MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Supplementary Agenda

Meeting: Audit and Assurance Committee

Date: Monday 7 June 2021

Time: 10.00am

Place: Teams Virtual Meeting

As provided for under section 100B(4)(b) of the Local Government Act 1972, the Chair is of the opinion that these items should be considered as a matter of urgency. The reason for urgency is that Members need to approve the EY Report to Those Charged with Governance and the TfL Statement of Accounts for the Year Ended 31 March 2021 for publication in advance of inclusion in the 2020/21 Annual Report and Accounts to be approved at the Board meeting on 28 July 2021.

How decisions will be taken during the current social distancing measures

The 2020 regulations that provided the flexibility to hold and take decisions by meetings held using videoconference expired on 6 May 2021.

While social distancing measures remain in place to manage the coronavirus pandemic, Members will attend a videoconference briefing held in lieu of a meeting of the Committee. Any decisions that need to be taken within the remit of the Committee will be discussed at the briefing and, in consultation with the available Members, will be taken by the Chair using Chair's Action. A note of the decisions taken, including the key issues discussed, will be published on tfl.gov.uk.

As far as possible, TfL will run the briefing as if it were a meeting but without physical attendance at a specified venue by Members, staff, the public or press.

- Papers will be published in advance on tfl.gov.uk How We Are Governed
- Apart from any discussion of exempt information, the briefing will be webcast live for the public and press on TfL YouTube channel.

A guide for the press and public on attending and reporting meetings of local government bodies, including the use of film, photography, social media and other means is available on www.london.gov.uk/sites/default/files/Openness-in-Meetings.pdf

Supplementary Agenda
Audit and Assurance Committee
Monday 7 June 2021

6 Ernst & Young Report to Those Charged with Governance

(Pages 1 - 38)

Chief Finance Officer

The Committee is asked to note the report and note the omissions from the 2019/20 Independent Auditor's Report to Transport for London as disclosed in the report, and confirm it is satisfied that the omissions outlined did not materially impact on the conclusions of the audit opinion or on the information already publicly available in respect of the audit, and therefore there is no requirement for the 2019/20 Auditor's Report to be re-issued.

13 TfL Statement of Accounts for the Year Ended 31 March 2021

(Pages 39 - 288)

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 on-going audit work prior to submission to the Board.

Audit and Assurance Committee

Date: **7 June 2021**

Item: **Ernst & Young 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 LLP (EY) during the course of their audit of the Statement of Accounts for the Transport for London Group for the year ended 31 March 2021.

2 Recommendations

2.1 **The Committee is asked to:**

(a) note the report; and

(b) note the omissions from the 2019/20 Independent Auditor's Report to Transport for London as disclosed in the report, and confirm it is satisfied that the omissions outlined did not materially impact on the conclusions of the audit opinion or on the information already publicly available in respect of the audit, and that as a there is no requirement for the 2019/20 Auditor's Report to be re-issued.

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 TfLand 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 Audit and Assurance Committee's review.

3.2 The report notes that the Independent Auditor's Report for 2019/20 omitted certain narrative relating the terms of their appointment and independence, and in relation to their procedures in respect of fraud. The audit testing was completed and this information was available in disclosures elsewhere in the Group's accounts and within EY's publicly available reports to the Committee. Due to the passage of time, the proximity of the 2021 audit opinion being issued, and the nature of the omission, it is not considered necessary to re-issue the 2019/20 financial statements and Auditor's Report as a result of the omissions.

List of appendices to this report:

Appendix 1: EY's Report to Those Charged with Governance

List of Background Papers:

None

Contact: Patrick Doig, Statutory Chief Finance Officer
Email: PatrickDoig@TfL.gov.uk

Appendix 1

Transport for London
Audit results report

Year ending 31 March 2021

7 June 2021

Building a better working world

Private and Confidential

28 May 2021

Transport for London
Palestra
197 Blackfriars Road
UK SW1H 0BD

Dear Members of the Audit and Assurance Committee,

2020/21 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit & Assurance Committee. We will update the Audit & Assurance Committee at its meeting scheduled for 07 June 2021 on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2021 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on TfL Group accounting policies and judgments and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

The TfL Group and Corporation audits form part of our framework contract with Public Sector Audit Appointments Limited. We have undertaken our work in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice, auditing standards and other professional requirements.

We are also the auditors of TfL's subsidiaries, Transport Trading Limited Group (TTL Group) and Crossrail Limited. TfL's subsidiaries are subject to the accounting requirements of the Companies Act 2006. We have undertaken our work in accordance with the requirements of UK auditing standards.

This report is intended solely for the information and use of the Audit & Assurance Committee, Board of Directors and management. It is not intended to be and should not be used by anyone other than these specified parties.

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

Financial statements opinion

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 our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

The COVID-19 pandemic has continued to significantly impact the Group's operations and financial performance. Due to national lockdown and travel restrictions, the Group has seen a significant reduction in passenger numbers, with an overall decline in fares revenue of 66% for the 2020/21 financial year. The delay in the opening of the Elizabeth line has further negatively impacted the Group's overall forecasted financial performance. The Group was faced with the challenge of maintaining service delivery, whilst observing the necessary social distancing measures ensuring safety for all users of the network. This has resulted in a continued high level of relatively fixed operational costs, combined with a significant reduction in fares and other income. The initial emergency funding package of £1.6bn received from Government for the period to 17 October 2020 was extended until 31 March 2021 with additional £1.8bn of funding agreed. In March 2021, the funding deal was further extended until 28 May 2021 with an additional funding of £260m agreed. We understand that a further agreement is in the process of being agreed with further conditions attached, however the agreement is not expected to provide funding for the full 2021/22 financial year.

The current situation has given rise to the following audit considerations:

- The availability of future funding and its impact on TfL's ability to continue to operate the current level of services, including the planned capital programme post the agreed funding period and the related assessment of going concern.
- Considerations of whether any assets in the course of construction or existing in use assets are impaired due to potential for reduced capital funding or changes to operational services.
- We have set out in the rest of the report the detail behind our conclusions which have resulted in our opinion including:
- A material uncertainty in respect of the availability of funding to enable TfL to continue to operate the current level of services, including the planned capital programme post the agreed funding period, and the potential for impairment of assets in the course of construction or tangible fixed assets.

Value for money

Based on the work we performed, we have concluded that there are arrangements in place to secure economy, efficiency and effectiveness, except in relation to two areas:

- The uncertainty with regards to a long-term funding agreement and impact thereof on planning and resource management to maintain service delivery; and
- A series of weaknesses identified by management and internal audit in respect of procurement processes and impact thereof on use of information about cost to improve the way services are managed and delivered. An action plan was put in place to address the weaknesses identified, however it was not effective for the full financial year due to the impact of COVID-19 resulting in the need to prioritise exceptional protocols during the pandemic, rather than business as usual changes from the existing action plan.

Executive Summary

Going concern and the availability of funding to deliver current operational and capital plans

The Government has stated in the Extraordinary Funding and Financing Agreement dated 14 May 2020, that the Group provides essential transport services within London, fully contributes to the Government restart programme and that the Government is committed to supporting the Group in the delivery of its efficiencies programme and commercial development income. The Government also recognises that the current circumstances are likely to present ongoing financial challenges and uncertainty for the Group and that it will be important for the Group to maintain essential services In addition the Government has also stated in the Extraordinary Funding and Financing Agreement dated 14 May 2020, that Crossrail remains a vital project for both London and the UK. The Extraordinary Funding and Financing Agreement was extended until 28 May 2021. As outlined in the Agreement, TfL has produced a comprehensive plan with options on how they can achieve financial sustainability by 2023/24. We understand that there is a further extension of short term funding and negotiations will continue with the Government with the objective of agreeing a longer-term funding agreement.

We have also considered the guidance within Practice Note 10: Audit of financial statements of public sector bodies, which sets out that a public sector entity is presumed to be a going concern, unless there is a clearly expressed Parliamentary intention to discontinue the provision of services which the entity provides.

However, depending on the results of the current discussions on the funding agreement, we expect that there will be a material uncertainty surrounding the funding of the Group and therefore its ability to continue to operate the current level of services, including the planned capital programme post the agreed funding period.

At 31 March 2021, the Group had capital projects in the course of construction totalling £20bn , of this £14.7bn relates to Crossrail and £1.4bn relates to 4 Lines Modernisation. The remaining balance relates to a range of projects across the network at varying stages of completion.

As a result of current discussions, the Board believes that the current level of services and all capital projects should be funded. However, until the review is complete and the balanced budget agreed, there is a material uncertainty as to whether:

- Any of the projects, included in assets in the course of construction at 31 March 2021, could not be funded to completion and the extent of any changes required to the Crossrail project as a result of revised funding that could lead to some non essential elements of the completion plan not being funded.
- The funding available may mean that the level of services able to be operated may have to change, resulting in some assets in use no longer having the useful economic life assumed in these financial statements.

As such we have noted there is material uncertainty surrounding the funding of the Group and therefore its ability to continue to operate the current level of services, including the planned capital programme post the agreed funding period, however we agree that it is reasonable to prepare TfL's financial statements on a going concern basis. This work will need to be completed as management complete their review of the conditions associated with funding. See page 12.

No adjustments have been made in the financial statements to the carrying value of assets in the course of construction or tangible fixed assets should the funding not be forthcoming.

Our opinion is not modified in respect of this matter, but does include narrative to draw attention to the related disclosures in the financial statements.

Executive Summary

Value for money considerations with regards to going concern and the availability of funding to deliver current operational and capital plans

In terms of the new Code of Audit Practice (the 2020 Code) and associated Auditor Guidance Notes (AGN) we are required to report on significant weaknesses in a body's arrangements identified during the course of the audit. During the execution of our interim audit fieldwork for the financial year ended 31 March 2021 we identified a significant weakness as defined by AGN03 with regards to the financial sustainability of TfL, given there is no long term funding arrangement currently in place.

As such we have formally communicated on the weakness identified to the Audit and Assurance Committee. Please refer to Appendix A for a copy of the letter.

Audit differences

During our audit work, we identified certain judgemental misstatements, there remain certain unadjusted items recorded in our summary of audit differences. The overall impact is a debit of £8m to total comprehensive income, debit of £86m to non current assets, credit of £32m to non-current liabilities and a credit of £56m on brought forward reserves.

There are no amounts that we identified that are individually or in aggregate material to the other comprehensive income reported in the year. The impact on non current assets and non current liabilities is above our planning materiality which is based on in-year expenditure. However the amounts are <1% of the total for non current assets and liabilities respectively.

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.

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 that have been 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.

We reported separately on our independence to the Audit & Assurance Committee on 7 June 2021, there has been no change to our independence since that date.

Executive Summary

Prior year omissions in FY20 audit opinion

When reviewing our audit opinion , we identified that the FY20 audit opinion omitted certain narrative relating to our procedures in fraud, the terms of our appointment and independence. The audit testing was completed. This information was available in disclosures elsewhere in the Group's accounts and within our publicly available reports to the Audit & Assurance Committee. We have discussed this matter with you, considering the passage of time, the proximity of the 2021 audit opinion being issues and the nature of the omission that the Group has concluded not to reissue the 2020 financial statements. We concur with this decision.

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;
- Valuation of investment property;
- Assessment of going concern and underlying funding arrangement;
- 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.

02 Areas of Audit Focus

Significant risk and Key Audit Matter

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 considered 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 prior year, weaknesses were identified by management and internal audit in procurement controls. We have assessed management's progress on action plans partially implemented during prior year and considered this during our testing as a response to the risk of management override of controls.

In addition to this the business is under increased pressure due to employees being furloughed for extended period of time and working remotely - internal controls may not be operating as designed. We have heightened our levels of challenge, professional scepticism and senior team involvement in areas impacted by COVID-19.

What did we do?

For 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;
- From time to time we have matters escalated to us by members of the public. We investigated the matters reported and assessed the impact thereof on our audit risk and audit procedures performed. Any findings identified have been reported to the Audit and Assurance Committee.

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 prior year, weaknesses in procurement process controls were identified by management and internal audit. Management has been making progress against the action plan implemented in 2019/20. We have completed additional testing and did not identify any material fraud or error. Our recommendations for further enhancement of controls will be shared at a later stage in our Management Letter.

Our procedures did not identify any material misstatements in the financial statements. We have reported the impact on our value for money considerations later in this report.

Significant risk and Key Audit Matter

Inappropriate Revenue recognition, required by ISA (UK & Ireland) 240

NOTE – as set out below, the risk is specific to the allocation of fares received based on time periods, services provided by other parties and refunds

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;
- Calculation and recording of the revenue and deferred revenue based on maturity of the product for fares revenue; and
- Assessing any revenue that should not be recognised as a result of refund claims arising form COVID-19.

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 and the impact of COVID-19
- 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 ISAE 3402 controls report and the agreed upon procedures report
- We tested the calculation of any refund provision made for COVID-19 and comparing to actual refund payments made post year end
- We searched journal entries for unusual postings for COVID-19 adjustments to revenue
- Assessed any changes to underlying assumptions used for the recognition of revenue such as TOC apportionment and Oyster Card releases.

What are our conclusions?

We noted that revenue for the group has been severely impacted by COVID-19. This also has an impact on the group's funding and going concern.

Our planned procedures in relation to this risk are complete, with the exception of the receipt and review of KPMG's ISAE3402 report which we are planning to rely upon.

We have tested the provision in respect of estimated refunds as a result of COVID-19. We did not identify any material issues in the completion of our remaining procedures.

Once the remaining information is received, we will be in a position to conclude on whether the basis used to recognise fares revenue and related disclosures in the financial statements are reasonable.

Significant risk and Key Audit Matter

Going concern, including TfL and Crossrail funding

What is the risk?

There is uncertainty with regards to the going concern assumption for Crossrail and TfL and carrying value of assets, should the funding requirements continue to increase.

Financial statement impact

TfL's fares revenue has continued to significantly decline during 2020/21 which has negatively impacted TfL's funding requirements. The previous Extraordinary Funding and Financing Agreement agreed with the GLA up to 31 March 2021 has been extended until 28 May 2021.

We noted there is an operating deficit for 2020/21 of £1,27bn. TfL has identified various areas where costs savings will be implemented to eliminate the shortfall, including capex reductions and deferrals, headcount control, financial commitment and group oversight and limitations on 60+ concessions.

During the funding period TfL will be working with the GLA and Government on a long term budget that is financially sustainable.

What did we do?

For TfL, TTL groups 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 group's forecast;
- Reviewed management's assessment of funding requirements and commitments;
- Assessed the impact of funding requirements on TfL projects that could result on the cancellation or delay of major projects;
- Evaluated management's judgements and assumptions used in determining the future benefits expected from the projects and ensuring they are appropriate and supportable;
- Assessed whether any additional obligations exist within the various contractual arrangements that have been omitted from the financial statements;
- Tested the nature of the expenditure incurred to determine if capitalisation is appropriate;
- Obtained an understanding of the group's plans for discontinuation of service and assessed related assets for impairment; and
- Performed additional procedures in response to the continued impact of COVID-19.

Value for money

During the execution of our interim audit fieldwork for the financial year ended 31 March 2021 we identified a significant weakness as defined by AGN03 with regards to the financial sustainability of TfL, given there is no long term funding arrangement currently in place.

As such we have formally communicated on the weakness identified to the Audit and Assurance Committee. Please refer to Appendix A for a copy of the letter.

What are our conclusions?

The COVID-19 pandemic has had a significant impact on fares income and the availability of funding. An Extraordinary Funding and Financing Agreement has been agreed with the Department for Transport, which provides funding through to 28 May 2021. The Agreement required a review of activities, funding and governance to be completed prior to a further funding package being agreed. We noted that a sustainability budget was prepared and submitted to the Department of Transport in January 2021, however this has not yet been formally approved.

An draft extension to the Extraordinary Funding and Financing agreement has been received with a number of conditions attached. Management is in the process of reviewing the agreement, however the agreement is not expected to provide funding for the full 2021/22 financial year.

Given the Government's undertaking it is expected that a funding package will be agreed to support a balanced budget beyond the agreed funding period and that plans will be put in place to complete Crossrail as efficiently as possible.

We have noted there is material uncertainty surrounding the funding of the Group and therefore its ability to continue to operate the current level of services, including the planned capital programme post the planned funding period. The material uncertainty has been noted in our opinion.

Once management has completed their assessment of the latest extension to the Extraordinary Funding and Financing agreement and concluded on the achievability of the associated condition, we will consider the impact thereof on the related disclosures and our opinion.

Significant risk and Key Audit Matter

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 2020/21 financial year, TfL's capital expenditure, excluding Crossrail, was budgeted to be £1.4 to £1.5bn. 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 2020/21 financial year, TfL's capital expenditure is £2.1bn and of this amount £704m relates to Crossrail projects.

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 a sample of capital projects (including Crossrail), based on quantitative and qualitative thresholds;
- Understood key controls and governance surrounding capital project accounting and management;
- Tested controls which focused on the effectiveness of the approval process for expenditure and for capitalisation;
- Met with management and project managers virtually during the year and virtually attended management's 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;
- Considered pain/gain arrangements and related accounting treatment;
- Assessed whether or not capitalisation of costs are appropriate (including COVID-19 related costs);
- Considered whether, at any stage, assets need to be impaired or written off to reflect any aborted or higher risk projects;
- Performed detailed testing on a sample of expenditure incurred and capital accruals to source and third party documentation;
- Assessed whether management has reasonably estimated the cost to complete the capital projects;
- Reviewed capital projects to assess progress and potential impairment, in particular, we have assessed the impact of Crossrail progress and funding on the ability of TfL to complete and fund other in-progress projects;
- Reviewed claims and contracts for existence of additional obligations or expenditure that is inappropriate to capitalise;
- Reviewed the accounting and tested COVID-19 payments on projects;
- Reviewed the impairment of projects not included in funding plans. As noted above, there is material uncertainty relating to future funding of capital projects; and
- Performed additional procedures in response to the continued impact of COVID-19 where appropriate.

What are our conclusions?

Procedures have been completed for TfL and TTL groups with no material issues, with the exception of understanding the availability for future funding for projects in-progress at the balance sheet date. We are satisfied that the capitalised costs in the year meet the criteria for capitalisation and are appropriate. We concur with the impairment of projects not included in funding plans in the pre-COVID-19 business plan.

We noted costs were incurred as a result of COVID-19 and safe stop. We are still to complete and conclude our review of Safe stop and COVID-19 costs expensed in the current year.

An initial review was performed to identify non-essential projects that no longer align to TfL's priorities. As a result, assets (Cost capitalised) for projects abandoned have been written off in the current year amount to £56.2m. Projects where assets could potentially be reused on a different project has been treated as an impairment loss in the current year. The impairment loss amounted to £4.8m.

Management has further categorised all projects in progress at the balance sheet date between into categories of project falling into 'Medium', 'Low' and 'Extremely Low' Risk according to management's assessment of the likelihood of those projects not receiving the required funding necessary to see them through to completion. The value of moderate risk projects totals £3,316m. We have challenged management, that even in the low risk category, there remains risk that some of these projects may not be immediately funded and delays may change their future scope and use.

Until the review is complete, there is a material uncertainty as to whether any of the projects, included in assets in the course of construction at 31 March 2021, will not be funded to completion and the extent of any changes required, there could be a material impairment in value, which is not reflected in these financial statements. The material uncertainty has been noted in our opinion.

Significant risk and Key Audit Matter

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 property of £1.7bn as at 31 March 2020 (of which £113.4m was Assets Held for Sale). 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 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.

In prior year, as part of the Group's commercialisation strategy, the Group consolidated properties available for non-operational use in a new subsidiary entity. This resulted in a change in use from 'owner-occupied' to newly separable investment property assets. This could result in inappropriate classification of assets and presentation of revaluation changes.

Further, with the continued impact of COVID-19 pandemic on the market conditions and growing uncertainty around valuation, the fair value assessment of property portfolio is also changing.

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;
- Reviewing the observable market data for the properties portfolio selected for valuation by external valuers; and
- Appropriately classifying assets between operational and investment.

What did we do?

