised indicative of management override (posted by members of management, with blank or unusual descriptions, etc.) with specific focus on top side journals;
- Considered the effectiveness of management's controls designed to address the risk of fraud; and
- Understood the oversight given by those charged with governance of management's processes over fraud;
- Tested procurement transactions pre and post action plan implementation to identify any material override of controls.

What are our conclusions?

With regards to the procedures performed, we have obtained sufficient audit evidence regarding any business rationale for unusual transactions, any assumptions for the capitalisation of expenditure, and for judgements and assumptions for significant estimates.

During the prior year weaknesses in procurement process controls were identified by management and internal audit. Management has an action plan in place which was partially implemented during 2019/20. We have completed additional testing and did not identify any material fraud. Our recommendations on finding results will be shared at a later stage in our Management Letter when the procedures have been finalised.

Significant risk and key audit matter (continued)

Inappropriate Revenue recognition, required by ISA (UK & Ireland) 240

What is the risk?

TfL needs to have robust controls in place to forecast and accurately recognise and report revenue in its financial statements.

The significant risk only relates to the fares revenue stream. This is due to the complexity and judgements involved in the process to apportion the fares revenue recognised.

In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have not identified any specific risk areas in relation to expenditure.

What judgements are we focused on?

Judgements and controls need to be effective to appropriately recognise revenue, these include:

- Fares revenue is recognised on a real time basis at the time of actual usage;
- Collection of payments made from sales via various sales outlet; and
- Calculation and recording of the revenue and deferred revenue based on maturity of the product for fares revenue.

What did we do?

For Fares Revenue, we have:

- Gained an understanding of the revenue process for fares revenue;
- Performed controls testing over the effectiveness of the cash collection process and sales made at various sales outlets;
- Performed testing to ensure that the Receipts in Advance “RIA” and JFT Debtor balance is correctly stated;
- Tested the appropriateness of assumptions used by management on the oyster write-back policy adopted;
- Recalculated the ageing for a sample of dormant oyster card balances to ensure accuracy
- Tested transactions separately where we are not able to place reliance on the controls in place or where procedures above are not be sufficient;
- Tested the fares compensation arrangements with the TOCs resulting from the fares cap introduced in Jan 2015. We further reviewed all settlement differences identified during the year and related communications with TOCs.
- Reviewed the ISAE 3402 controls report and the agreed upon procedures report.

What are our conclusions?

We noted that revenue for the group has been severely impacted by COVID-19. This will have an impact on funding and going concern.

Our planned procedures in relation to this risk are complete, with the exception of the review of KPMG’s ISAE3402 report and additional follow up work that may be required. This is still in progress, once received we will need to assess the impact of findings and/or exceptions on our work performed.

We are in progress of assessing the provision that has been recognised for ticket refunds as a result of COVID-19 and will report our conclusions when complete.

Significant risk and key audit matter (continued)

Inappropriate capitalisation or potential impairment of capital projects including capital accruals

What is the risk?

TfL, TTL groups and subsidiaries undertake multiple capital projects at any one time, which vary in size, complexity and length of time to complete. In the 2019/20 financial year, TfL's capital expenditure is budgeted to be £4.0 billion.

There is a risk of improper capitalisation of cost (through improper calculation of the accruals or improper split between capital and operating expenditure). In addition there is a risk of potential impairment of projects as a result of funding constraints.

What judgements are we focused on?

Judgements and controls need to be effective, to appropriately recognise the costs from these significant projects including:

- Appropriate split of costs between capital and operating expenditure;
- Assessment of the economic useful lives of the asset where costs are capitalised; and
- Whether to recognise impairments and write-offs for assets to reflect increased risks of projects being terminated or suspended.

What did we do?

For TfL, TTL groups and subsidiaries we have:

- Reviewed 14 major capital projects (including Crossrail), based on quantitative and qualitative thresholds;
- Gained an understanding of key controls and governance surrounding capital project accounting and management;
- Met with management and project managers during the year and attended management's P11 and P13 accruals meetings;
- Evaluated management's judgements and assumptions used in determining the future benefits expected from the projects and ensured they are appropriate and supportable;
- We have considered pain/gain arrangements and related accounting treatment and assessed whether or not capitalisation of costs is appropriate;
- Performed detailed testing on a sample of expenditure incurred and capital accruals to source documentation;
- For projects involving third party assets, such as roads, cycle highways and track access, we have understood the contractual terms surrounding the projects and assessed whether the criteria for recognising a capital asset have been met by TfL; and
- For material projects in progress at the year end, we have tested whether the completion of the projects are included in the latest business plan and whether there is available funding to complete the expenditure. Where management has assessed this is not the case, we have tested the completeness of removal of project costs from the balance sheet and write off in the income statement.

What are our conclusions?