For TfL, TTL groups and subsidiaries, we will:

- Discussed with management and reviewed evidence to gain understanding of TfL and TTL group's property portfolios;
- Discussed and reviewed valuation assumptions and methodology applied by external valuers along with the TfL property team;
- Performed substantive testing and corroborated explanations for property additions, disposals and accounting for lease contracts;
- Reviewed the valuations report prepared by TfL's external valuers, agreeing the entries in the report back to the financial statements to confirm the accuracy of the entries;
- Assessed the classification of TfL and TTL property portfolios, the valuation basis and any material increases or impairments that had occurred during 2020/21;
- Assessed the work of TfL's property valuers. We have used our EY property valuation team as appropriate to assist in our review of whether TfL's key assumptions are within an acceptable range based on comparative market data for rental yields;
- Reviewed the accounting treatment of valuation movements for non-core assets and ensured it is appropriately disclosed;
- Reviewed infrastructure and office buildings, PFI accounting models and appropriateness of accounting and disclosures;
- Considered classification of assets between investment properties, property, plant and equipment and assets held for sales in accordance with IFRS;
- Reviewed sites to ensure affordable housing density needs are appropriately built into site valuations; and
- Performed additional procedures in response to the continued impact of COVID-19.

What are our conclusions?

We have completed our procedures and concluded that property valuations were within an acceptable range.

Due to the unprecedented impact of COVID-19 on the market, CBRE (TfL's external valuer) has highlighted that valuations for car parks within the groups property portfolio at 31 March 2021 were subject to a 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. The car parks were valued at £109.5m which represents 7% of the total property portfolio of £1.6bn. Consequently, less certainty and a higher degree of caution should be attached to these values than would normally be the case. The material uncertainty will not impact our overall conclusion on the investment property portfolio or our opinion as we concluded that the risk of a material misstatement in this element of properties is not material to the financial statements as a whole.

We are still to receive the final valuation report to enable us to conclude on whether the disclosure set out in the notes to the financial statements provides users with an appropriate explanation of this matter.

Other areas of audit focus

Other areas of audit focus

Judgemental assumptions impacting TfL's pension deficit

At 31 March 2021, TfL's defined benefit pension schemes had a deficit of £5,603m (2020: £4,100.6m). The Group's balance sheet reflects the deficit on the TfL defined benefit pension scheme, TfL's share of the deficit on the Local Government Pension Scheme, the deficit on the Crossrail section of the Railways Pension Scheme and the liability for unfunded pensions obligations.

Audit of pension scheme assets requires particular care given the current market volatility. There is a risk of potential short to medium term impact of COVID-19 on the net pension liability.

The assumptions used to arrive at the value of the pension deficit are judgemental. The setting of these assumptions should be in accordance with IAS19(R) Employment Benefits.

Any update to the financial assumptions should be supported by management in the context of the business plans and general outlook. In particular, we expect short to medium term impacts of COVID-19 to be balanced against the long-term nature of the changes in financial assumptions.

IAS 19 reports have been received from the actuaries. The review is still in progress at the date of this report.

Leases (IFRS 16)

IFRS 16 was adopted for the first time in the 31 March 2020 financial statements. It requires entities to recognise a right of use asset and corresponding lease liability in its Statement of Financial Position.

Further, there is a risk of potential impairments of the IFRS16 assets as a result of the impact of COVID-19.
When applying IFRS16 there are a number of judgements and estimates to be taken by management including:

- Determining the interest rate to be used in the calculation of lease liabilities - Management has utilised the same rate from the date of IFRS16 adoption for all deliveries of rolling stock in the 2020/21 financial year end.
- Assessing the length of - In particular with respect to station and track access.
- Assessing the value of 'peppercorn' leases – the CIPFA Code requires the recognition of values related to peppercorn leases (this is not required under IFRS adopted in the EU).
- Calculating an estimate of costs relating to bus contracts – management uses the same allocation across the whole fleet of contracts, based on contracts in place. As the proportion of non-diesel vehicles increases the cost allocation may change.

Determining the interest rate to be used in the calculation of lease liabilities – management has utilised the same rate from the date of IFRS16 adoption for all deliveries of rolling stock in the year. Our view is that the rate should be determined at each delivery date for each batch of units, using management's rates to recalculate the accounting, gives rise to a cumulative judgemental difference of £37m higher value for right of use asset and £32m for the related lease liability. The difference is lower when compared to 2019/20, we would expect the fluctuations to occur until all rolling stock has been received. The impact on the total right of use asset and lease liability is not a material percentage and the impact on the Comprehensive Income and Expenditure for the year is also is not material.

Significant accounting estimates – including complexity of provisions

Certain provisions (e.g. Compulsory purchase orders, litigation, claims and disputes) require complex estimates involving high levels of management judgement and uncertainty.

TfL, TTL and subsidiaries have complex capital contract and commercial arrangements. A large proportion of TfL's provisions come from its capital investment activities and transformation process.

In particular CPO provisions and contractual disputes are subject to significant estimation and include uncertainty around negotiations. We also note that there are some legal proceedings against TfL for which provisions have been recorded.

For TfL, TTL groups and subsidiaries we have:

- Ensured provision balances meet the recognition criteria under IAS37.
- Reviewed and critically evaluated management's judgement and estimates applied in the calculation of provisions in the financial statements.
- Performed a retrospective review to assess the accuracy of provisioning and any evidence of management bias.
- For completeness, performed unrecorded liabilities testing, minute review etc.

We have completed our audit procedures with no material issues. We are satisfied that the provisions made are within an acceptable range, based on the latest available information.

Other areas of audit focus

Other areas of audit focus

Climate related risks

In response to increasing concerns about the impacts of climate change on the economy and financial stability, the FRC is calling for companies to be more transparent on how they are addressing climate risk. Whilst reporting, in itself, cannot limit the effect of climate change, transparency of how companies are responding to this risk provides stakeholders with better information and may guide how they interact with a company: whether it is investors deciding whether to invest; employees deciding which companies they would like to work for; customers deciding which products to buy; or suppliers deciding which company to sell their products to.

For TfL, TTL groups and subsidiaries we will:

- Obtain an understanding of the Group's climate risk assessment;
- Review the accuracy and completeness of the climate risk assessment;
- Review substantive evidence supporting climate-related disclosures made in the Annual Report; and
- Review climate-related narrative in the Annual Report.

The review is still in progress at the date of this report.

Deferred Capital Grants (TTL)

Under IFRS, applied by the TTL and subsidiaries, when a capital asset is funded via a capital grant, that grant must be recorded initially as a deferred capital grant (DCG) liability on the Statement of Financial Position. It is then recognised in the income statement on a systematic basis that matches them with the related costs that they are intended to compensate.

There is nothing in the standard that defines an exact way of amortising the grant and so it is a matter of estimation to determine an appropriate systematic method of amortising the grant based on the related costs they are intended to compensate. Such a systematic basis might be based on usage of assets, for example in proportion to passenger journeys over a design life to represent consumption of the asset or over a general average asset life period up to the first major maintenance overhaul.

For TTL and subsidiaries, the period over which the expenditure is recognised in profit or loss is not readily ascertainable, due to the fact that at the time of each year's receipt, management has not directly allocated each amount of grant received to individual assets, therefore increased estimation is required in the process to calculate the amortisation than even reflecting on how expenses are recognised in the profit or loss, immediately introducing an element of averaging.

Management recently investigated grant accounting and this illustrated that a systematic approach has been adopted by releasing an amount each year. As with all estimations, different assumptions and inputs can be used to re-assess the estimation. The recent work has illustrated that using different scenarios and calculations an annual amortisation can be calculated for each year which is different from the one originally calculated in the last 10 years. However, in each year the revised assumptions have not resulted in a difference in excess of the stated audit materiality in any year, thereby illustrating that for each year the actual amortisation was within a reasonable range.

The distinction between an accounting policy and an accounting estimate is particularly important because a very different treatment is required when there are changes in accounting policies or accounting estimates. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

An exercise was also performed to consider the impact on stakeholders of revising the amortisation in the accounts of TTL and subsidiaries and no material concerns were identified. Management has revised the release for the current and future years in line with this revision to estimates approach and we concur with that approach.

The TfL Group and Corporation prepare accounts under the CIPFA Code of Local Authority Accounting in the United Kingdom. The accounting treatment of DCG differs significantly from IFRS accounting standards. We have assessed the impact of the change in the model used on the TfL Group and Corporation and concluded there will be no impact.

03 Value for Money Risks

Value for Money

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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.

For 2020/21, proper arrangements are defined by 2020 statutory guidance issued by the National Audit Office on 1 April 2020, as:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

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.

Exception reporting on TfL's VfM arrangements

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.

Based on the work we performed, we have concluded that there are arrangements in place to secure economy, efficiency and effectiveness, except in relation to two areas:

- The uncertainty with regards to a long-term funding agreement and impact thereof on planning and resource management to maintain service delivery; and
- An action plan was put in place to address the weaknesses identified in relation to procurement controls, however it was not effective for the full financial year due to the impact of COVID-19 resulting in the need to prioritise exceptional protocols during the pandemic, rather than business as usual changes from the existing action plan.

Value for Money Risks

Significant weaknesses in arrangements	What did we do?
Financial sustainability: How the body plans and manages its resources to ensure it can continue to deliver its services	There is a material uncertainty over the availability of funding which may cast doubt on TfL's ability to continue to operate the current planned level of services, including the planned capital programme post the agreed funding. Without a longer-term funding agreement in place, TfL is making short term decisions based on the current funding arrangements. The focus on short-term funding, restricts TfL's ability to make progress on and commit to key long-term priorities set by policy makers. This means that TfL is not obtaining the best value for money due to lack of clarity of long-term funding agreements going forward. As such, we have identified a significant weakness with regards to how TfL plans and manages its resources to ensure it can continue service delivery. EY Recommendation: Agreeing long term funding packages is extremely challenging in the current economic environment with conflicting funding demands on government funding, without an agreed long-term plan TfL will continue to have to make suboptimal decisions and spend significant management time continually reprioritising. Therefore, it is fundamental to the ability of management to appropriately exercise their responsibilities and enable TfL to fulfil its strategic priorities and facilitate Government policies for London, that a longer-term funding plan is agreed. It is recommended that TfL agree a long-term funding plan that will support TfL in achieving best value for money in the long term even if delivering less in overall terms by way of service or service improvement. In line with the Code of Audit Practice, we have reported significant weaknesses identified during the execution of our audit procedures. Please refer to Appendix A for a copy of the letter issued to the Audit and Assurance Committee.
Improving economy, efficiency and effectiveness: How the body uses information about its costs and performance to improve the way it manages and delivers services	During 2019/20 Transport for London identified a series of weaknesses with the application of procurement rules throughout the organisation. Procurement arrangements were not being followed in all cases, leading to a significant amount of single source tender arrangements and other contracting arrangements that may not have provided value for money. An action plan was put in place to address the weaknesses identified, however it was not effective for the full financial year due to the impact of COVID-19 resulting in the need to prioritise exceptional protocols during the pandemic, rather than business as usual changes from the existing action plan. As such, we have identified a significant weakness with regards to how TfL uses information about its cost to improve the way it manages and delivers services. EY Recommendation: TfL should continue to monitor progress against and compliance with the implemented action plan and identify areas of further improvement. Should controls operate effectively throughout 2021/22, we would not expect this matter to be reported as part of VFM conclusion.

04 Audit Differences

Audit Differences

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit & Assurance Committee and provided within the Letter of Representation:

Uncorrected misstatements 2021 (£million)	Effect on the current period:	Net assets (Decrease)/Increase				Impact on reserves
	Total comprehensive income Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)	Impact on brought forward reserves
Errors:						
Judgemental differences:						
▸ IFRS16 – rolling stock – rate used at each delivery date	(0)		37		(32)	(5)
Impact of difference arising in prior year:						
▸ Difference in accounting for certain contract incentive payments*	2		49			(51)
Total effect of uncorrected misstatements (before tax)	*2*		*86*		*(32)*	*(56)*
Less: tax effect at current year marginal rate	(0)					
Cumulative effect of uncorrected misstatements before turnaround effect	2					
Turnaround effect of prior year uncorrected misstatements	6					
Cumulative effect of uncorrected misstatements, after turnaround effect	8					

There are no amounts that we identified that are individually or in aggregate material to the other comprehensive income reported in the year.
The impact on non current assets is above our planning materiality which is based on in-year expenditure. However the amounts are < 1% of the total for non current assets.

* This difference was identified in the prior year audit and arises in the accounting for payments made between 2013 and 2018 on a specific contract – our view is that these should have been capitalised and depreciated over the asset life.

5 Appendices

Appendix A

Interim VFM reporting to the Audit and Assurance Committee Meeting

Building a better working world

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17 May 2021

The Audit and Assurance Committee
Transport for London
5 Endeavour Square
Stratford
London
E20 1JN

Ref:
Your ref:

Direct line: 0118 928 1502

Email: khavers@uk.ey.com

Dear Members of the Audit and Assurance Committee

On 1 April 2020, a new Code of Audit Practice (the 2020 Code) came into force. The Code sets out how auditors are expected to approach and report their work on VFM arrangements under the new Code and applies to audits of 2020-21 financial statements onwards.

Auditor Guidance Notes (AGNs) are prepared and published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General (C&AG) who has power to issue guidance to auditors under Schedule 6 paragraph 9 of the Local Audit and Accountability Act 2014 (the Act).

AGNs set out guidance to which local auditors must have regard under Section 20(6) of the Act. The guidance in AGNs supports auditors in meeting their requirements under the Act and the Code of Audit Practice published by the NAO on behalf of the C&AG.

Paragraph 3.14 of the 2020 Code requires that where the auditor has concluded that there is a significant weakness in a body's arrangements, it should be reported to this body and supported with recommendations for improvement.

We have commenced our interim audit fieldwork for the financial year ended 31 March 2021 and have identified a significant weakness as defined by AGN03 with regards to the financial sustainability of TfL, given there is no long term funding arrangement currently in place.

Judgment on the nature of the weakness identified
The COVID-19 pandemic has had a significant impact on TfL's fares income and the availability of funding. Two Extraordinary Funding and Financing Agreements have been agreed with the Department for Transport ("DfT"), which provide funding through to 31 March 2021. The period for the funding agreement dated 11 October 2020 recognises the need for short term funding to 31 March 2021, to provide sufficient financial measures to mitigate loss of passenger revenue as a result of COVID-19 impacts and Government led measures such as social distancing. On 22 March 2021, this short term funding arrangement was extended to 18 May 2021, in order to provide sufficient time to conclude a further substantive funding agreement. In addition, the parties recognised that there was a need for long term funding to reach a financially sustainable position as soon as possible, with a target date of April 2023. At the date of this letter, no further funding agreement has been issued and the current funding agreement is due to expire in less than a week.

As outlined in the Agreement, TfL has produced a comprehensive plan with options on how they can achieve financial sustainability by 2023/24. Negotiations are still ongoing with the DfT and a long-term funding agreement has not been agreed to date.

As such there is material uncertainty surrounding the funding of the Group and therefore its ability to continue to operate the current level of services, including the planned capital programme post 31 March 2021. At Q3 2021, the Group had capital projects in the course of construction totalling £1.4bn, of this £614m relates to Crossrail. The remaining balance relates to a range of projects across the network at varying stages of completion.

As part of the Government review of the Group, a review is ongoing of the capital programme to identify which projects can and will be funded to completion, including whether projects can be safely paused, whether the costs of termination are more extensive than completing and whether the projects are to ensure the Group meets statutory obligations in respect of safety. It is also possible that the current review could deem some current services as nonessential, which could then lead to an impairment of some assets related to those services. The capital programme includes upgrades and maintenance of current infrastructure and ongoing initiatives for TfL's key priorities in line of the Mayor's Transport Strategy and other Government policies.

Due to the nature of the current funding arrangement, management needs to review capital projects in progress and planned and identified areas for de-scoping from the original plan. Such de-scoping can lead to additional costs over the medium to longer term, where original contracts allowed for savings for further scopes and more efficient costings that will not now be realised. The short-term nature of the current funding package therefore results in sub-optimal decision making and use of resources.

In addition to this, the Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements. Management's capacity and resources have been focussed on putting in place proper arrangements with the DfT as set out in the Authority's responsibilities to support long term funding.

The continued process of preparation of extensive budgets, forecasts, scenario analysis and negotiations for longer term funding, which has had a negative impact on their ability to focus on the responsibilities of the Authority, impacts the ability of management to focus on the long term strategic priorities of the Authority.

Finally the focus on short-term funding, restricts the Authority's ability to make progress on and commit to key long-term priorities set by policy makers including providing infrastructure to facilitate affordable housing in London.

The evidence reviewed on which our view is based
As part of interim audit procedures performed, we have held discussions with management and reviewed the following documentation:

- TfL Settlement Letter dated 31 October 2020;
- Financial Sustainability Plan dated 11 January 2020;
- TfL quarterly performance report – Q3 2020/2021;
- Reviewed scope changes on material capital projects; and
- TfL Settlement Letter dated 22 March 2021.

The possible future impact on TfL
TfL is responsible for the critical day-to-day operation of London's transport system and also has a significant capital programme to create Crossrail and various other enhancements to the network, as well as to improve safety and commercialise its assets to generate additional non passenger/grant income in future years.

Without continuous, stable investment to operate and maintain TfL's existing network and ensure it keeps pace with societal expectations, its performance will decline. This will mean fewer people using public transport to travel around London and more people using cars, resulting in increased pollution and congestion. In turn this will have a negative impact on the attractiveness of the City and will negatively impact the local economy.

Without a longer-term funding agreement in place, TfL is making short term decisions based on the current funding arrangements. If longer-term funding arrangements were in place, management would be able to make more robust decisions, negotiate better long-term deals with suppliers or contractors and identify synergies and cost saving opportunities. This means that TfL is not obtaining the best value for money due to lack of clarity of long-term funding agreements going forward.

The action required by TfL to address the weakness
Whilst agreeing long term funding packages is extremely challenging in the post pandemic world with many conflicting funding demands on government funding, without an agreed long-term plan TFL will continue to have to make suboptimal decisions and spend significant management time continually reprioritising. Therefore, it is fundamental to the ability of management to appropriately exercise their responsibilities and enable TfL to fulfil its strategic priorities and facilitate Government policies for London, that a longer-term funding plan is agreed. We recommend that management agree a long term plan as quickly as possible, even if that funding is less than might be desirable (subject to safety and state of good repair considerations) in order to allow that sufficient funding to achieve intended value for money outcomes. Clearly if compromising on funding, we also recommend that the consequences of the funding package are also made clear to enable prioritisation versus other competing demands.

This would support TfL in achieving best value for money in the long term even if delivering less in overall terms by way of service or service improvement.

Yours faithfully,

Karl Havers
Partner
For and on behalf of Ernst & Young LLP

Appendix B

Required communications with the Audit & Assurance Committee

There are certain communications that we must provide to the Audit Committees of UK entities. We have detailed these here together with a reference of when and where they were covered:

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the audit & assurance committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Discussed within PSAA terms of appointment for TfL and our engagement letter for the subsidiary entities
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Discussed within Planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Discussed within Planning report
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Discussed within this report

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		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Entities that report on the application of the UK Corporate Governance Code	▸ In the case of entities that are required, and those that choose voluntarily, to comply with the UK Corporate Governance Code, information relevant to: ▸ The board and where applicable, the Audit Committee in the context of fulfilling their respective responsibilities under certain provisions of the UK Corporate Governance Code relating to Audit, Risk and Internal Controls; and ▸ The Audit Committee in order to understand the rationale and supporting evidence we relied on when making significant professional judgement in the course of the audit and in reaching an opinion on the financial statements Unless covered by other communications on planning matters or significant findings, this information shall include our views on: ▸ Business risks relevant to financial reporting objectives, the application of materiality and the implications of our judgements in relation to these for the overall audit strategy, the audit plan and the evaluation of misstatements identified. ▸ The significant accounting policies (both individually and in aggregate); ▸ Management's valuations of the entity's material assets and liabilities and the related disclosures provided by management; ▸ Internal control (without expressing an opinion and based solely on our audit procedures performed in the context of the financial statement audit), specifically on: ▸ The effectiveness of the entity's system of internal control over financial reporting; and ▸ Other risks arising from the entity's business model and the effectiveness of related internal controls; ▸ The robustness of the directors' assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity and its outcome, including the related disclosures in the annual report and accounts confirming that they have carried out such an assessment and describing those risks and explaining how they are being managed or mitigated (in accordance with Code provision 28;	Discussed within this report

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Required communications	What is reported?	Our Reporting to you When and where
	▸ About the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate (in accordance with Code provision 31), and their statements: i. In the financial statements, as to whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, including any related disclosures identifying any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements (in accordance with Code provision 30); and ii. In the annual report as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions (in accordance with Code provision 31); ▸ Any other matters identified in the course of the audit that we believe will be relevant to the board or the audit committee in the context of fulfilling their responsibilities referred to above.	
Public Interest Entities	For the audits of financial statements of public interest entities our written communications to the audit committee include: ▸ A declaration of independence ▸ The identity of each key audit partner ▸ The use of non-member firms or external specialists and confirmation of their independence ▸ The nature and frequency of communications ▸ A description of the scope and timing of the audit ▸ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits ▸ Materiality ▸ Any going concern issues identified ▸ Any significant deficiencies in internal control identified and whether they have been resolved by management	These matters are included within this report and also included within the Planning Audit Report for the year ending 31 March 2021

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		Our Reporting to you
Required communications	**What is reported?**	**When and where**
	▸ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee ▸ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof ▸ The valuation methods used and any changes to these including first year audits ▸ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▸ The identification of any non-EY component teams used in the group audit ▸ The completeness of documentation and explanations received ▸ Any significant difficulties encountered in the course of the audit ▸ Any significant matters discussed with management ▸ Any other matters considered significant	
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty related to going concern ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The appropriateness of related disclosures in the financial statements	Discussed within this report
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Discussed within this report
Subsequent events	▸ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Discussed within this report

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		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Fraud	▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility.	Discussed within this report
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity	Discussed within this report
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence	These matters are included within this report and also included within the Planning Audit Report for the year ending 31 March 2021

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		Our Reporting to you
Required communications	**What is reported?**	**When and where**
	Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: ▸ Relationships between EY, the company and senior management, its affiliates and its connected parties ▸ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▸ Related safeguards ▸ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▸ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▸ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▸ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Discussed within this report
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	Discussed within this report

Appendix B

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Discussed within this report and within the Management Letter report
Group Audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	These matters are included within this report and also included within the Planning Audit Report for the year ending 31 March 2021
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Discussed within this report
Material inconsistencies and/or misstatements	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Discussed within this report
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Discussed within this report

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Annual Report and accounts	Work on underlying statutory accounts and disclosures has commenced.	EY and Management
Impairment assessment	Awaiting management assessment of impairment	EY and Management
Assessment of going concern and underlying funding arrangement	Awaiting management assessment on the funding required for the Crossrail Project. EY will assess the assumptions and the reasonableness of this assessment.	EY and Management
Post balance sheet events up to the date of approval of the financial statements	Post balance sheet event review will be performed through to the signing of the Financial Statements	EY and Management
Signed letter of representation	Draft representation letter will be shared with management separately	EY and Management

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Audit and Assurance Committee

Date: **7 June 2021**

Item: **TfL Statement of Accounts for the Year Ended 31 March 2021**

This paper will be considered in public

1 Summary

1.1 This paper presents the draft TfL Group Statement of Accounts, together with the Remuneration Report for the year ended 31 March 2021, to the Committee for consideration. The current drafts of the Statement of Accounts and Remuneration Report are attached to this paper as Appendices 1 and 3 respectively, and will be presented to the Board for approval on 28 July 2021.

2 Recommendations

2.1 The Committee is asked to:

(a) note the draft Statement of Accounts and the Remuneration Report and note that the Statutory Chief Finance Officer may make adjustments arising from the ongoing audit work prior to submission to the Board. Any material adjustments arising will be reported to the next meeting of the Committee;

(b) recommend that the Board confirm its overall approval of the provision of an ongoing guarantee by Transport Trading Limited of all the outstanding liabilities of those of its subsidiary companies listed below, such guarantee enabling those subsidiaries to be exempt from the need to have their accounts audited:

(i) Woolwich Arsenal Rail Enterprises Limited;
(ii) City Airport Rail Enterprises Limited;
(iii) London Underground Limited;
(iv) LUL Nominee BCV Limited;
(v) LUL Nominee SSL Limited;
(vi) Docklands Light Railway Limited;
(vii) Tube Lines Limited;
(viii) Rail for London Limited;
(ix) Rail for London (Infrastructure) Limited;
(x) Tramtrack Croydon Limited;
(xi) London Buses Limited;
(xii) London Bus Services Limited;
(xiii) London River Services Limited;
(xiv) Transport for London Finance Limited;
(xv) Victoria Coach Station Limited;
(xvi) TTL Properties Limited;

(xvii) TTL Blackhorse Road Properties Limited;
(xviii) TTL Earls Court Properties Limited;
(xix) TTL Landmark Court Properties Limited;
(xx) TTL Kidbrooke Properties Limited;
(xxi) TTL Northwood Properties Limited;
(xxii) TTL South Kensington Properties Limited; and
(xxiii) TTL Southwark Road Properties Limited;

(c) note the ongoing approval given in respect of the provision of a guarantee to the following subsidiary companies with effect from the financial period ended 31 March 2021:

(i) TTL Build to Rent Properties Limited;
(ii) TTL FCHB Properties Limited; and
(iii) TTL Wembley Park Properties Limited;

(d) note that:

(i) as a result of the application of IFRS 9 Financial Instruments, our auditors, Ernst & Young LLP, require that letters of financial support previously provided by Transport for London in respect of the liabilities of its subsidiaries be re-signed annually by TfL's Chief Finance Officer; and

(ii) Board approval for the issue of such letters was granted when the subsidiaries were first established or acquired [and the template for the letter to be signed is included in Appendix 2 to the paper].

3 Background

3.1 The Statement of Accounts has been prepared in accordance with the provisions of the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015 ("the Regulations"). The form, content and accounting policies followed in preparing the Statement of Accounts are as prescribed in the Regulations and by the Code of Practice on Local Authority Accounting which is developed and published by the CIPFA/LASAAC joint committee ("the Code"). The Code is based on International Financial Reporting Standards ("IFRS").

3.2 The Regulations require that the responsible financial officer, namely the Statutory Chief Finance Officer, sign and date the Statement of Accounts before the commencement of the period for the exercise of public rights, and certify that it presents a true and fair view of the financial position of TfL at the end of the year to which it relates and of TfL's income and expenditure for that year.

3.3 The certified Statement of Accounts, which are at this stage unaudited, together with the Annual Governance Statement must be published on TfL's website, and an appropriate notice providing details of how public rights may be exercised is also required to be published. The period for exercise of public rights commences the next working day after all these conditions have been fulfilled and runs for a period of 30 working days.

3.4 After the conclusion of the 30 working day period, the Statutory Chief Finance Officer again certifies the Statement of Accounts, and following this re-certification the Statement of Accounts, with the addition of the Independent Auditor's Report, will be considered and approved by the Board.

3.5 The unaudited Statement of Accounts was certified by the Statutory Chief Finance Officer on 28 May 2021 and published on TfL's website together with the Annual Governance Statement on that day. Appropriate notices have been placed on TfL's website. The period for exercise of public rights consequently commenced on 1 June 2021 and will conclude on 12 July 2021. Following the conclusion of the period it is planned that the Board should consider the accounts at the Board meeting on 28 July 2021.

3.6 The period for exercise of public rights includes rights of objection and questioning as well as inspection. Should any questions or objections be raised, these will be reported to the Committee at its next meeting.

4 Results for the Year

4.1 There are significant differences in the basis of preparation of the Group Comprehensive Income Statement compared with management reports (see section 11 below) and the Income Statement shows a deficit on the provision of services after tax of £911m, down from a surplus of £671m in 2019/20. The adverse movement is primarily due to the catastrophic impact of the coronavirus pandemic on our revenues. Despite running a near-full level of services for the majority of the year, we have seen a significant decline in income, with total passenger fares for the year coming in at £1,600m – 66 per cent below the 2019/20 total. Overall revenues were £3.4bn lower than the previous year.

4.2 The drop in income has necessitated the provision of extraordinary grant funding from the Government. £2.5bn of extraordinary grant funding from the Department for Transport (DfT) was recognised during the year. We also received a further £58m of grant through the Coronavirus Job Retention Scheme. In total, our grant income, at £4.7bn, was £1.5bn above 2019/20.

4.3 Our savings programme, tight recruitment controls, increased financial oversight, and lower network costs at the start of the pandemic allowed us to keep operating expenditure, at £7.4bn, below 2019/20 levels, despite the cost pressures associated with the additional safety measures necessitated by the pandemic.

4.4 As at 31 March 2021, the Group had usable reserves of £887m, down from £1,604m at 31 March 2020, but slightly above the forecast level of £873m set out in our submission to the GLA Budget in December 2020. As set out below, the pressures on TfL's funding have been, and continue to be, severe.

4.5 The General Fund balance of £500m (unchanged from 2019/20 levels) represents the majority of the Group's usable reserve balance as at 31 March 2021. This reserve is held to ensure sufficient cash-backed reserves are maintained by the Group to cover risks that may arise. The level was reviewed during 2019/20, following a benchmarking exercise, and uplifted to a level determined to be the minimum level appropriate given the scale of the Group's operations.

4.6 Earmarked reserves of £362m, down from £1,081m at 31 March 2020, arise because the Group has received funding in advance of incurring costs and completing projects. These reserves form part of the overall funding pot for the Investment Programme and are allocated in TfL's Budgets and Business Plans to be spent on delivering investment projects to improve transport in London, including not only Crossrail, but also the Northern line and Barking Riverside extensions, the Deep Tube Upgrade, and major station upgrades. Due to the severity of our income shortfall, an element of earmarked reserves held as at 31 March 2020 was applied to fund the operating deficit during the 2020/21 financial year.

5 Funding

5.1 The funding arrangements agreed during the year with the DfT covered the period until 18 May 2021 and have since been extended to 28 May 2021. These provided a level of base funding, as well as passenger income top up to an agreed level. In return for this support, TfL committed to meet a number of conditions, including making £160m of net savings in the second half of 2020/21 (in addition to those already included in our budgets), investing in Streetspace for London, and producing a plan to achieve financial sustainability in the medium to long term. Without providing details of the quantum of future funding, the funding letter of 18 May 2021 contained assurances of the DfT's continued support beyond 28 May, and an acknowledgement that, over the longer term, TfL cannot be expected to cover the cost of major capital enhancements from its own operating incomes. It is on the basis of these assurances that the Statement of Accounts for 2020/21 continue to be prepared on a going concern basis.

5.2 The Auditor's Report for 2019/20 contained a paragraph on material uncertainty relating to the availability of funding to deliver current operational and capital plans. As described in the going concern note to the Accounting Policies section of the financial statements, this set out that there was significant uncertainty as to the level of future funding to be received from the Government. This continues to be the case at the date of this report. These uncertainties cast doubt over TfL's ability both to continue operating the level of services currently provided and to continue with all projects currently included in the capital investment plan. £63m of assets were either written off or impaired during the year as a result of a prioritisation review undertaken of our capital programme. However, if additional projects or non-essential elements of in-progress projects are not funded, or if changes in services provided are required, there could be a further possible impairment of asset carrying values at 31 March 2021 which is not reflected in the financial statements. Discussions regarding levels of future funding are ongoing with the DfT and the impact on our accounts and disclosures of any developments between the date of this report and the date of final approval by the TfL Board of the Statement of Accounts in on 28 July 2021 will be kept under review.

6 Accounting Policies

6.1 There have been no changes to the Code for 2020/21 that have had an impact on the financial statements.

7 Remuneration Disclosures

7.1 The requirements for producing the various elements of remuneration disclosure are unchanged from earlier years. To aid understanding, the required disclosures are made in an extended Remuneration Report, presented outside the financial statements. Audited sections have been clearly identified and are cross-referenced in the notes to the financial statements.

8 Disclosure of Pension Fund Deficit

8.1 The Group Balance Sheet includes the deficit on the Public Sector section of the TfL Pension Fund, TfL's share of the deficit on the Local Government Pension Scheme, the deficit on the Crossrail Shared Cost Section of the Railways Pension Scheme, and the liability in respect of unfunded pension obligations, all calculated in accordance with IAS 19 Employment Benefits. The total deficit on TfL's defined benefit pension schemes, calculated in accordance with IAS 19, has risen from £4.1bn at 31 March 2020 to £5.6bn at 31 March 2021. The main reasons for this increase are the change in the financial assumptions adopted. The fall in gilt yields and the increase in expected inflation both increased the value placed on the liabilities over the accounting period. This has been partially offset by the return on assets being higher than expected (based on last year's discount rate) and the adoption of the latest model for mortality rate improvements, which produces slightly lower life expectancies than the model adopted at 31 March 2020.

8.2 The IAS 19 basis of valuation is different to that used by the Fund Actuary in the triennial valuations which determine the level of contributions that TfL is required to make to the TfL Pension Fund. The last such valuation was at 31 March 2018 and revealed a deficit of £603m for the Public Sector section. Employer's contributions for 2020/21 for the Public Sector section were 33.3 per cent of pensionable pay, comprising the future service contributions of 26.9 per cent, plus additional deficit recovery repayments at 6.4 per cent of pensionable pay.

8.3 The difference between the funding valuation and the IAS 19 valuation is due to the different rules applying to the two valuation bases, particularly the different discount rate. The discount rate for the IAS 19 valuation is required to be based on AA corporate bond yields, but the discount rate for the funding valuation is based on expected returns on the Scheme's assets. There are also differences in the other assumptions. The pension fund Trustees are required to adopt "prudent" assumptions whereas IAS 19 requires "best estimate". In the reconciliation below the most significant items in the £1.3bn "best estimates" adjustment figure are the effect of allowing for lower RPI inflation and the impact of allowing for a less prudent mortality assumption for IAS19.

Public Sector Section	£bn
Deficit on funding basis (estimated at 31 March 2021)	(0.2)
Lower discount rate used for IAS 19 valuation	(6.5)
Impact of “best estimate” assumptions rather than “prudent”	1.3
Deficit at 31 March 2021 under IAS 19	(5.4)

8.4 The Code requires that IAS 19 does not impact on Council Tax rates. The income and expenditure account therefore includes an appropriation from or to the Pensions Reserve. The result of these entries is that the pension deficit is not charged to the General Fund, and is instead charged to a separate reserve, and only the actual contributions paid to the pension funds impact on the General Fund.

9 Borrowings

9.1 Incremental direct borrowing for the year was £1,278m, taking the nominal value of TfL’s total borrowing at 31 March 2021 to £12.995bn. Of the new direct borrowings drawn down in the year, £100m related to drawdowns under facilities with Export Development Canada, £600m related to eight tranches drawn down from the Public Works Loan Board (PWLB), £676m was drawn down under a DfT facility for the Crossrail project and £165m was drawn down as short-term Commercial Paper. Offsetting these increases were £263m of scheduled PWLB and European Investment Bank repayments made in the year.

10 Derivatives and Hedging

10.1 TfL, through a wholly owned subsidiary, holds a portfolio of derivatives to hedge interest rates on its issued and future borrowings. As at 31 March 2021, the Group had in place interest rate swaps to fix the interest rate on £200m of floating rate borrowings currently in issue. The Group also held £212m of interest rate swaps to hedge the interest rate risk in respect of rolling stock leases.

10.2 At 31 March 2021, the Group held forward foreign exchange derivative contracts in Euros, Canadian Dollars, Swiss Francs, Swedish Krona and Chinese Yuan Renminbi to hedge planned foreign currency capital expenditure payments with a net nominal value of £188m.

10.3 TfL has adopted hedge accounting for the above derivatives. The effect of this is that movements in the fair value of the derivatives are initially deferred in reserves rather than flowing through the income and expenditure statement. Gains or losses ultimately realised on derivatives are subsequently recognised in the income statement as the hedged items are recognised. In 2020/21 this resulted in the recognition as a financing expense of £9m previously deferred in respect of gilt locks, as net losses incurred in previous years were released over the terms of the debt issuances to which they related.

10.4 The Group also invested in approved counterparties in Euros, employing foreign currency swaps and forwards to swap these investments back into Sterling as a matter of course. Hedge accounting was not applied to these derivatives as, at the Group level, unrealised fair value movements on the derivatives net off with the unrealised exchange rate gains or losses resulting from the retranslation of the foreign currency investments themselves within the Surplus on the Provision of Services.

11 Property Valuations

11.1 2019/20 saw a significant increase in property valuations, with investment properties (including those classified as 'assets held for sale') seeing a total net increase in fair value of £934m. This reflected the transfer of operational assets, previously held at depreciated cost, into a consolidated commercial property portfolio, created as the vehicle to support delivery of 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 2020/21 further properties were added to this portfolio. Of the total net devaluation of our investment portfolio seen during the year, a loss of £83m was recognised in financing and investment expenditure in relation to existing investment properties. A £72m gain, meanwhile, was recognised directly in reserves, to reflect the fact that this uplift related to revaluation of newly classified investment assets which had previously been recorded at nil or nominal historical cost values.

11.2 The relatively small net fair value movements in our portfolio reflect the diverse nature and prime locations of our asset base. All valuations were undertaken by external professionally qualified valuers in accordance with the appropriate sections of the Red Book, RICS Valuation – Global Standards published by the Royal Institute of Chartered Surveyors and are compliant with International Valuation Standards. The material uncertainty recorded by the valuers in their valuation reports in March 2020 was largely removed this year, remaining only in relation to the valuation of car parks, which represent just seven per cent of the total portfolio.

12 Reconciliation between the Quarterly Performance Report and Profit or Loss

12.1 The net cost of operations as reported in the Quarterly Performance Report for 2020/21 was £1,267m. The deficit on provision of services after tax in the Group Comprehensive Income and Expenditure Statement was £911m. Some of the differences relate to items not included in the Quarterly Performance Report but which are required to be included in the Income and Expenditure Statement. Some differences relate to items not included in the Income and Expenditure Statementbut included in the Quarterly Performance Report. Other differences arise from differing treatment of items explained below and summarised in the table in 12.4.

12.2 Items not included in net cost of operations in the Quarterly Performance Report but included in the Income and Expenditure Statement comprise:

(a) depreciation, amortisation and impairment charges;

(b) defined benefit pension service costs;

(c) gains and losses on the disposal of fixed assets and investment property;

(d) capital grant;

(e) valuation gains and losses on the revaluation of investment property;

(f) net interest on the defined benefit pension obligation;

(g) interest payable on lease and PFI liabilities;

(h) capitalised interest;

(i) share of gains or losses from associated undertakings and joint ventures; and

(j) Taxation.

Items not included in the Income and Expenditure Statement but included in the net cost of operations in the Quarterly Performance Report comprise:

(k) cash payments under PFI and lease arrangements;

(l) pension payments charged to operating costs; and

(m) capital renewals.

12.3 The net cost of operations as reported in the Quarterly Performance Report for Items where the treatment is different, comprise grant income adjustments (primarily the difference in Business Rate Retention (BRR) grant badged “Capital BRR” by the Mayor, and the amount actually applied to fund capital spend in the year).

12.4 A reconciliation from the Operating Account as included in the Quarterly Performance Report to the Comprehensive Income and Expenditure Statement as included in the financial statements is set out below.