From a Group perspective the largest in progress capital project is Crossrail which has faced significant overruns. We are still in the process of finalising the audit of Crossrail as a subsidiary of TfL. The completion of contracts over 2019/20 and later, is likely to result in further claims from contractors and subcontractors, to meet the opening date. This does give rise to the risk of additional costs and pressures on funding for TfL as an organisation which will require careful management.

At the balance sheet date, TfL also has a number of other significant capital projects at various stages of completion. COVID-19 has had a severe impact on the progress and future funding of capital projects. We are still awaiting management's assessment of impairment, including the potential for capital projects to be aborted.

We are awaiting management's further assessment of potential impairments on capital projects based on the revised funding agreement. We will seek confirmation in the letter of representation as at 31 March 2020.

We are currently in progress of assessing the final carrying value of capital and will report our final conclusions when our procedures are complete.

Areas of Audit Focus

Significant risk and key audit matter (continued)

Further details on procedures/work performed

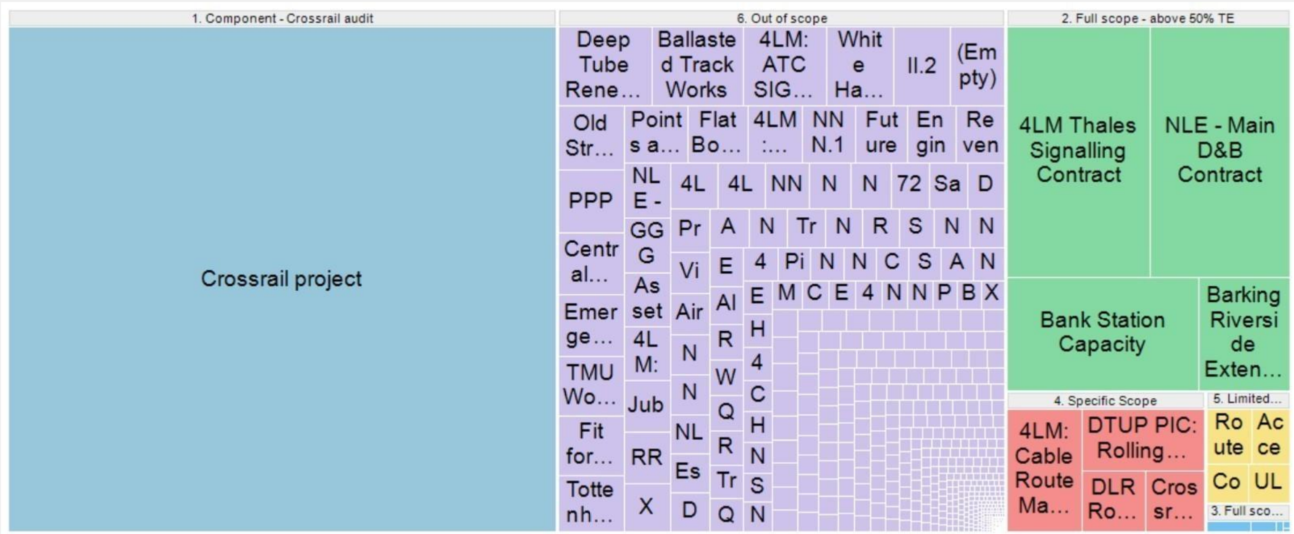
Capitalised expenditure incurred in the year

As set out in our Audit Plan, we have tested a sample of capital projects which has been selected based on quantitative and qualitative factors. The project sample selection process included stratifying the contracts between Full, Specific, Limited and Close-out scope based on certain risk factors including target disputes, claims and percentage completion.

Procedures performed included:

- For all contracts identified as full scope projects, we obtained a detailed contract questionnaire and challenged management's assumptions, agreed spend in the year to the latest contractor certificates and considered the reasonableness of the forecast costs to complete. In addition, we also held face-to-face contract meetings with the project management teams and site visits.
- For all contracts identified as specific scope projects, the aforementioned procedures have also been carried out with the exception of a site visit.
- For all limited and close out scope contracts, we obtained a detailed contract questionnaire and challenged management's assumptions. We agreed spend in the year to the latest contractor certificates and considered the reasonableness of the forecast costs to complete. We put particular focus on the disputes and claims to ensure the appropriate accounting of these.

As part of our audit procedures, we performed detailed contract testing covering 64% of the capitalised expenditure incurred during the year. The diagram below shows a box for each active project in the year with the size of the box corresponding to the value of the capitalised spend during in year. The contracts selected for testing during the year are categorised below into their designated scoping.



Significant risk and key audit matter (continued)

Complexity of accounting for TfL and TTL property portfolios

What is the risk?

TfL and TTL groups have extensive property portfolios, with a total book value for investment properties (including assets held for sale) of £1.5 billion as at 31 March 2020. Included within the portfolios are office buildings and investment properties.