	£m
Net cost of operations as reported in the Operating Account of the Quarterly Performance Report	**(1,267)**
Depreciation, amortisation and impairment	(1,351)
Defined benefit pension service costs	(452)
Gains and losses on the disposal of fixed assets and investment property	(28)
Capital grant income	934
Valuation losses on the revaluation of investment property	(83)
Net interest on the defined benefit pension obligation	(90)
Interest payable on lease and PFI liabilities	(63)
Capitalisation of interest	90
Share of net loss of joint ventures and associates	(4)
Taxation	11
Cash payments under PFI and lease arrangements	351
Pension payments charged to operating costs	400
Capital renewals	367
BRR grant income differences	255
Other	19
Deficit on provision of services after tax in the Accounts	**(911)**

13 Audit Opinion

13.1 Under the Local Audit and Accountability Act 2014, TfL's auditors, Ernst & Young LLP are required to opine on the following:

(a) whether the financial statements, in their opinion, give a true and fair view of the financial position of the Transport for London Corporation and Group as at 31 March 2021 and of its expenditure and income for the year then ended

(b) whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting the United Kingdom 2020/21; and

(c) whether they are satisfied that, in all significant respects, Transport for London has put in place proper arrangement to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

13.2 Ernst & Young's update in respect of audit progress in relation to the above is not covered by this paper but is addressed in the EY Report to those charged with governance included elsewhere on the agenda.

14 Deferred Capital Grant Release in Subsidiaries

14.1 During the course of 2020/21 TfL management identified an historic over release in the calculation of the annual release of deferred capital grant to income when compared to the intended release profile in a number of the Group's subsidiaries. The issue, identified through the strengthening of the Finance function's controls as part of Transformation, was that the approach taken to the release of capital grant had not been updated to reflect the increased complexity of TfL's capital funding structure over the years.

14.2 The issue is a technical accounting one, impacting the timing of income recognition in the Group's subsidiaries. Although large numbers are involved, it has no impact on the primary statements of the TfL Group due to a difference in accounting requirements for capital grant between the CIPFA Code of Practice on Local Authority Accounting (which is applied at the TfL Corporation and Group level), and full IFRS requirements (which apply to the Transport Trading Limited (TTL) Group and individual subsidiaries).

14.3 The impact of this issue is restricted to our subsidiary statutory reporting. There is no impact on TfL's reported financial performance in the management accounts reported to the Board and the Finance Committee or in the Quarterly Performance Reports published on TfL's website. There is also no cash impact relating to this issue.

14.4 The level of deferred capital grant to release each year to income is an accounting estimate which involves a high degree of judgement. The accounting standards require a systematic approach is taken to the release of deferred capital grant. The historic approach, although did not meet its intended outcome, was a systematic approach and was compliant with accounting standards. The revised approach is a change in accounting estimate. Therefore, this matter has been treated in the 2020/21 financial statements, for all subsidiaries, as a prospective revision of an estimate rather than requiring a restatement of prior year financials as a consequence of a fundamental accounting error.

14.5 This treatment has been agreed with EY in their capacity as external auditors of the TfL and TTL Groups as being the most appropriate in this instance.

14.6 The calculation of the deferred capital grant release is completed through a spreadsheet. This issue has highlighted the challenges of complex financial modelling in a spreadsheet. Management are therefore investigating the cost and resource implications of alternative options, including the implementation of functionality within the SAP accounting system to generate the required postings automatically. They will report back to the Audit and Assurance Committee/ Finance Committee with a proposal once a full data gathering exercise and cost benefit analysis has been completed.

14.7 A database, identifying other manual models used across the business to generate numbers in our financial statements, has also been compiled. This will inform a programme of review of all such models employed by TfL and consideration of whether the functionality within can be replicated within our accounting systems to minimise the risks of future errors arising from manual intervention

15 Subsidiary Companies Audit Exemption

15.1 For the year ended 31 March 2014, the Group took advantage of changes under section 479A of the Companies Act 2006 that enable certain UK subsidiary companies to claim exemption from audit of their accounts.

15.2 The exemption is conditional on a parent undertaking giving a guarantee to its subsidiary in respect of all liabilities of that subsidiary outstanding at the balance sheet date, and on 5 June 2014, under authority delegated by the Board on 26 March 2014, the then Finance and Policy Committee agreed that, for the year ended 31 March 2014 and for future years until withdrawn, the holding company for TfL's trading subsidiaries, Transport Trading Limited, will offer the guarantee to a majority of its subsidiaries.

15.3 For the year ended 31 March 2021, the majority of TTL's subsidiaries will again claim exemption from audit.

List of appendices to this report:

Appendix 1: Draft TfL Financial Statements
Appendix 2: Template for annual letter of support from TfL to its subsidiary companies
Appendix 3: Remuneration Report

List of Background Papers:

None

Contact: Patrick Doig, Statutory Chief Finance Officer
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Appendix I

Transport for London

Draft Financial Statements
For the year ended 31 March 2021

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 2021

Patrick Doig
Statutory Chief Finance Officer

28 May 2021

Contents

Narrative Report and Financial Review

Overview

In last year's Narrative Report, published in wake of the first UK lockdown, we highlighted that our organisation was facing a crisis unprecedented in living memory. 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 outbreak at the start of the year, however, overshadowed everything we do. Throughout, the safety of our colleagues and those using our services has remained our first priority and, working with the Mayor, we have done and will continue to do all that we can to protect our staff and those who need to use our services. It is a matter of great sadness that a number of our colleagues have passed away owing to the coronavirus. The incredibly important role that they have played for this city will be remembered by us all.

Over the course of the year we followed government guidance and met the requirement to provide services, and to maximise capacity, while observing the social distancing measures necessary to stop the spread of coronavirus. Where possible we aimed to mitigate the financial impact of lockdown for Londoners. Steps taken ranged 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.

The above meant, for us, a continued high level of relatively fixed operational costs, combined with a significant reduction in our fares and other revenues. As we predicted, the impact on our 2020/21 income has been severe, compounding the underlying financial challenges TfL was already facing in relation to the loss of the operating grant from central Government and the delay to the opening of the Elizabeth line.

The income shortfall has necessitated the provision of extraordinary grant funding from the Government. In May 2020, we agreed a support package to cover the first half of the year, and in October, we finalised a new funding agreement that was subsequently extended to cover the period until 18 May 2021. In total we received £2.5bn of extraordinary grant from the Department for Transport (DfT) under these arrangements. Since the year end, this agreement has again been extended, on similar terms, to 28 May 2021. Until November 2020 we made full use of the Government's Coronavirus Job Retention Scheme, initially furloughing 7,000 employees across the organisation. Through our savings programme, recruitment controls, and even tighter financial oversight, we have kept operating costs low. Over the course of the year we have worked and continue to work closely with Government and their advisors towards agreeing a longer-term funding package that will secure TfL's ability to continue to operate and support London and the United Kingdom through the economic recovery and into the future.

Narrative Report and Financial Review (continued)

Organisational Overview

Acting fairly between our stakeholders

Transport for London (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 Greater London Authority (GLA) and reports to the Mayor of London. We focus on promoting the success of the of the organisation through the delivery of an integrated transport service to Londoners and benefitting all our stakeholders. As a public body our activities and engagement are concentrated on delivering the Mayor's Transport Strategy and the needs of our passengers, our people, the general public, our supply chains and service providers.

Key priorities in the Mayor's Transport Strategy are: creating healthy streets and healthy people, creating a good public transport experience and delivering new homes and jobs. (See Delivering Mayor's Strategy on page X).

High standards of business conduct

Our governance and decision-making arrangements ensure we manage the organisation responsibly and effectively and to high standards of business conduct (see TfL's Governance Framework on page X). This includes operating within the requirements of relevant legislation (including Local Authority legislation), as well as understanding our responsibilities to spend public funds efficiently and manage risks effectively. TfL conducts, at least annually, a review of the effectiveness of its governance framework including the system of internal control, which is reported to the Audit and Assurance Committee. There is also an annual Board Effectiveness Review.

The opinion for the year ending 31 March 2021 concluded that TfL's governance framework was adequate for TfL's needs and operated in an effective manner. The opinion highlighted work currently in progress to address previously disclosed weaknesses in several audits of governance and financial controls relating to procurement and contract management.

The coronavirus pandemic has had a significant impact on TfL's operational activities and its finances. A Governance Improvement Plan was developed for 2020/21 that reflects this and a review has been conducted with the Department for Transport (DfT) on TfL's sustainability and financial model. Cost control initiatives continued throughout the year as we worked towards our target of turning a deficit on the net cost of operations at the TfL Group level into a surplus.

Narrative Report and Financial Review (continued)

We have established a committee structure to which we delegate detailed scrutiny of key areas of our responsibilities. We have ensured the TfL Board has the right range and depth of knowledge, skills and experiences to run the organisation effectively. We refreshed our Board membership, in line with best practice, so it remained relevant and up to date (the list of our members is on pages X to X). At the date of this report just over 53 per cent of our Board members are women. We understand the benefits of diversity and are continually seeking to improve this across our Board and executive teams.

We also have a series of policies and guidance setting out expected standards of behaviour and conduct. These include the TfL Code of Conduct, Anti-fraud and corruption policy, Slavery and Human Trafficking Statement and the Whistleblowing policy.

In an organisation as large as TfL, we partly fulfil our duties by delegating day-to-day decisions to company employees within our governance framework.

Coronavirus

Our priority during the coronavirus pandemic has been to follow government recommendations for action and keep services running.

In support of the Government's efforts to stop the spread of coronavirus and mitigate the financial impact of the lockdown, examples of measures implemented include:

- TfL and its subsidiary, Crossrail Limited, brought all construction project sites to a temporary Safe Stop during the initial phases of the first lockdown unless they needed to continue for operational safety reasons or essential maintenance of the transport network
- Enhanced cleaning and use of hospital grade anti-viral cleaning fluid and ultra-violet light sanitising to kill viruses and bacteria across our network services
- Enforcement of the mandatory wearing of face coverings on all public transport modes
- Actively managing demand across the network and promoting travel during quiet times to ensure that those who needed to travel could continue to do so safely
- Rent reliefs, including the grant of a three-month rent holiday during the initial phase of lockdown, to all small and medium enterprises across the commercial property estate (representing 86 per cent of TfL's tenants) to enable them to continue trading

Narrative Report and Financial Review (continued)

We fully supported the Government's nationwide message to 'stay at home' during the lockdowns. As a result, we saw demand reduce by over 90 per cent on the Tube and around 85 per cent on Buses in the first lockdown in March 2020. We have continued delivering essential transport services supporting the pandemic response.

We oversaw and monitored the response of our executive leadership team to the crisis and ensured that appropriate governance and decision-making frameworks were put in place. We ensured that key decisions were taken in a timely manner to safeguard our people, our passengers, and the public, and to support the country by ensuring essential services continued to run, particularly for key workers.

We maintained regular and open communications with our people, our passengers, train operating companies, key stakeholders, and supply chain to support good decision making.

Brexit

Terms for the new trading relationship between the UK and European Union were confirmed in December 2020 and took effect at the end of that month. The implementation of the new trading relationship ensured greater assurance on the cost impact and availability of goods and materials. TfL has experienced some supply chain disruptions, impacting cost and project delivery including border delays on goods from the EU, import and customs arrangements and quota and tariff charges on imported materials. We continue to proactively monitor and manage risks throughout our supply chains. In addition, we continue to support our non-UK European Union citizen staff by engaging through our Human Resources team and internal communications as well as providing guidance on applying for Settled Status.

On the revenue side, we are exposed to macroeconomic conditions through impacts of changed trading terms on the UK and London economies feeding through to ridership on our services. However, the scale of such impacts is minimal in comparison to the ongoing effects of the coronavirus pandemic. We will continue to monitor economic forecasts as the impacts of both the trading relationship and the recovery from the pandemic become clearer and use these in our forecasting of future revenue.

Likely consequences of decisions in the long term

We develop our strategy in consultation with our stakeholders, to improve the services we provide to our passengers, suppliers, customers and communities, and our people. We have taken the three themes of the Mayor's Transport Strategy, being Healthy Streets and Healthy People; A Good Public Transport Experience; and New Homes and Jobs; and have developed a set of five key priorities that are the focus of our efforts up until March 2022. These priorities are:

- Future funding – to secure a long-term, sustainable financial deal for TfL

Narrative Report and Financial Review (continued)

- Transformative projects – to complete the Northern line extension, finish Crossrail and open the Elizabeth line
- Pandemic recovery – to safely support and drive forward London's post-pandemic recovery and win back our customers
- Clear vision – to create a people-centric vision and a more diverse and inclusive organisation, informed by and for our colleagues
- Green future – to improve London's air quality and accelerate decarbonisation

Interests of the organisation's employees

The safety of our people and customers remains paramount. Working alongside our suppliers and Trade Union partners, we have measures put in place to protect staff and customers ranging from installing protective screens for bus drivers, to implementing a rigorous new cleaning regime.

We have worked hard over the years to build up a comprehensive set of collective bargaining arrangements which provide for constructive discussions with Trade Union representatives and officials at all levels of the organisation. Our important work and with the transport Unions has continued and our partnerships have been strengthened this past year.

We ensure that local, functional and company-level meetings take place, usually on a quarterly basis, across the various employers within the TfL Group. Additionally, there are separate Safety, Health and Environment meetings and other staff network groups focused on specific issues, such as the Black, Asian and Minority Ethnic Network, the Women's Network and the Staff Network Group for Disability.

During the coronavirus pandemic we have worked hard to respond collectively and adapt our normal ways of working. We have increased the frequency of meetings and introduced a weekly TfL-wide trade union summit to ensure that important issues can be raised and dealt with more quickly. We sought advice from unions on how we can best work together to protect our bus drivers and the public who still needed to use the bus network to make essential journeys.

We have had a focus throughout the year on wellbeing support for our employees. Our internal intranet platform hosts a wide range of easy-to access resources, while our Occupational Health and Wellbeing team continues to provide access to support for employees, despite the challenges of the pandemic. In addition, we have partnered with Able Futures to offer nine months free confidential mental health support to those employees whose mental health is directly impacting their ability to work.

We have continued our annual staff survey and run other listening programmes, and business briefings.

Narrative Report and Financial Review (continued)

Impact of operations on the community and the environment

Streamlined Energy and Carbon Reporting (SECR) helps businesses across the UK in scope of the 2018 Regulations to comply with their legal obligations in respect of energy and carbon usage reporting. The required disclosures on carbon emissions and energy usage for the TfL Group are set out on page X.

On an annual basis, the safety, health, and environmental policy and performance reports, containing details of TfL's action plans in relation to furthering the green agenda are published on the TfL website. Further detail on how we monitor and report on climate change risk and adaptation is set out in the principal risks section of this Narrative Report.

Fostering business relationships with suppliers, customers and others

As stated previously, we have worked with our Trade Union partners and suppliers to ensure appropriate actions are taken to protect staff and customers during the pandemic.

During the year we developed initiatives to make us more dependable and easier to work with by working smarter with our supply chain and involving them earlier in the planning phase to help us improve efficiency. The Procurement and Supply Chain team has seen significant changes in its management, who are leading a programme of transformation activity aimed at strengthening commercial/procurement controls.

Financial review

Summary of financial performance

Since the start of the coronavirus pandemic, and despite running a near-full level of services for the majority of the year, we have seen a significant decline in income, with total passenger fares for the year coming in at £1,600m – 66 per cent below the 2019/20 total, and with advertising and rental revenues also being significantly impacted. The dramatic drop in income has necessitated the provision of extraordinary grant funding from the Government. In May 2020, we agreed a support package of £1.6bn to cover the first half of the year. At the end of October 2020, we finalised a new funding agreement that was subsequently extended to cover the period to 18 May 2021. This new agreement provided a level of base funding, as well as passenger income top up to an agreed level. In return for this support, TfL committed to meeting a number of conditions, including making £160m of net savings in the second half of the year in addition to those already included in our budgets, investing in Streetspace for London, and producing a plan to achieve financial sustainability in the medium to long term. Since the year end, this agreement has again been extended, on similar terms, to 28 May 2021.

Through our savings programme, recruitment controls, tighter financial oversight, and from lower network costs at the start of the pandemic, we have kept operating costs low.

Narrative Report and Financial Review (continued)

In 2020/21, our net financing and investment expenditure increased from £411m to £549m, primarily reflecting the fact that investment property valuations gains of £59m seen in 2019/20, were replaced with fair value losses of £83m in 2020/21. Interest income also fell, reflecting lower cash and short-term investment balances held during the year and reduced investment yields, while the interest charge on borrowings increased as a consequence of new borrowings drawn down in the year.

Grant income, at £4,732m, was £1,464m above 2019/20 levels, reflecting the extraordinary funding grant of £2,457m received in the year. The share of losses from our associated undertakings and joint ventures reduced from £52m in 2019/20 to £3m in 2020/21.

These items combined with a Corporation tax credit of £11m to give an overall deficit on the provision of services after tax for the year of £911m compared to a prior year surplus of £671m. After reserves transfers, this translated to a reduction in usable reserves from £1,604m as at 31 March 2020 to £887m at 31 March 2021. This was £14m better than the 2020/21 forecast of £873m published in our submission to the Mayor's Budget 2021/22. As already highlighted, in the absence of the additional extraordinary funding support agreed with Government, the negative impact of coronavirus on our reserves would have been considerably greater.

The level of capital works undertaken fell during the year to £2,120m, 22 per cent below the prior year total of £2,724m. Reductions were a reflection of delays resulting from the safe stop of capital project works at the start of the year, combined with tight spend controls and the pausing or termination of non-core capital projects due to ongoing uncertainty regarding future funding.

In addition to £367m (2019/20 £453m) of spend on renewals works, capital spend included new investment of £704m (2019/20 £1,026m) on the Crossrail project and £1,049m (2019/20 £1,245m) on other investment projects. Major 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 and associated infrastructure.

Narrative Report and Financial Review (continued)

Funding sources

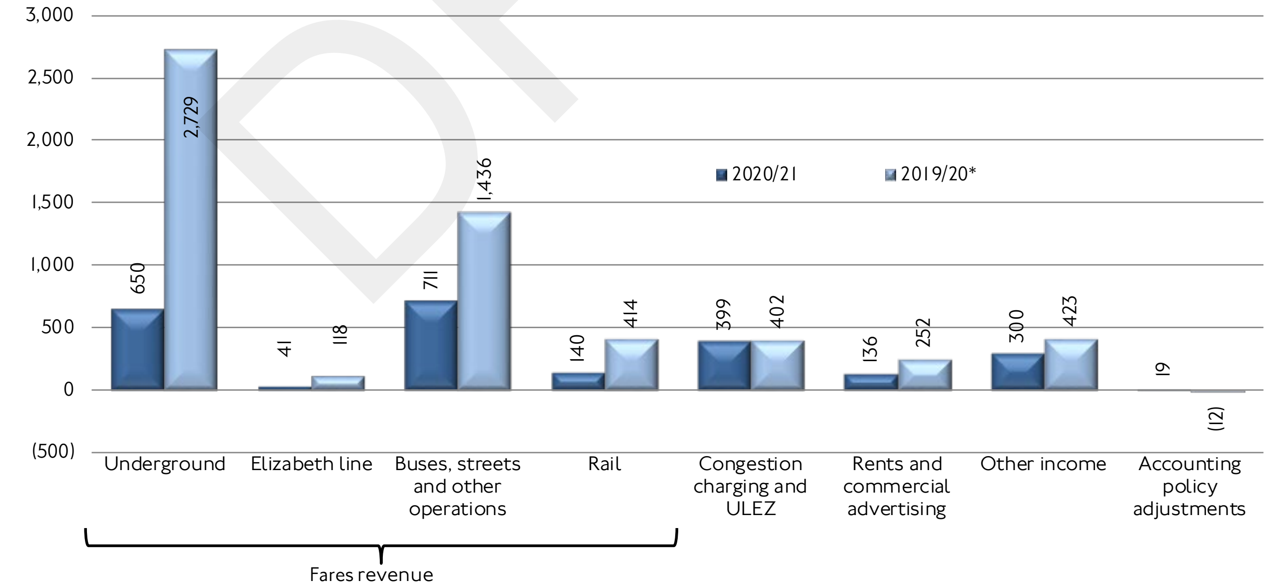
Our activities are funded from four main sources:

- Passenger fares income – historically this has been the largest single source of our income, but has been significantly impacted by the pandemic in 2020/21
- Other income, including commercial activity and income from the Congestion Charge and other road-user charges
- Grant income, including extraordinary funding grant in 2020/21 from the DfT, and a share of London Business Rates passed down to TfL from the GLA
- Prudential borrowing (the amount and profile of which has been agreed with the DfT) and cash reserves

TfL's Business Plan is financially balanced over the medium term, 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. Over the course of 2020/21, our usable reserves have been deliberately eroded as we have utilised brought forward cash reserves to subsidise the income shortfall arising as a result of the pandemic. This has been a condition of our extraordinary funding arrangements with the DfT. Work remains ongoing within TfL and through discussions with the DfT to determine how previous planned activity and funding plans will need to change to ensure that we are able to continue to balance our Business Plans and Budgets in a post-coronavirus operating environment.

Gross income

Gross income breakdown by type (£m)



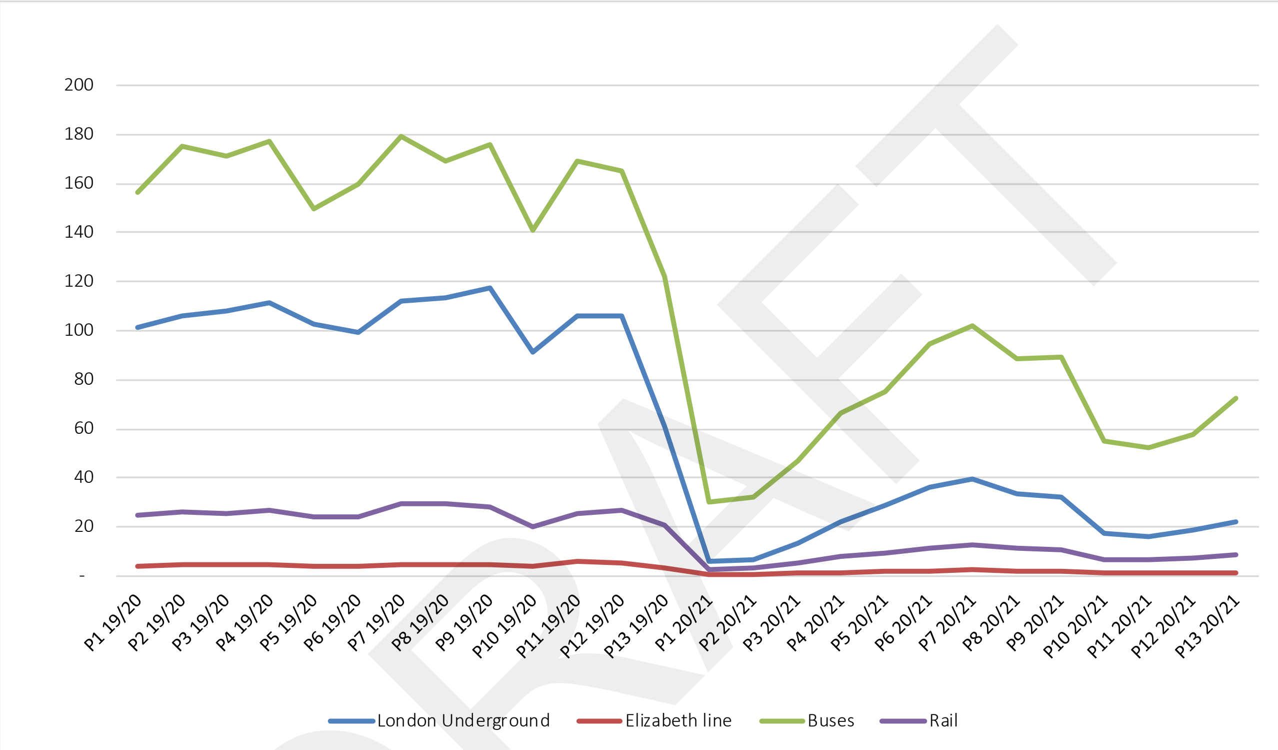
* Figures for 2019/20 have been restated to align with a revised internal management structure.

Narrative Report and Financial Review (continued)

Total gross income fell 58 per cent from £5,762m in 2019/20 to £2,396m in 2020/21, reflecting a fall in revenue across almost all categories as a result of the coronavirus pandemic.

TfL's primary source of income comes from passenger fares, which has historically represented more than 70 per cent of all revenue generated. Fares income fell during the year from £4,751m in 2019/20 to £1,600m in 2020/21, as a consequence of reduced levels of ridership on all service lines.

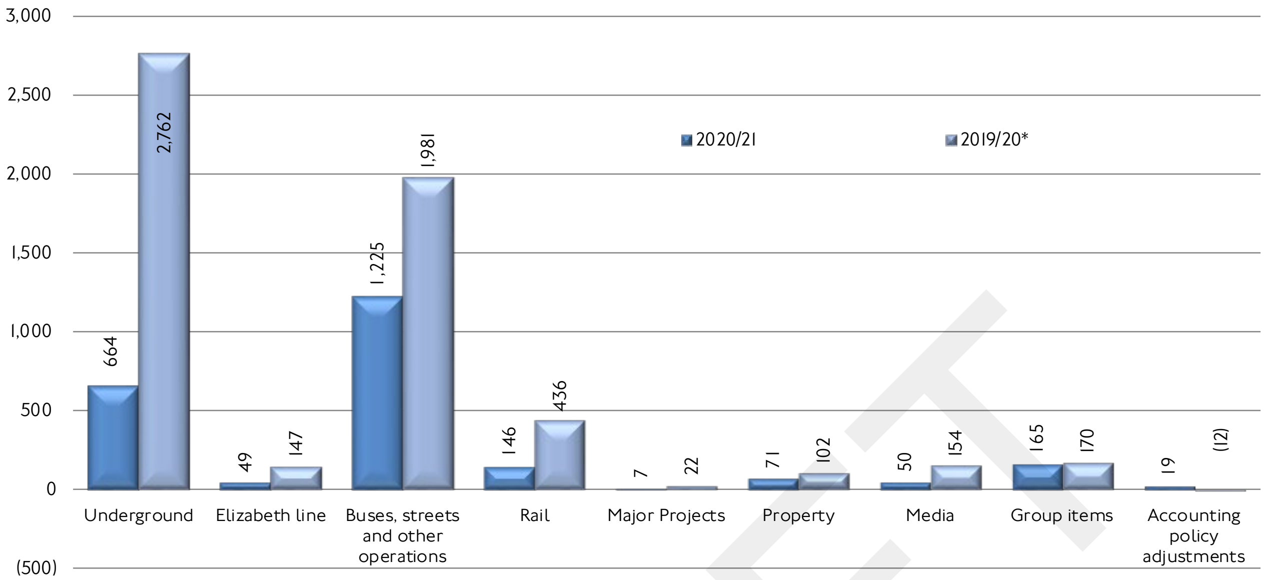
Passenger journeys per period (in millions) over 2019/20 and 2020/21



As well as the reduction in passenger journeys illustrated in the graph above, fare price increases were also kept low for the majority of the year. TfL fares decisions are taken annually by the Mayor who, following five years of fare freezes, increased overall fares from 1 March 2021 by 2.6 per cent (RPI plus one per cent). This was a condition of the funding agreement with the Government in October 2020 and is in line with national rail fare increases. Within the overall rise, some fares remained frozen – including some single pay as you go Tube, DLR, London Overground and TfL Rail fares – which will help to encourage people back into central London, when the time is right, and aid the Capital's recovery.

Narrative Report and Financial Review (continued)

Total gross income by operating division (£m)



* Figures for 2019/20 have been restated to align with a revised internal management structure

Total gross operating income for the Underground was £664m, £2,098m (or 76 per cent) below 2019/20 levels as a result of the coronavirus travel restrictions implemented by Government. The fares component of this total fell 76 per cent from £2,729m in 2019/20 to £650m in 2020/21 as a consequence of the reduction in passenger journey volumes from 1,337 million in 2019/20 to 296 million in 2020/21 (a 78 per cent decrease).

Average yield per journey improved from £2.04 per journey in 2019/20 to £2.21 in 2020/21. This reflected a change in ticket mix as a result of the pandemic with more people choosing to purchase single-use tickets rather than travelcards, combined with an increase in average fares for National Rail in January 2020 which had an impact on a proportion of TfL tickets. The increase was further compounded by the overall increase in fares by RPI plus one per cent from 1 March 2021.

Gross income for the Elizabeth line division (currently operating as 'TfL Rail') fell by 67 per cent from £147m in 2019/20 to £49m in 2020/21. Within this total, passenger income reduced from £118m to £41m reflecting a 66 per cent fall in journeys over the year.

Income from Buses, streets and other operations fell 38 per cent from £1,981m in 2019/20 to £1,225m in 2020/21. Within this total, passenger income for the Buses, at £709m, was £722m adverse to the prior year, owing to the impact of the pandemic which reduced passenger demand over the course of the year by 1,247 million passenger journeys. Fares income from the Emirates Airline, at £2m for the year, was £3m below the prior year total.

Narrative Report and Financial Review (continued)

Streets' income, however, at £402m, was £47m higher than 2019/20 levels, despite the suspension of our three main road user charging schemes (the Congestion Charge, Ultra low Emission Zone and Low Emission Zone) during the first lockdown. This reflected a temporary increase in the daily Congestion Charge from £11.50 to £15.00 and the extension of the hours of operation to include evenings (up to 10pm) and weekends from 22 June 2020, as well as the closure of the residents' discount to new applicants from 1 August. These changes were brought forward in accordance with the conditions in our funding agreement with Government and were implemented to facilitate the flow of essential traffic, including buses, to support the Streetspace for London programme which is providing safe conditions for walking and cycling. Congestion charge revenues for the full year increased from £247m in 2019/20 to £316m in 2020/21, offsetting a fall in ULEZ income from £149m to £77m. Cycle hire revenues were also up on the prior year, at £17m for the full year compared to £11m in 2019/20.

In the Rail division, income at £146m was 67 per cent below prior year levels. Within this, passenger income of £140m fell £274m below the 2019/20 total, owing to the impact of coronavirus. Passenger journeys on the Overground fell from 187.1 million to 53.8 million, while journeys on the DLR fell from 116.8 million in 2019/20 to 39.9 million in 2020/21.

Within the other divisions, Media saw a 68 per cent decrease in revenues to £50m in 2020/21 due to a combination of reduced footfall across the network combined with the fact that brands have reacted to the economic uncertainty arising from the pandemic by cancelling or reducing advertising spend. The Property division was also adversely impacted, with revenues from the rental portfolio falling from £102m in 2019/20 to £71m in 2020/21. This was primarily a reflection of rental relief concessions granted to our small- and medium-sized business tenants across London as well as a range of bespoke support packages put in place for our larger business tenants, to help ensure businesses survive through the pandemic and are supported through their recovery. Major projects saw a reduction in income from £22m in 2019/20 to £7m in 2020/21.

Income from Group items relates to a variety of activities, including taxi and private hire licencing, estates management and travelcard administration. This income is included in the management recharge of net central overheads for the purposes of our internal management reporting.

Government grants and other funding

In 2020/21, the need to continue running near-full levels of service throughout the year to support social distancing combined with a dramatic fall in our fares, resulting in an unprecedented shortfall in funding to support the running of our operations. The DfT therefore contributed revenue grant funding totalling £2,457m to TfL in 2020/21 under two Extraordinary Funding and Financing Agreements dated 14 May 2020 and 31 October 2020. We received a further £58m of support from the Coronavirus Job Retention Scheme. And, in addition, TfL continued to receive funding 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.

Narrative Report and Financial Review (continued)

Other sources of grant income included specific capital grant from the GLA for the Crossrail project and other projects, such as the Northern Line Extension as well as contributions from third parties.

The total of resource and capital grants receivable by TfL in 2020/21 amounted to £4,732m (2019/20 £3,268m).

Prudential borrowing

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

Movement in borrowing (£m)	
Opening borrowing at 1 April 2020 per the accounts	11,689
Export Development Canada (EDC) loans – £100m due in 2040	100
Public Works Loan Board (PWLB) loans – eight tranches borrowed totalling £600m due between 2030-2058	600
DfT Crossrail loans	676
Issuance of rolling short-term Commercial Paper	165
Scheduled repayments on PWLB and European Investment Bank (EIB) loans	(263)
Fair value movements, issue premia/discounts and fee adjustments	1
Closing borrowing at 31 March 2021 per the accounts	**12,968**

The authorised limit for direct borrowings for the Corporation set by the Mayor for 2020/21 was £14,029.3m.

At 31 March 2021, TfL had one committed facility with the DfT, for the purposes of the Crossrail project, that was not fully drawn and is expected to be fully utilised early next year.

In addition to these sources of financing, other sources include Private Finance Initiative contracts (PFIs) (note 27 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 accounting policy adjustments (including depreciation and amortisation) reduced by 4.3 per cent from £7,739m in 2019/20 to £7,405m in 2020/21. Excluding accounting policy adjustments, expenditure fell by 1.4 per cent from £6,473m to £6,381m.

The level of operating costs reflected our continued focus on cost savings, tight controls on recruitment, even stronger financial oversight, and lower network operating costs at the start of the pandemic.

Year-on-year costs of operations (£m)

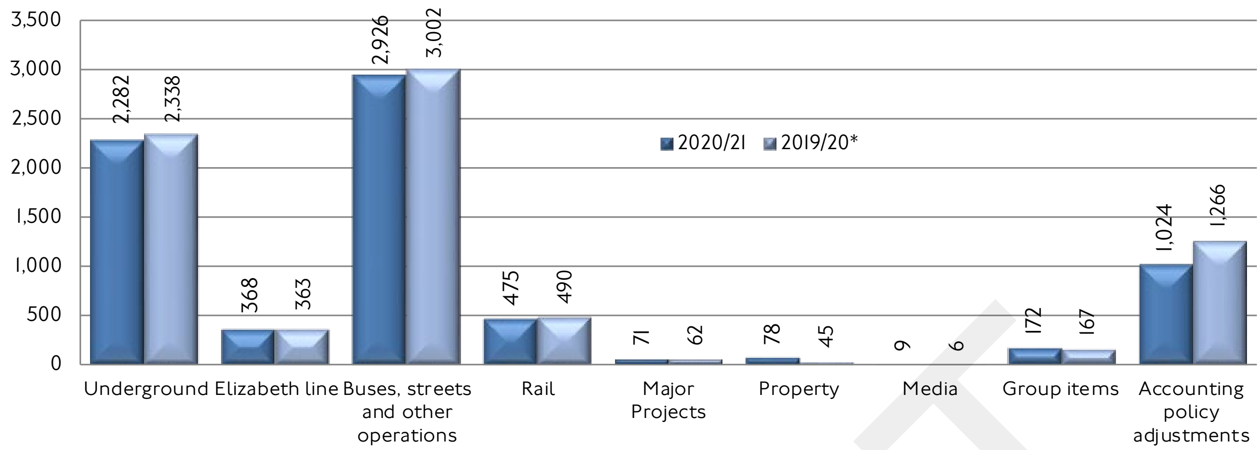
	2021	2020
Cost of operations per internal management reports	**(6,381)**	(6,473)
Adjust for one-off items incurred	**177**	35
Adjust for one-off coronavirus savings	**(126)**	-
Adjust for investment programme operating costs included in operating expenditure	**255**	284
Adjust for Elizabeth line direct operating costs (excluding allocated overheads and one-off coronavirus expenses)	**337**	354
Adjust for other new services (new London Overground trains)	**9**	-
Adjust for one-off bus operators' payment	**-**	34
Cost of operations (like-for-like basis)	**(5,729)**	(5,766)
Year-on-year decrease	**37**	
Year-on-year percentage decrease	**(0.6)%**	

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. Overall, like-for-like operating costs were held to prior year levels. One-off items incurred in 2020/21 included £144m of direct coronavirus related expenditure. One-off expenditure in 2019/20 related primarily to coronavirus costs incurred in the last two weeks of the year.

Direct operating costs for the Elizabeth line have reduced during the year as cost increases resulting from preparations for the opening of the Elizabeth line and inflation on contracts, have been more than offset by a one-off reduction in the rolling stock lease expenses recognised in our management accounts.

Narrative Report and Financial Review (continued)

Gross expenditure by operating division (£m)



* Figures for 2019/20 have been restated to align with a revised internal management structure

On the Underground, costs fell by £56m (two per cent) in the year, reflecting a continued emphasis on driving down costs while maintaining a safe and reliable network, as well as savings derived from lower indirect overheads allocated to the division.

Total operating expenditure on the Elizabeth line at £368m was broadly in line with the prior year figure of £363m. Lower maintenance and staff costs were offset by higher concession costs.

The cost of operating Buses, streets and other operations fell by three per cent from £3,002m in 2019/20 to £2,926m, partly reflecting lower bus contractor payments for the year of £2,028m, down from £2,055m 2019/20. Savings were also made in streets' operations where spend fell seven per cent from £523m to £485m. These cost reductions were a reflection of lower levels of funding provided by TfL to London Boroughs, which fell from £164m in 2019/20 to £109m in 2020/21.

Operating expenditure for the Rail division fell three per cent from £490m in 2019/20 to £475m in 2020/21. The decrease primarily reflected maintenance savings - particularly on the Docklands Light Railway.

Property and Media costs, however, both increased during the year – from £45m to £78m for Property, and from £6m to £9m in Media. In both divisions the rise in costs was primarily a reflection of higher levels of bad debt expense as our tenants and advertising partners were challenged by the financial pressures arising from the pandemic.

Spend in Major projects also increased, by 13 per cent to £71m, as a result of increased non-capitalisable spend.

Narrative Report and Financial Review (continued)

Operating costs included within Group items reflect the fact that the internal management recharge of central overheads to divisions includes elements of income (including amounts for taxi and private hire licencing, estates management and travelcard administration). At the total Group level, for management reporting purposes, this income is shown as an element of 'total income'. In the segmental analysis of performance, however, this income is included in the management recharge of net central overheads in the Operating Accounts of individual divisions.

As set out in note 2, Accounting policy adjustments primarily represent charges 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 fell from £1,069m in 2019/20 to £983m in 2020/21. This 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 £599m, £79m above the prior year.

This increase was primarily a reflection of valuation losses of £83m recognised in relation to the Group's investment property portfolio. In the prior year £59m of valuation gains had been recognised within financing and investment income.

Also within this overall total, interest payable on direct borrowings increased by four per cent from £422m to £437m. This increase reflected a full year of interest costs on borrowings of £545m raised in 2019/20, coupled with the impact of the £1,278m net increase in borrowings during 2020/21. As at 31 March 2020, TfL had a nominal £11.720bn of borrowings, of which approximately £0.7bn was short-term borrowing under the Commercial Paper programme. The weighted average interest rate was 3.48 per cent and the borrowings had a weighted average remaining life to maturity of 18.1 years. As at 31 March 2021, the nominal value of borrowings outstanding had increased to £12.995bn, of which £0.8bn was short-term Commercial Paper. The weighted average interest rate was 3.20 per cent and the borrowings had a weighted average life to maturity of 16.8 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 2020/21 totalled £90m (£109m in 2019/20).

Interest payable on leases, including contingent rentals in respect of PFIs, fell from £82m in 2019/20 to £73m in 2020/21, primarily reflecting the fact that a number of the Group's PFI liabilities were fully settled during the year. The Group's net interest expense in respect of its defined benefit pension scheme obligations fell from £123m in 2019/20 to £90m in 2020/21.

Gross financing and investment income totalled £49m, a reduction of £60m from 2019/20. The fall was primarily a reflection of the fact that £59m of investment property valuation gains recognised within financing and investment income in 2019/20, were, in 2020/21, replaced by valuation losses of £83m.

Gains from the disposal of investment properties were broadly in line with the prior year at £36m compared to £32m in 2019/20. Similarly, interest receivable on finance leases held in respect of advertising assets remained constant at £3m in both 2019/20 and 2020/21.

Investment returns on cash and other investment balances fell during the year, from £15m in the prior year to £7m in 2020/21, reflecting both lower average cash balances during the year, and lower rates of return.