The unique and material nature of TfL and TTL group's property portfolios means that small changes in assumptions when valuing these assets can have a material impact on the financial statements.

TfL will need to comply with the Mayor's affordable housing programme. The Mayor has committed to prioritising affordable home delivery on surplus or under utilised owned by the GLA Group, including TfL. This might have a negative impact on the valuation of TfL's property portfolio.

Also, in current year fair value assessment of property portfolio could be challenging due to less certainty with regards to the valuation and rapid changes in market values in the current market conditions as a result of Covid-19.

What judgements are we focused on?

Judgements and controls need to be effective, to appropriately recognise the carrying value of assets including:

- Identifying and relying on significant assumptions used by external valuers;
- Reviewing and understanding methodology used to assess the property valuation; and
- Reviewing the observable market data for the properties portfolio selected for valuation by external valuers.

What did we do?

For TfL, TTL groups and subsidiaries, we have:

- Discussed with management and reviewed evidence to gain understanding of TfL and TTL group's property portfolios;
- We met with TfL's external valuers and discussed the methodology and valuation assumptions used;
- We re-visited impact of Covid-19 on valuation since March 2020;
- Performed substantive testing and corroborated explanations for property additions, disposals and accounting for lease contracts;
- Assessed the classification of TfL and TTL property portfolios, the valuation basis and any material increases or impairments that arise during 2019/20;
- Assessed the work of TfL's property valuers. We have used our EY property valuation team, as appropriate, to benchmark assumptions and test whether the valuations are within an acceptable range based on comparative market data for rental yields.
- We tested property additions, disposals and accounting treatment of leases to supporting documentation;
- Considered classification of assets between investment properties, property, plant and equipment and assets held for sales in accordance with IFRS; and
- Review infrastructure and office buildings, PFI accounting models and appropriateness of accounting and disclosures.

What are our conclusions?

We have not yet received all supporting information to enable us to assess the carrying value of properties from TfL's valuers CBRE. We are therefore unable to conclude on the related balances, at this stage.

We understand that the valuers are likely to qualify their valuation on the basis of uncertainty. This will need to be reflected in our audit reporting.

During the year additional properties were classified as investment properties for the first time due to the different way they are to be managed. Depending on what the valuers confirm this matter may also need to be reported upon.

Finally we are awaiting a reassessment of the Earl's Court valuation given the substantial changes between the latest value (December) and the year end.

Significant risk and key audit matter (continued)

Crossrail Funding

What is the risk?

The Crossrail project continues to be complex and as it reaches its conclusion, there will be the finalisation of related costs and contractual matters. These matters will not be completed at the year end and therefore judgement is required in assessing the appropriate value of obligations, where negotiations are in progress.

As reported in early November, the current estimate of costs for Crossrail have increased, there is a further delay in planned opening schedule and funding sources are uncertain. As a result it is not certain what amount TFL will have to fund itself. The consequences of that may be that proposed or current projects may need to be altered (with consequential impairment of assets), or the use of investment property or other assets may need to change to provide funding. All of which could impact the income statement and balance sheets of the Group.

There is uncertainty with regards to the going concern assumption for Crossrail and TfL, should the funding requirements continue to increase.

What did we do?

For TfL, TTL group and subsidiaries, we have:

- Discussed and reviewed the business plan prepared by the management;
- Determined an appropriate strategy to address those identified risks;
- Reviewed the latest forecast outcome;
- Reviewed management's assessment of funding requirements and commitments, including performing sensitivity analysis on key assumptions;
- Tested the impact of any amounts to be funded by TfL on the overall position of TfL including whether there is any impact on other in progress projects.
- Evaluated management's judgements and assumptions used in determining the future benefits expected from the projects and ensuring they are appropriate and supportable;
- Obtained the Financing statement from Department of Transport "DfT" to agree the funding arrangement; and

What do we need to do?

As part of Crossrail audit, we still need to complete the following procedures:

- Review the forecasted Anticipated Final Cost "AFC" in order to meet the Earliest Opening Programme "EOP" for reasonableness;
- Perform sensitivity analysis on the required funding;
- We perform an analysis between the AFC and the budget which has been secured / made available to Crossrail;
- Gain an understanding of the latest agreements on sources of funding for Crossrail, including amounts included in the TfL business plan and agreed funding from DfT; and
- Review the forecasted Anticipated Final Cost "AFC" in order to meet the Earliest Opening Programme "EOP" for reasonableness;

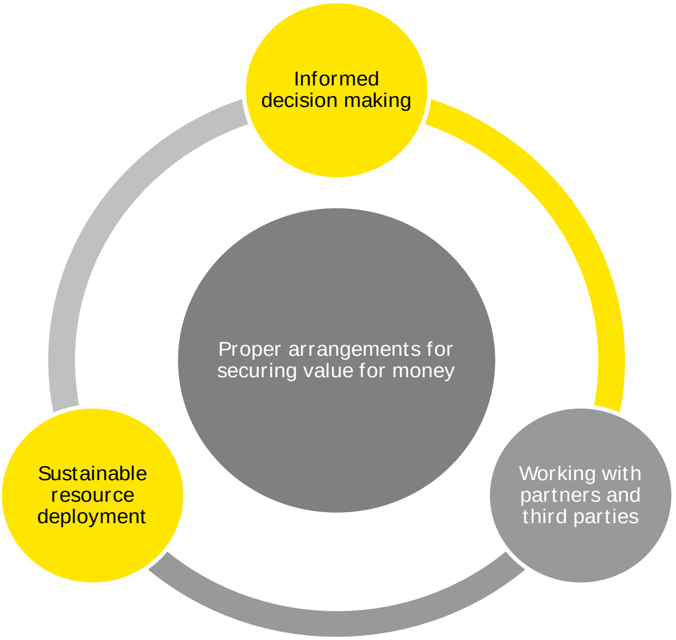
What are our conclusions?

We still have procedures to complete to conclude on Crossrail's going concern and the impact of the EOP on the business plan. Further we will need to review the updated funding arrangements to consider whether there are any further consequences for the financial statements at the year end.

It is possible that sufficient uncertainty over future income and capex funding will require reference in our audit report as an emphasis of matter.

03 Value for Money Risks

Value for Money



Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

As our work on Value for Money is still underway, we are unable to conclude as at the point of preparing this board report. Our significant risks for Value for Money have been extended to cover the risk arising from COVID-19 in terms of the significant financial impact and the ability of the corporation to agree a budget that can be funded by DfT, both for operational expenditure and capital expenditure. We will report further on this in our final report.

Value for Money Risks

What is the significant value for money risk?	What we will do?
Sustainable resource deployment – Significant audit risk TfL has significant financial risks in its business plan to 2024/25 as a result of: ➢ continuing reductions in external funding from government ➢ the commitments relating to the launch of the Elizabeth line and lost revenue arising from the delayed opening date ➢ significant cumulative cost reductions planned to be delivered over the course of the next five years to 2024/25.	Our work is ongoing in this area as there have been several developments in light of the current situation and the subsequent financial pressures. We plan to communicate our findings in line with the plan below: TfL's operations and ongoing investment programmes are subject to a number of risks, particularly the exposure to economic risks associated with revenue reductions, and financial markets disruption impacting on TfL's ability to borrow. We will: • Assess the achievement of the 2019/20 budget and the adequacy of the 2020/21 budget setting process; • Consider the assumptions, scenarios, options and risks TfL is facing and how these are being managed; and • Review and understand TfL's medium to longer term financial planning and how this is reflected in the 2024/25 business plan to be published in December 2019. We will assess the savings plans in place, and the likelihood of whether these plans can provide the group with the required savings/efficiencies over the medium term. Other areas of audit focus include the following: • Understanding the organisation changes that are underway and how these changes will strengthen TfL's decision making arrangements whilst being mindful of interactions with employees and the impact of disputes such as strike actions on management plans; • How the finance function supports management with clear, summarised and insightful financial and performance information for decision making; • How TfL exercises governance and oversight over key project areas, significant contracts and procurement; • Assess progress made on Crossrail against planned execution and evaluating the impact thereof on funding requirements; • Assess the impact of additional costs capitalised on Crossrail and potential impairment thereof; and • How TfL plans for and consider addressing the financial and legal risks it is exposed to on capital projects.
Informed decision making – Significant audit risk Despite sound governance arrangements around budgeting and the financial planning for TfL as a whole, the governance arrangements relating Crossrail's delivery of the Elizabeth Line was an area of significant scrutiny in 2018/19.	In 2018/19, an independent report for TfL and Department for Transport by KPMG on finance and commercial, and governance aspects of Crossrail, as well as an independent review by the National Audit Office both identified issues relating to decision making relating to increased costs and impacting the plan for completion of Crossrail as a whole. The programme reporting had been significantly overstating progress and significantly underestimated the impact of each element on other aspects, most notably the system testing. We note that significant effort has been undertaken to reassess actual progress of the programme, forecast spending and opening dates for the line and that during 2018/19 a new management team was appointed and a revised completion schedule drawn up. As such we will assess the governance arrangements in place during 2019/20 to consider whether the issues raised have been addressed for the 2019/20 year.

Other matters to bring to your attention

Other matters impacting Value for Money considerations
Procurement process In the prior year, a series of weaknesses were identified by management and internal audit in respect of certain procurement processes which were also supported by the work carried out by our team. A number of these issues continued into the current year. During 2019/20, an action plan was drawn up to address these matters, however we are in the process of testing the extent of implementation of these safeguards. We will provide a further update upon conclusion of our testing.

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
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