Capital expenditure

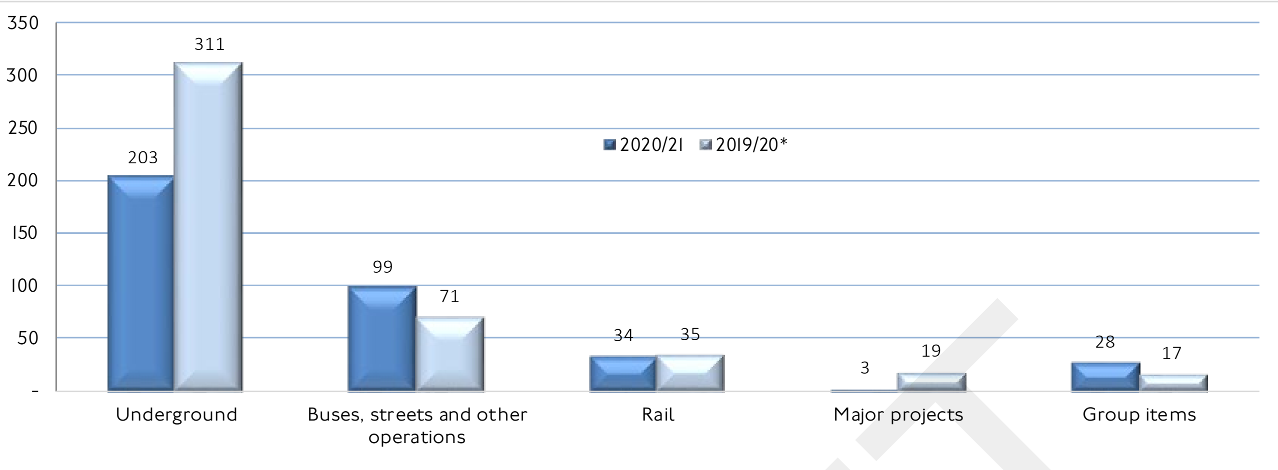
Capital expenditure by business area, excluding Crossrail (£m)

Group capital expenditure for the year, including Crossrail, totalled £2,120m (2019/20 2,724m). Non-Crossrail related expenditure totalled £1,416m (2019/20 £1,698m). Within this total £367m was spent on capital renewals (2019/20 £453m) and £1,047m (2019/20 £1,245m) was spent on new capital investment.

As part of the coordinated TfL response to coronavirus, non-essential site works were brought to a Safe Stop at the end of March 2020 during the initial phase of the first lockdown.

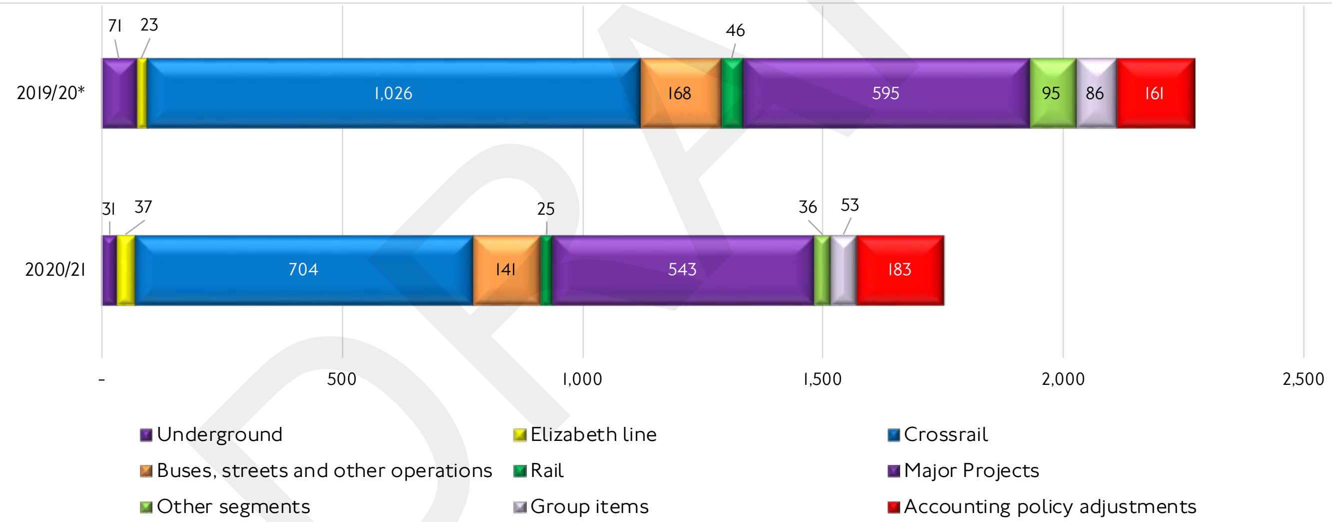
Narrative Report and Financial Review (continued)

Capital renewals by business area (£m)



* Figures for 2019/20 have been restated to align with a revised internal management structure

New capital investment by business area (£m)



* Figures for 2019/20 have been restated to align with a revised internal management structure

On the Underground, capital expenditure totalled £234m, down from £382m in 2019/20. This included £31m of new capital investment in addition to £203m of renewals spend.

As at 31 March 2021, a further three stations were step-free (Cockfosters, Debden & Amersham) with five more to be completed by the end of 2021. In addition, improvements and capacity increases to stations including Tottenham Hale, Paddington, Knightsbridge, Colindale and Stratford are all progressing and are currently at different stages of completion.

Narrative Report and Financial Review (continued)

Work to improve accessibility on the Bakerloo line fleet has commenced and overhauls and refurbishment of the Metropolitan, Victoria, Piccadilly and Central line Fleets are ongoing. A new maintenance shed to house the Central line trains while they undergo heavy overhaul now has power and is nearing completion.

Although heavily impacted by the pandemic, we replaced over 8km of new track and 19 points and crossing units across the Underground network to improve reliability, reduce maintenance costs and increase capacity.

We have continued our programme to replace our lighting with low-energy LED equivalents, converting 17 stations in the year. Power and signalling assets have been replaced to improve safety and reliability and work to strengthen the embankment at Grange Hill-Chigwell is progressing well, with similar earthworks projects at earlier stages of maturity.

On the Elizabeth line, capital investment expenditure of £37m was incurred, primarily in relation to station improvements.

Total capital expenditure within the Buses, streets and other operations division of £240m is in line with 2019/20 levels of spend. Within this total, the amount spent on renewals increased from £71m to £99m.

Despite the pandemic, the division delivered significant projects in the year, including the refurbishment of Vauxhall Bridge, the delivery of replacement Dial-a-Ride vehicles and Cycle Hire Scheme bicycles. We have continued our work on critical renewals for the Rail modes, including a replacement asset management system for London Overground, replacement bogie frames and key IT updates for the Docklands Light Railways, and renewal of Trams' track at Reeves Corner and Love Lane. We have continued our annualised programme of bus stop and shelter renewals across our Bus estate, and have designed, delivered and installed a new, safety-critical, fire control and detection system at Victoria Coach station.

While momentum behind medium-term safety and air quality objectives slowed in the pandemic, we did not halt these programmes because of their importance. We continued rolling out the Bus Safety Standard to harness new technologies and better vehicle designs to help avoid deaths and reduce the severity of injuries on our roads. Just under 450 vehicles now meet this and are fitted with improved visibility side mirrors, Intelligent Speed Assistance and more slip-resistant floors. Around 300 of this number also have Acoustic Vehicle Alerting Systems to make their presence more obvious to pedestrians, cyclists and motorcyclists.

Narrative Report and Financial Review (continued)

On the emissions front, we have lifted our core fleet to the ultra-clean Euro VI engine standard slightly later than planned because of lockdown impacts on vehicle delivery. Every vehicle lifted to this standard reduces its tailpipe emissions of particulate matter and oxides of nitrogen by up to 80 and 95 per cent respectively. We have also continued bringing in zero-emission buses despite lockdown impacts on production and delivery. We are close to having 500 of them in our fleet of around 9,000 buses and this total will rise to 700 by the end of 2021.

The Major projects directorate is responsible for our largest and most complex projects. It handles line upgrades, network extensions, Major Station Upgrades and capacity improvements. Capital expenditure in the directorate totalled £546m in 2020/21, including £543m of new capital investment.

Within this overall total, £114m was spent during 2020/21 on the Northern Line Extension. Running from Battersea Power Station to Kennington 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. The test train runs allowed testing of the new signalling system, including stabling at all platforms and bi-directional running within the Kennington loop. The successful high-voltage power installation to the switch rooms has allowed the commissioning of key systems, such as escalators, lifts and CCTV. Stations and shafts tunnel ventilation fans were commissioned during the year. The key focus for the programme in 2021/22 is on the work packages and resources required for supporting the start of trial operations planned for June 2021 and revenue service in Autumn 2021.

A further £100m 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. On 4 March 2021, a strategic milestone "Completion of Final Design of the new Piccadilly line trains" was achieved ahead of the plan. The programme continues to work collaboratively with Siemens towards the commencement of train manufacture in the coming financial year. The contract for the "one-person CCTV system" was awarded and the design work progresses as planned. This is a safety critical system that provides the train operator with CCTV images of the platform to enable safe departure. The programme expects the first of the new trains to be serving customers from 2025.

£104m 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, we are in the process of replacing and improving outdated signalling, power and depot assets.

Narrative Report and Financial Review (continued)

The combined effect of the coronavirus pandemic delays and the complexity of re-planning the closure-based works integrating future events in London has led to challenges to the Four Lines programme. Nevertheless, significant progress was made over the year. On 7 March 2021, the programme reached a major milestone when the new signalling system went live in Signalling Migration Area 3 between Monument, Euston Square and Stepney Green. This paves the way for frequencies to be increased and reliability to be improved for our customers once the rest of the route has been automated. Signalling Migration Area 3 is the largest and most complex migration area commissioned to date and introduced the full complement of District line drivers to the new signalling system.

£65m was invested in the Major Stations Upgrade programme. At Bank Station, the main tunnelling excavation and associated civil works were completed in late January 2021. The installation of new track has begun and the project continues to progress well through the fitout phase. Cabling works have started in all areas, while installation of primary cable management and ventilation systems are approaching completion. Planning for the temporary closure of the Northern line Bank branch and some associated Northern line stations continues. This will allow the existing southbound Northern line to be connected into the new running tunnel and platform at Bank, allowing the old running tunnel to be transformed into a new larger passenger concourse.

£57m was spent on the Silvertown Tunnel, a new 1.4km long twin-bore road tunnel linking the A102 Blackwall Tunnel Approach on the Greenwich Peninsula to the Tidal Basin Roundabout in the Royal Docks area. The design, build, finance and maintain contract was awarded to the RiverLinx consortium in 2019. Construction works continue in line with expectations. The contract for the design and manufacture of the tunnel boring machine continues and construction of the launch chamber has begun, with more than 20 per cent of the total number of piles required for the chamber now in place.

£46m was spent during 2020/21 on the DLR Rolling Stock and System Integration programme. The aim of this programme is to manufacture and supply 43 new DLR trains, 33 to replace the life-expired B92 fleet and 10 to increase capacity. It will also include an expanded depot to stable and service the new fleet and signalling modifications to the Thales Automatic Train Operation system to support the new trains and functionality. Authority to enter into a grant agreement with the Housing Infrastructure Fund to fund works to deliver 14 additional trains and stabling capacity was approved in December 2020, and the grant agreement has now been signed.

Rolling stock manufacturing is underway with Construcciones y Auxiliar de Ferrocarriles. The Thales signalling software development started in 2020/21. The Beckton Depot enabling package has been awarded and the Beckton Depot northern sidings works tender evaluation has been completed and approval given to award the contract. Works to bring in a new traction power supply by UK Power Networks have commenced on site.

Narrative Report and Financial Review (continued)

Other projects progressed by the Major projects division included the Barking Riverside Extension, a 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 2022/23.

At the new station, the main roof, platform canopy cladding and glazing were completed. Progress continued on the installation of mechanical and electrical equipment including the power supply for lifts and signalling. January 2021 saw completion of the major signalling stage that was cancelled at Easter 2020 due to the coronavirus pandemic and preparations are underway for commissioning of two signalling stages scheduled for June and July 2021.

New capital investment in the “Other” category, totalled £36m, reflecting expenditure in the Property division on both the existing commercial estate and new housing developments.

In a difficult environment we obtained planning consents at Bollo Lane (Acton), Montford Place (Kennington), Southwark and Landmark Court (Southwark).

Bollo Lane was approved by Ealing Council during the last quarter of 2020/21. The development will provide 852 new, high-quality and affordable homes in the local area, spread over nine buildings. The masterplan, designed in collaboration with architects HOK, landscape architects East and engineers Mott MacDonald, covers a 3,600-square-metre site, spanning from Acton Town station in the north to the level crossing towards Chiswick.

The development, our largest to date, will include a mix of one-, two- and three-bedroom properties, suited to all types of households, including first-time buyers, families and downsizers. The area around the new homes has been designed to deliver long-term positive change and sustainability for the local community. As well as looking to incorporate renewable energy systems, such as solar panels, the designs include gardens and play spaces for the local community and residents. The vast site will provide more than 2,300 square metres of commercial space, which could be used by local businesses. Combined with the additional retail space included in the plans, the development will contribute to the local economic recovery.

A second success at planning committee was in relation to an over station development at Southwark Tube station, where our proposals would create 25,000 square meters of new office space. This development will include improvements around the station for pedestrians and cyclists, help the council provide 25 new affordable council homes and introduce new landscaping and access routes to Isabella Street. It will be one of the most sustainable office buildings in the world and will include a hybrid cross-laminated timber frame that will reduce embodied carbon by 40 per cent. We will also reduce our operational carbon emissions by 44 per cent by using solar panels and pumps that recycle heat from the London Underground network.

Narrative Report and Financial Review (continued)

During the year, £704m was spent on the Crossrail project. 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 Limited brought non-essential physical activity at its project sites to a Safe Stop. A programme of this scale and complexity was already challenging, with pressures on the schedule even before coronavirus became a factor; the impact of coronavirus has made the existing pressures more acute. As the programme impacts became clearer, Crossrail Limited issued an update to Sponsors.

Crossrail Limited advised, in August 2020, that the cost to complete the Crossrail project could be up to £1.1bn above the financing package agreed in December 2018 (£450m more than the upper end of the range announced in November 2019) and their latest assessment is that the central section between Paddington and Abbey Wood will be ready to open in the first half of 2022.

On 1 October 2020, responsibility for the governance of the Crossrail Programme moved to sit directly with TfL. This ensures that decision making between Crossrail Limited and TfL is seamless and fully aligned during the critical final phases of the Programme. The Elizabeth Line Committee has been established as a new Special Purpose Committee of the TfL Board to address the Crossrail Project and bring the Elizabeth line into full passenger service.

On 1 December 2020, the Mayor of London, TfL, the Department for Transport and HM Treasury confirmed an agreed funding and financing package for the final phase of the Crossrail project. This means work on the railway can continue at pace. Crossrail Limited is continuing to work hard to reduce its funding shortfall and TfL is ensuring that further independent analysis of costs is carried out. The shortfall will initially be covered by the GLA borrowing up to £825m from the DfT which will be given by the GLA to TfL as a grant. The GLA will repay this loan from the Business Rates Supplement and Mayoral Community Infrastructure Levy.

Delivery of the Elizabeth line is now in its complex final stages with the plan to complete the railway focused on the remaining construction, systems integration and extensive commissioning. In May 2021, the project hit the important milestone of beginning Trial Running. This involves integrated trials of the railway to demonstrate that the Elizabeth line is safe and reliable, and that it meets the capacity and performance requirements needed to move to the final commissioning stage, known as Trial Operations. This involves a wide range of trials and exercises such as evacuations of trains and stations. Following the opening of the central section, the introduction of full services across the Elizabeth line from Reading and Heathrow in the west and Shenfield in the east will be aligned with the National Rail timetable change. Crossrail and TfL are working to ensure the earliest possible opening for the Elizabeth line.

Narrative Report and Financial Review (continued)

Expenditure of £81m on Group items included £29m of new capital investment spent on the Emergency Services Network – a programme, funded by the Home Office, to deliver a new emergency services mobile communications solution. Once live the network will provide mobile connectivity services, including 4G, to enable emergency services teams throughout the London Underground environment to communicate.

The £183m of Accounting policy adjustments primarily reflects £90m of interest capitalised into the cost of qualifying projects during the year (2019/20 £109m).

Cash and investments

Total cash, cash equivalents and investments with maturities greater than three months held by the Group at 31 March 2021 amounted to £1,729m, a decrease of £480m since the end of 2019/20, driven by the impact of the coronavirus pandemic. Of the total cash balance, £109m is held for the Crossrail project, London Transport Museum Limited and London Transport Insurance (Guernsey) Limited. Our cash position reflects £2,457m of extraordinary revenue grant, received from the Government as part of the extraordinary financing and funding packages. Of the balance held at the year end, £260m represents monies we are due to return to the DfT following a true-up of 2020/21.

Our liquidity policy requires us to maintain cash reserves equivalent to at least 60 days' worth of forecast annual operating expenditure (currently around £1.2bn). During 2020/21, our cash reserves remained above this minimum level.

The average yield from TfL's cash investments for 2020/21 was 0.12 per cent, down from 0.78 per cent in 2019/20. 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 2021 amount to £362m.

Treasury risk management

In March 2020, the Board approved TfL's treasury strategy for 2020/21 and its treasury policies. The strategy and policies 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. From 2021/22 the approval of TfL's treasury strategy and policies will be delegated to the Finance Committee.

Narrative Report and Financial Review (continued)

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 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 2020/21 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:

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 2020/21, 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 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. Investments outstanding at 31 March 2021 were with counterparties with credit ratings of P-1/A-1 or higher. Credit ratings are obtained from the three main rating agencies and are kept under review on an ongoing basis.

Funding and liquidity

In the year to 31 March 2021, primary funding sources comprised passenger fares income, other income including commercial activity and road user charging, grant income (including extraordinary grant from the DfT and 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.

Narrative Report and Financial Review (continued)

Maintaining sufficient cash reserves and having access to a range of flexible funding sources ensures the Group has sufficient liquidity to meet its liabilities, in both normal and stressed conditions. Although it has no immediate plans to borrowing in the near term, TfL is able to access several sources of debt funding within the prudential borrowing limit set by the Mayor, including direct access to the UK DMO via the PWLB, the commercial paper market and debt capital markets, subject to market conditions. 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 2021 is set out in note 34 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.

Interest rates

The proportion of fixed rate borrowings (including Commercial Paper swapped to fixed rate through the use of interest rate derivatives) at 31 March 2021 was 94.1 per cent; the remaining 5.9 per cent constituted PWLB floating rate loans and 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 2021, the majority of TfL's employees were members of the TfL Pension Fund. The Public Sector Section's deficit increased from £3,942m at the start of the year to £5,372m at the end of the year, as a result of a change in the financial assumptions adopted. The fall in gilt yields and the increase in expected inflation both increased the value placed on the liabilities over the accounting period.

This has been partially offset by the return on assets being higher than expected (based on last year's discount rate) and the adoption of the latest model for mortality rate improvements, which produces slightly lower life expectancies than the model adopted at 31 March 2020.

The total deficit recognised in respect of all funded and unfunded pension arrangements at 31 March 2021 amounted to £5,603m (2020 £4,101m).

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.

Narrative Report and Financial Review (continued)

Prospects, outlook, and principal risks

Viability statement

Since 2000, TfL has been London's spatial and transport planner, system integrator, network manager, regulator, operator and capital delivery body, and accountable to a democratically elected regional Mayor. This has been a period of considerable growth in the UK's capital city where improvements to the transport network have enabled the population to grow substantially, boosting the UK economy and quality of life for millions of people. We have been highly successful in reducing carbon emissions through driving modal shifts in the way people travel - facilitated by the provision of high quality public transport and improved walking and cycling facilities. Huge progress has been made, but we are currently facing unprecedented funding challenges that cast doubt on our ability to meet our targets for the future.

In the 20 years since it was created, TfL has built up a considerable debt burden to finance its capital investment activities, while simultaneously facing a reduction and subsequent withdrawal of its government grant. The cumulative impact of these changes means that, even before the coronavirus pandemic, we were facing a funding challenge which was forcing the deferral of some asset renewals and threatening our ability to achieve our future objectives. TfL is one of the only major cities in Europe not to receive a regular Government grant to cover day-to-day operations, with fares making up over 70 per cent of our operating budget, pre-pandemic. Our efficiency programme meant that we had been on a path to break even on the cost of operations, maintenance, financing costs and core renewals, having taken almost £1bn out of our net operating costs over the past four years. Despite this, we still required external support for capital investment. While, historically, TfL was able to borrow to fund its capital plans, the fact that its debt burden has now reached the limits of affordability means it can no longer continue to borrow significantly in the future. As a result, even before the pandemic, an expected shortfall of around £1bn per annum in constant prices had been identified from 2025 onwards in relation to the delivery of the 2019 capital plan.

The pandemic has acted to decimate our finances and has exposed the inadequacy of our current funding model. TfL's significant exposure to changes in demand due to its high fixed costs and dependence on fares revenue mean that it is particularly susceptible to recessions.

To keep the city moving throughout the pandemic while supporting the Government's guidance on social distancing, we have run a full service on most modes and more than 100 per cent levels of service on the bus network, while receiving only extremely limited revenue to pay for them. To achieve this, we have had to secure emergency financial support from the Government.

Narrative Report and Financial Review (continued)

On 14 May 2020, the Secretary of State for Transport confirmed that £1.6bn of funding would be made available to TfL over the period from 1 April to 17 October 2020. This included circa £1.1bn of grant funding and a further £505m of additional borrowing from the PWLB. On 31 October 2020, the Secretary of State for Transport agreed the provision of further funding to cover the period from 18 October 2020 until 31 March 2021 including £905m of grant and additional borrowing from the PWLB of £95m. These amounts assumed that the passenger demand over the period of funding support (the Support Period) would stay at approximately 65 per cent of pre-coronavirus levels. However, in recognition of the high level of uncertainty in predicting the future passenger revenue over the Support Period, the funding package permitted modification of the total amount of support up or down depending on actual passenger revenues. The actual level of extraordinary funding grant received in 2020/21 totalled £2,457m.

In addition to this, in August 2020, Crossrail Limited announced that the opening of the Elizabeth line through central London was expected to be delayed until the first half of 2022 and that additional funding beyond the previously agreed funding envelope would be required. Under a further financing package agreed with the DfT in December 2020, the shortfall is to be covered by the GLA borrowing up to a further £825m from the DfT to be given, by the GLA to TfL, as a grant.

Despite this support, we have experienced a reduction in our cash reserves from £2,209m at 31 March 2020 to £1,729m at 31 March 2021, as well as finding £160m of operating savings in the period from October 2020 to March 2021, over and above those already planned as part of the TfL Efficiency Programme.

While it is not yet clear how travel patterns might change and how quickly demand levels will return to pre-pandemic levels, it is clear that a significant financial gap will remain over the next few years.

On 22 March 2021, the funding arrangements agreed on 31 October were extended until 18 May 2021, on the same terms. Since the year end, this agreement has again been extended, on similar terms, to 28 May 2021. Without providing firm details of the quantum of future funding, the latest funding letter contained assurances of the DfT's continued support beyond this date, and acknowledgement that, over the long term, TfL cannot be expected to cover the cost of major capital enhancements from its own operating incomes.

We estimate that around £3bn in financial support from Government will be needed for the full 2021/22 year to cover the cost of operating the network. We anticipate further government grant will be needed to support ongoing operating activities at least until 2022/23. To achieve the Government's stated key priorities, additional government support will be required on a longer-term basis to fund the capital investment programme.

Narrative Report and Financial Review (continued)

As set out in our Financial Sustainability Plan, published on 11 January 2021, because of the level of uncertainty surrounding medium to long term demand, four financial scenarios have been developed to define the possible outcomes for the medium to long term (from 2023/24 to 2029/30). Each of these has been created by combining a passenger demand scenario with a long-term capital planning scenario and funding lever (or additional grant):

Demand scenario + long term capital planning scenario + funding lever or additional grant = outcome for London

Six possible passenger demand scenarios and three capital planning scenarios were considered, as described below.

The passenger demand scenarios follow five possible future city planning scenarios which show long term demand to 2031, plus an additional hybrid model. The six scenarios are:

i. Return to business as usual, representing a London which has bounced back from the crisis and looks relatively similar to expectations pre pandemic;

ii. Agglomeration x3, the story of an expanding London, where virus related changes to the economy enhance its global competitive advantage;

iii. London declines, the story of a lower growth London, having to cope with the fallout from the virus and a diminished status in the UK and the wider world;

iv. Low carbon localism, the story of a smaller but more sustainable London, which has been impacted significantly by the virus and becomes more local as a result;

v. Remote revolution, the story of a successful but quite different city, where technology has changed how people live, work and travel.

vi. Hybrid (+/-), a combination of the outcomes currently thought to be most probable from the scenarios explained above, incorporating changes to working patterns and behaviours. The Hybrid scenario is flexed with +/- variants to reflect the impact of demand of other assumptions in this plan.

The associated trajectories of revenue growth or decline from the activities has a very significant degree of variability in possible outcomes. Given the high fixed nature of TfL's operating costs, the resultant impact is on asset maintenance and capital spend.

The three long term capital planning scenarios are categorised as below.

i. **Safety minimum scenario**. Under this option we would defer renewals as long as possible while maintaining basic operability and maintaining safety levels and cease the majority of enhancements. This option is not considered viable alongside TfL's modernisation plans, with reliability and productivity suffering and costs escalating;

ii. **Financially constrained scenario**. This option delivers a more optimal profile of renewals including replacement of rolling stock at end of design life (but no increase in fleet sizes). It includes a reduced programme of enhancements which although exceeding the safety minimum scenario, still falls well short of that expected by national and local policy. While the most critical locations would be improved, this scenario would not be sufficient to realise the ambitions of a green recovery post-pandemic, and many opportunities to support development, decarbonisation and improvements to our services would not be realised

iii. **Policy consistent scenario**. This would be much closer to the aspirations set by local and national Government policy. As well as adequate spending on renewals, we would deliver substantial decarbonisation by 2030, prevent a car-led recovery and invest to improve our services and support development of new homes and jobs.

None of the long-term capital planning scenarios listed above contain new major projects in the first five years. This is reflective of network demand being lower compared to previous growth trajectories for London, resulting in less urgency for some previously strategically important major schemes that have now been re-prioritised to fall in the later years of the capital plan.

All scenarios have been modelled using the same underlying debt assumptions. TfL has a nominal value of direct debt outstanding as at 31 March 21 of £12,995m, with a weighted average tenor of approximately 17 years. We are not planning to undertake any additional borrowing in the next few years due to affordability constraints. To reach and maintain financial sustainability TfL will only actually be able to make debt repayments in the years in which it generates an operating surplus and the cash available to make repayments, while maintaining the appropriate level of cash reserves. This is not expected to be earlier than 2024/25. However, for modelling purposes, annual debt repayments have been assumed based on a 25-year amortisation period, which reflects the long life of infrastructure assets funded through borrowing.

Combining the assumptions above on capital in conjunction with four of the key passenger demand scenarios considered (Hybrid (+/-) and London declines) has resulted in the four financial scenarios outlined below.

Narrative Report and Financial Review (continued)

	Passenger demand scenario	Long-term capital planning scenario	Vehicle Excise Duty (VED)/Greater London Boundary assumption	Annual operating and capital funding requirement post 2023-2030
Decarbonise by 2030	Hybrid (+)	Policy consistent	£500m per annum VED or Greater London Boundary Charge	£1.6bn capital funding
Limited recovery	Hybrid	Constrained	£500m per annum VED or Greater London Boundary Charge	£1.0bn capital funding
Managed decline	Hybrid (-)	Safety minimum	£500m VED	£300m both operating and capital funding
Rapid decline	London declines	Safety minimum	None	£1.6bn operating funding

In the first two scenarios, it has been assumed that an additional £500m income can be generated annually from retaining London's VED – none of which has historically been retained by London to fund London's roads - or from introducing a potential Greater London Boundary Charge to deliver key Mayor's Transport Strategy (MTS) objectives whose net proceeds would be applied to facilitate the continued operation of a comprehensive transport network, particularly in Outer London, and the provision of other sustainable travel options. The funding from the VED or a potential boundary change would cover renewals and maintenance of the bus and streets infrastructure.

The third scenario assumes £500m from VED retention, but that a Greater London Boundary Charge would not be considered due to an inability to invest in public transport services to take up displaced car usage. The fourth scenario assumes no additional levers to raise the £500m.

TfL's preferred option would be 'Decarbonise by 2030', since it is the only option that includes adequate funding to meet the Government's ambitious Net Zero climate change contributions by 2050. Additionally, this is the only option which invests to modernise and advance technology of outdated assets and practices and makes rapid progress against wider safety objectives.

Our modelling under this scenario indicates that, by 2023/24, TfL would have recovered sufficiently from the pandemic to be able to cover the costs of operations, maintenance and financing costs without government grant support, and by 2024/25 it would also start to cover the cost of its core capital renewals. For the remaining renewals and enhancements and to decarbonise by 2030, TfL requires £1.6bn per annum of support in 2024/25 constant prices.

The models outlined above were developed on a baseline assumption that TfL does everything within its control to recover services and be an economic and efficient operator. TfL has already taken steps in this direction through making services as attractive to customers as possible through the use of extensive cleaning regimes, safety procedures and marketing campaigns to restore passenger confidence. The opening of the Elizabeth line will also have a positive impact on TfL's revenues, hence the early transfer of the governance of the project to TfL to achieve the earliest possible opening date.

Furthermore, we have considered plans for medium term service level changes to respond to expected changes in longer term demand driven by the pandemic. We have identified a four per cent reduction in the kilometres operated on the bus network to respond to expected future travel patterns (including a passenger reduction in central London and an increase in outer London town centres). We also plan to implement a package of off-peak service reductions on a number of Tube lines once coronavirus vaccines have been successfully rolled out. We estimate these changes will result in an annual saving of £5.6m per annum.

We will continue to take forward our proposals for workforce modernisation and productivity improvements. Subject to the provision of funding, we also believe there are further opportunities associated with investing in technology that could unlock additional efficiency gains.

We will continue to keep our reward strategy, including the pension arrangements offered to all TfL employees, under review to ensure the reward package is affordable while remaining fair and competitive.

We have agreed a new capital prioritisation framework with the DfT, including the three comprehensive capital scenarios set out above, and will use this to explore, with the Government, the impact of lower funding levels over the next five years. We have also started to embed new processes across the Investment Programme to track capital efficiencies and will collaborate further with Highways England and Network Rail through the Transport Infrastructure Efficiency Strategy initiative to share best practice and learn lessons to accelerate the implementation of the processes and meet targets quickly.

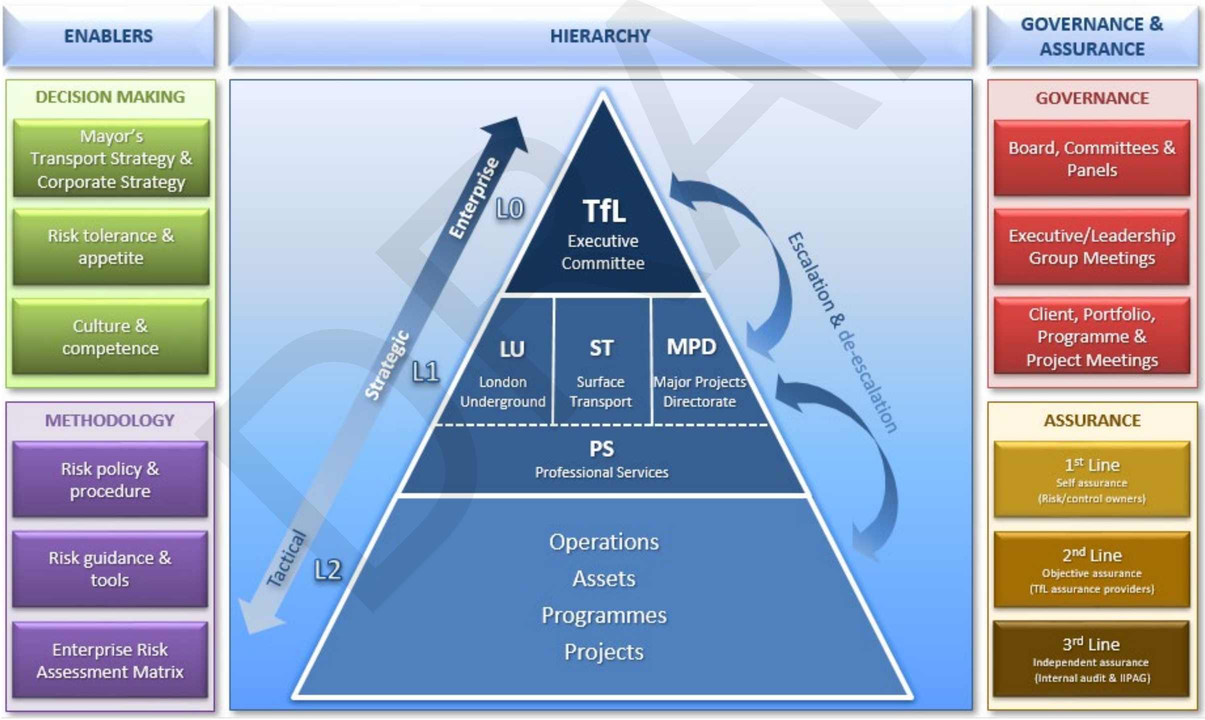
We will explore opportunities to obtain non-recourse finance to generate greater sums from our commercial development activities, including retail and property, as well as unlocking significant numbers of new homes. This will enable TfL to create a surplus to reinvest in housing, transport and public services.

Narrative Report and Financial Review (continued)

Although TfL has been very successful as a city planner, system integrator, network manager, operator and delivery body, the current funding model with its reliance on fares and the annual cycle of funding decisions by Government, adversely impacts our ability to operate in the most economic and efficient manner and ensure value for money. Without a clear picture of future resources, TfL cannot plan for the future of its network and optimise the benefits it can bring nationally. This short-term approach and lack of certainty undermines the ability of the supply chain to invest, limiting job creation, skills development and ability to command more efficient prices for work – for TfL and other transport operators in the UK and beyond.

TfL is therefore seeking to agree a reformed structure with Government that will allow funding from Government and outputs from TfL to be set for multi-year 'control periods'. The introduction of a revised structural framework, taking some of the relevant principles of the sort commonly used to regulate rail networks, airports and other forms of utility type infrastructure, would enable TfL to achieve equivalent security of funding, where better medium to long term planning and greater assurance can deliver more efficient decision making and value for money.

Enterprise Risk Management Framework



TfL's Enterprise Risk Management Framework (ERMF) supports a broader and more integrated approach to managing risks across the organisation, enabling a co-ordinated process including the provision of governance and assurance activities.

Narrative Report and Financial Review (continued)

The framework encapsulates three key elements for risk management:

- the **ENABLERS** to good risk management include robust decision making and a risk management methodology. Risks are assessed against the Mayor's Transport Strategy bearing in mind TfL's risk tolerance and appetite.
- The **HIERARCHY** of risks throughout TfL enables consistent classification, escalation and de-escalation of risks. Risks exist at three levels across the organisation, with agreed ownership from TfL's Executive Committee to departmental level;
- The **GOVERNANCE AND ASSURANCE** arrangements related to risk management, including risk reporting at various levels of the organisation to the relevant governance forums. The Institute of Internal Auditors' Three Lines Model has been adopted.

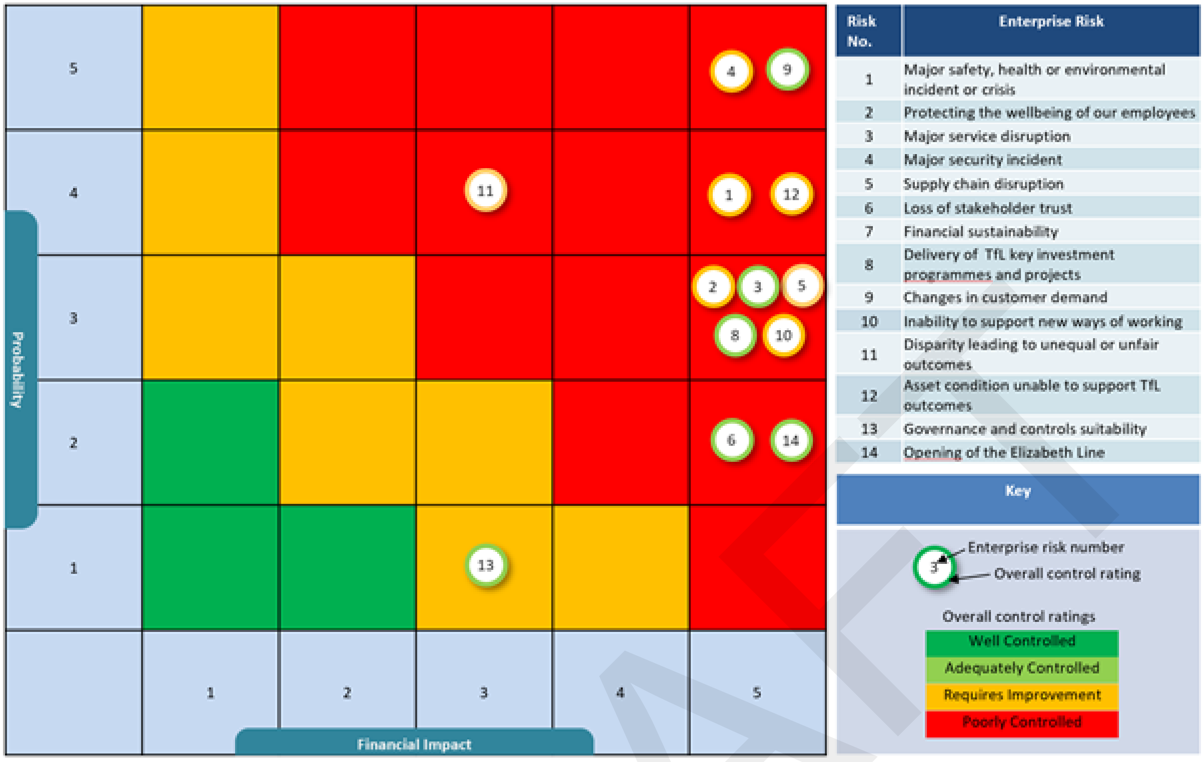
Principal risks

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 continues to be presented to TfL's committees and panels. Here, members of the Board have an opportunity to scrutinise, challenge or provide recommendations as appropriate. TfL's Executive Committee reviews and discusses enterprise risks quarterly, once a full assessment of each enterprise risk is carried out. 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.

To ensure we continue to focus on the right risks as we emerge from the pandemic, our top-level Enterprise Risks have been refreshed, re-assessed and individually scrutinised by the Executive Committee and relevant panel or committee throughout the year. New themes have emerged, focussing our efforts on a safe and green recovery for London, as well as on responding to changes in customer demand, financial sustainability, the wellbeing of our employees and new ways of working. As illustrated below, we have modelled the systemic interconnectivity of the risks to better understand causality and enable the identification of more effective strategic mitigations.

Narrative Report and Financial Review (continued)

Risks mapped according to Financial impact



Enterprise Risk 7 is excluded from the heat map above as our financial sustainability is the subject of ongoing discussions with the Government surrounding levels of future funding support. The details and possible financial impacts of this risk are set out at length in our Viability Statement.

Risk	Title	Mitigations
ER01	Major Safety, Health or Environmental incident or crisis	• Vision Zero (our ambition for zero road-deaths or serious injuries) • Corporate Environment Plan (our vision to be part of a zero carbon London), • Improvements to the Safety, Health & Environment Management System • Asset climate risk assessment

Narrative Report and Financial Review (continued)

Risk	Title	Mitigations
ER02	Protecting the wellbeing of our employees	• TfL People programme • Annual people planning activity, Health & Wellbeing strategy, Strategic workforce planning
ER03	Major service disruption	• Asset lifecycle review and active asset management • Reliability metrics • Travel demand management • Maintenance and renewals programmes • Essential maintenance monitoring • Operational resilience
ER04	Major security incident	• Security strategy • Security governance and culture • Threat intelligence and security liaison • Security risk management systems • Security incident preparedness • TfL whistleblowing policy
ER05	Supply chain disruption	• Monitoring Brexit risks and issues • High risk supplier contingency plans • Regular communication with suppliers • Financial monitoring • Individual action plans

Narrative Report and Financial Review (continued)

Risk	Title	Mitigations
ER06	Loss of stakeholder trust	• Media monitoring and management • Election planning and monitoring • Engagement programme • Active strategy to build consensus and alliances • Delivering spending review campaign • Stakeholder analysis
ER07	Financial sustainability	• Tightened financial controls • Business planning, budgeting and forecasting • Treasury management • Engagement with City Hall, DfT and HM Treasury
ER08	Delivery of TfL key investment programmes and projects	• Close management through use of Project Pathway lifecycle stages, activities and tasks • Project Management Office operating model • TfL governance structure (including oversight committees such as the Capital Delivery Investment Group) • Capital delivery resource management process • Pan-TfL project management capability and development • Executive Committee Radar Reporting, Quarterly deep dives with second- and third-line assurance • Continuous improvement and efficiencies initiatives

Risk	Title	Mitigations
ER09	Changes in customer demand	• Scenario and risk-based planning • Improving the quality of transport • Active demand management • Transport innovation
ER10	Inability to support new ways of working	• New ways of working steering group • Technology improvements, including asset refresh, roll out of Windows 10/Evergreen and training, • Staff support, support for managers • Office re-occupation programme
ER11	Disparity leading to unequal or unfair outcomes	• Action on inclusion strategy, • Project Management Office framework and portfolio oversight • Inclusive design framework and programme • Inclusive recovery • Evidence-based decision making • Equality impact assessments • Stakeholder engagement • Marketing and customer information • Local community engagement and consultation

Narrative Report and Financial Review (continued)

Risk	Title	Mitigations
ERI2	Asset condition unable to support TfL outcomes	• Asset inspections and monitoring • Maintenance regimes • Renewals, maintenance and technical assurance • Information analysis and risk assessment
ERI3	Governance and controls suitability	• Standing orders • Governance framework and management system • Integrated assurance plan • Board, committees and panels • GLA and London Assembly oversight • Transparency and Strategic policy & publications framework • Privacy and Data Protection compliance Programme, • Board Effectiveness Review • Election guidance
ERI4	Opening of the Elizabeth line	• Elizabeth Line Delivery Group • Delivery management • Funding compliance • Programme reporting • Systems integration • Competencies of operational staff • Critical resources • Main contractor liaison • TfL Board oversight

Narrative Report and Financial Review (continued)

Climate change risk

One growing threat that touches on a number of the enterprise risks outlined above is the risk to the organisation of insufficient adaptation to climate change. The number and intensity of severe weather events is increasing over time and with prolonged periods of hot and cold weather, flash flooding and winter storms. There has been an anecdotal increase in incidents across TfL that have been linked to weather events and the potential of further severe weather events due to climate change could lead to many more incidents. Extensive flooding or failure of assets (for example, embankments and failure of flooding controls and defences) have the potential to be catastrophic for London and TfL.

Our data collection and monitoring systems do not currently allow for quantitative or comprehensive assessments of the impact of current weather events on our operations. Given funding constraints, this is likely to remain a challenge over the medium term. In the meantime, we have a dedicated programme of research to understand current and future severe weather impacts, to help inform adaptation requirements. This is a medium-term programme over several years that, in the short-term, is being supplemented with a range of case studies that highlight the impacts of severe weather on our operations. This information helps make climate change adaptation a priority in our decision-making. Adaptation is now a key environmental priority for London Underground's Asset Strategy. We are also planning work on an asset climate risk assessment, to help inform TfL's submission to the Department for Environment, Food and Rural Affairs under the Adaptation Reporting Power.

We are planning a scoping study to investigate which teams across the business should be using the latest climate projections, and how that data could be presented to be most useful to them. We are also working to increase awareness of the importance of green infrastructure for climate change adaptation. We aim to protect and increase green infrastructure and sustainable drainage measures, for example, to help mitigate surface water flood risk and provide shade and local cooling.

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.

Narrative Report and Financial Review (continued)

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 key audit partner at Ernst & Young, Karl Havers, reached the end of his standard five-year term in the role with the audit of the 2019/20 financial statements. However, in order to maintain audit quality in this period of exceptional change and uncertainty, TfL's Audit and Assurance Committee agreed to the extension of his term as audit partner for a further year.

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.

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.

Narrative Report and Financial Review (continued)

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 2020/21, 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 two per cent of the total statutory audit fees paid in respect of the combined audit for the TfL and Transport Trading Limited (TTL) Groups, and 32 per cent of the audit fee of the Corporation as a single entity for 2020/21.

Accounting statements

TfL is a statutory corporation established by section 154 of the 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 2020/21 (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 TTL group. These accounts are prepared under International Financial Reporting Standards as adopted by the EU.

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 assets of its joint ventures and 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.

Narrative Report and Financial Review (continued)

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 2021.

Patrick Doig

Statutory Chief Finance Officer

[X] July 2021

Group Comprehensive Income and Expenditure Statement

Year ended 31 March	Note	Gross income 2021 £m	Gross expenditure 2021 £m	Net income/ (expenditure) 2021 £m	Gross income 2020 restated £m*	Gross expenditure 2020 restated £m*	Net income/ (expenditure) 2020 restated £m*
Operating segment							
Underground		**664.0**	**(2,282.0)**	**(1,618.0)**	2,762.0	(2,338.0)	424.0
Elizabeth line		**49.0**	**(368.0)**	**(319.0)**	147.0	(363.0)	(216.0)
Buses, streets and other operations		**1,225.0**	**(2,926.0)**	**(1,701.0)**	1,981.0	(3,002.0)	(1,021.0)
Rail		**146.0**	**(475.0)**	**(329.0)**	436.0	(490.0)	(54.0)
Other segments		**128.0**	**(158.0)**	**(30.0)**	278.0	(113.0)	165.0
Group items		**165.0**	**(172.0)**	**(7.0)**	170.0	(167.0)	3.0
Net cost of operations per internal management reports	2	**2,377.0**	**(6,381.0)**	**(4,004.0)**	5,774.0	(6,473.0)	(699.0)
Accounting policy adjustments between management and statutory accounts	2	**18.8**	**(1,023.8)**	**(1,005.0)**	(11.8)	(1,265.8)	(1,277.6)
Net cost of services before exceptional items	2	**2,395.8**	**(7,404.8)**	**(5,009.0)**	5,762.2	(7,738.8)	(1,976.6)
Exceptional items	6			**(29.4)**			(19.3)
Net cost of services after exceptional items				**(5,038.4)**			(1,995.9)
Other net operating expenditure	7			**(63.4)**			(30.9)
Financing and investment income	8			**49.4**			108.7
Financing and investment expenditure	9			**(598.6)**			(519.9)
Grant income	10			**4,732.3**			3,268.1
Group share of profit after tax of joint ventures	17			**0.7**			(0.1)
Group share of loss after tax of associated undertakings	18			**(3.5)**			(52.0)
(Deficit)/surplus on the provision of services before tax				**(921.5)**			778.0
Taxation	11			**10.5**			(106.8)
(Deficit)/surplus on the provision of services after tax				**(911.0)**			671.2

Group Comprehensive Income and Expenditure Statement (continued)

Year ended 31 March	Note	**Gross income 2021 £m**	**Gross expenditure 2021 £m**	**Net income/ (expenditure) 2021 £m**	Gross income 2020 restated £m*	Gross expenditure 2020 restated £m*	Net income/ (expenditure) 2020 restated £m*
(Deficit)/surplus on the provision of services after tax				**(911.0)**			671.2
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			**11.4**			29.4
Surplus on the valuation of newly created investment properties	15			**72.6**			875.2
Deferred tax on the surplus on valuation of newly created investment properties	11			**(0.7)**			(135.7)
Net remeasurement (loss)/gain on defined benefit pension schemes **	35			**(1,361.0)**			1,687.9
				(1,277.7)			2,456.8
Items that may be subsequently reclassified to profit or loss							
Movement in the fair value of derivative financial instruments **	37			**5.1**			(26.8)
Derivative fair value loss reclassified to income and expenditure **	37			**9.3**			9.0
				14.4			(17.8)
				(1,263.3)			2,439.0
Total comprehensive income and expenditure				**(2,174.3)**			3,110.2

* Figures for 2019/20 have been restated to show the split of net cost of services by revised internal management operating segment (see note 2). Other comprehensive income and expenditure for 2019/20 has also been restated to exclude derivative fair value losses recycled to the Balance Sheet of £0.2m, as these are not considered a reclassification under IFRS 9. They are, instead, disclosed as movements in the Group Movement in Reserves Statement.

** There is no tax effect of these items on other comprehensive income and expenditure in the years ended 31 March 2021 or 2020 (see note 11).

Group Balance Sheet

	Note	31 March 2021 £m	31 March 2020 £m
Long-term assets			
Intangible assets	12	**149.3**	118.7
Property, plant and equipment	13	**43,093.9**	42,092.6
Right-of-use assets	14	**2,329.5**	2,309.6
Investment property	15	**1,458.7**	1,430.5
Equity accounted investment in joint ventures	17	**41.3**	7.2
Equity accounted investment in associated undertakings	18	**166.9**	194.6
Long-term derivative financial instruments	30	**0.2**	1.5
Long-term finance lease receivables	19	**28.6**	37.0
Long-term debtors	21	**52.2**	97.4
		47,320.6	46,289.1
Current assets			
Inventories	20	**51.5**	58.9
Short-term debtors	21	**493.1**	512.8
Assets held for sale	22	**95.5**	113.4
Short-term derivative financial instruments	30	**6.5**	3.4
Short-term finance lease receivables	19	**15.4**	15.7
Short-term investments	23	**19.0**	642.4
Cash and cash equivalents	24	**1,710.2**	1,566.8
		2,391.2	2,913.4
Current liabilities			
Short-term creditors	25	**(2,077.9)**	(2,128.8)
Short-term borrowings and overdrafts	26	**(1,198.1)**	(936.5)
Short-term right-of-use lease liabilities	14	**(329.3)**	(318.2)
Short-term PFI liabilities	27	**(9.9)**	(13.9)
Other short-term financing liabilities	28	**(6.2)**	(3.5)
Short-term derivative financial instruments	30	**(12.0)**	(26.3)
Short-term provisions	29	**(109.1)**	(192.6)
		(3,742.5)	(3,619.8)

Group Balance Sheet (continued)

	Note	31 March 2021 £m	31 March 2020 £m
Long-term liabilities			
Long-term creditors	25	**(56.7)**	(61.6)
Long-term borrowings	26	**(11,769.7)**	(10,752.5)
Long-term right-of-use lease liabilities	14	**(2,179.8)**	(2,098.8)
Long-term PFI liabilities	27	**(101.7)**	(111.6)
Other long-term financing liabilities	28	**(128.1)**	(132.5)
Long-term derivative financial instruments	30	**(47.3)**	(63.1)
Long-term deferred tax liabilities	11	**(234.3)**	(242.5)
Long-term provisions	29	**(60.9)**	(58.0)
Retirement benefit obligation	35	**(5,603.1)**	(4,100.6)
		(20,181.6)	(17,621.2)
Net assets		**25,787.7**	27,961.5
Reserves			
Usable reserves		**886.9**	1,604.2
Unusable reserves	37	**24,900.8**	26,357.3
Total reserves		**25,787.7**	27,961.5

The Expenditure and Funding Analysis on page 58 and the notes on pages 60 to 215 form part of these financial statements. These financial statements were approved by the Board on [ ] July 2021 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	**Usable reserves £m**	Unusable reserves £m	**Total reserves £m**
At 1 April 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		1,047.8	-	**1,047.8**	-	**1,047.8**	(376.6)	**671.2**
Other comprehensive income and expenditure		-	-	**-**	-	**-**	2,439.0	**2,439.0**
Total comprehensive income and expenditure		1,047.8	-	**1,047.8**	-	**1,047.8**	2,062.4	**3,110.2**
Impact of the implementation of IFRS 16 Leases at 1 April 2019		-	-	**-**	-	**-**	(2.5)	**(2.5)**
Derivative fair value loss reclassified to the Balance Sheet	37	-	-	**-**	-	**-**	0.2	**0.2**
Adjustments between accounting basis and funding basis under regulations	38	(1,073.6)	-	**(1,073.6)**	3.0	**(1,070.6)**	1,070.6	**-**
Net (decrease)/increase before transfer to/from earmarked reserves		(25.8)	-	**(25.8)**	3.0	**(22.8)**	3,130.7	**3,107.9**
Transfer to/from Earmarked Reserves		375.8	(375.8)	**-**	-	**-**	-	**-**
Increase/(decrease) in 2019/20		350.0	(375.8)	**(25.8)**	3.0	**(22.8)**	3,130.7	**3,107.9**
Balance at 31 March 2020		**500.0**	**1,080.7**	**1,580.7**	**23.5**	**1,604.2**	**26,357.3**	**27,961.5**
Movement in reserves during 2020/21								
Deficit on the provision of services after tax		(180.2)	-	**(180.2)**	-	**(180.2)**	(730.8)	**(911.0)**
Other comprehensive income and expenditure		-	-	**-**	-	**-**	(1,263.3)	**(1,263.3)**
Total comprehensive income and expenditure		(180.2)	-	**(180.2)**	-	**(180.2)**	(1,994.1)	**(2,174.3)**
Derivative fair value loss reclassified to the Balance Sheet	37	-	-	**-**	-	**-**	0.5	**0.5**
Adjustments between accounting basis and funding basis under regulations	38	(538.4)	-	**(538.4)**	1.3	**(537.1)**	537.1	**-**
Net (decrease)/increase before transfer to/from earmarked reserves		(718.6)	-	**(718.6)**	1.3	**(717.3)**	(1,456.5)	**(2,173.8)**
Transfer to/from Earmarked Reserves		718.6	(718.6)	**-**	-	**-**	-	**-**
(Decrease)/increase in 2020/21		-	(718.6)	**(718.6)**	1.3	**(717.3)**	(1,456.5)	**(2,173.8)**
Balance at 31 March 2021		**500.0**	**362.1**	**862.1**	**24.8**	**886.9**	**24,900.8**	**25,787.7**

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. Application of funds against specific projects is dependent on the level and mix of other sources of funding also available to fund TfL's Investment Programme.

Group Statement of Cash Flows

Year ended 31 March	Note	2021 £m	2020 £m
(Deficit)/surplus on the provision of services after tax		**(911.0)**	671.2
Adjustments to deficit/surplus after tax for non-cash movements	36 a	**958.8**	103.3
Net cash flows from operating activities		**47.8**	774.5
Investing activities	36 b	**(458.1)**	(647.8)
Financing activities	36 c	**553.7**	(225.7)
Increase/(decrease) in net cash and cash equivalents in the year		**143.4**	(99.0)
Net cash and cash equivalents at the start of the year		**1,566.8**	1,665.8
Net cash and cash equivalents at the end of the year	24	**1,710.2**	1,566.8

Corporation Comprehensive Income and Expenditure Statement

Year ended 31 March	Note	2021 £m	2020 £m
Highways and Transport Services			
Gross income		**534.3**	588.0
Gross expenditure	3	**(1,174.9)**	(1,495.0)
Net cost of services before exceptional items *		**(640.6)**	(907.0)
Exceptional items	6	**-**	(7.8)
Net cost of services after exceptional items		**(640.6)**	(914.8)
Other net operating expenditure	7	**(20.4)**	(0.3)
Financing and investment income	8	**436.7**	413.6
Financing and investment expenditure	9	**(534.9)**	(556.2)
Grant income	10	**4,613.2**	3,181.9
Grant funding of subsidiaries		**(4,034.2)**	(1,076.4)
(Deficit)/surplus on the provision of services		**(180.2)**	1,047.8
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	**2.8**	11.1
Surplus on the valuation of newly created investment properties		**-**	16.8
Net remeasurement (loss)/gain on defined benefit pension schemes	35	**(1,324.5)**	1,673.7
		(1,321.7)	1,701.6
Total comprehensive income and expenditure		**(1,501.9)**	2,749.4

* 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 2021 £m	31 March 2020 £m
Long-term assets			
Intangible assets	12	**86.9**	77.7
Property, plant and equipment	13	**4,253.7**	4,151.5
Right-of-use assets	14	**391.3**	421.1
Investment property	15	**11.6**	14.1
Investments in subsidiaries	16	**12,222.5**	11,562.5
Long-term debtors	21	**12,259.5**	11,155.0
		29,225.5	27,381.9
Current assets			
Short-term debtors	21	**439.9**	553.3
Assets held for sale	22	**17.5**	19.1
Short-term investments	23	**-**	623.5
Cash and cash equivalents	24	**1,628.4**	1,410.7
		2,085.8	2,606.6
Current liabilities			
Short-term creditors	25	**(907.0)**	(740.4)
Short-term borrowings	26	**(1,198.1)**	(936.5)
Short-term right-of-use lease liabilities	14	**(26.7)**	(25.7)
Short-term PFI liabilities	27	**(9.6)**	(9.0)
Short-term provisions	29	**(64.9)**	(124.6)
		(2,206.3)	(1,836.2)

Corporation Balance Sheet (continued)

	Note	**31 March 2021 £m**	31 March 2020 £m
Long-term liabilities			
Long-term creditors	25	**(24.6)**	(20.8)
Long-term borrowings	26	**(11,774.1)**	(10,757.5)
Long-term right-of-use lease liabilities	14	**(386.8)**	(413.6)
Long-term PFI liabilities	27	**(101.6)**	(111.2)
Long-term provisions	29	**(29.6)**	(23.0)
Retirement benefit obligation	35	**(5,546.3)**	(4,082.3)
		(17,863.0)	(15,408.4)
Net assets		**11,242.0**	12,743.9
Reserves			
Usable reserves		**886.9**	1,604.2
Unusable reserves	37	**10,355.1**	11,139.7
Total reserves		**11,242.0**	12,743.9

The Expenditure and Funding Analysis on page 58 and the notes on pages 60 to 215 form part of these financial statements. These financial statements were approved by the Board on [ ] July 2021 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	**Usable reserves £m**	Unusable reserves £m	**Total reserves £m**
At 1 April 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								
Surplus on the provision of services		1,047.8	-	**1,047.8**	-	**1,047.8**	-	**1,047.8**
Other comprehensive income and expenditure		-	-	**-**	-	**-**	1,701.6	**1,701.6**
Total comprehensive income and expenditure		1,047.8	-	**1,047.8**	-	**1,047.8**	1,701.6	**2,749.4**
Adjustments between accounting basis and funding basis under regulations	38	(1,073.6)	-	**(1,073.6)**	3.0	**(1,070.6)**	1,070.6	**-**
Net increase/(decrease) before transfer 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**
Movement in reserves during 2020/21								
Deficit on the provision of services		(180.2)	-	**(180.2)**	-	**(180.2)**	-	**(180.2)**
Other comprehensive income and expenditure		-	-	**-**	-	**-**	(1,321.7)	**(1,321.7)**
Total comprehensive income and expenditure		(180.2)	-	**(180.2)**	-	**(180.2)**	(1,321.7)	**(1,501.9)**
Adjustments between accounting basis and funding basis under regulations	38	(538.4)	-	**(538.4)**	1.3	**(537.1)**	537.1	**-**
Net (decrease)/increase before transfers to/from earmarked reserves		(718.6)	-	**(718.6)**	1.3	**(717.3)**	(784.6)	**(1,501.9)**
Transfer to/from Earmarked Reserves		718.6	(718.6)	**-**	-	**-**	-	**-**
(Decrease)/increase in 2020/21		-	(718.6)	**(718.6)**	1.3	**(717.3)**	(784.6)	**(1,501.9)**
Balance at 31 March 2021		**500.0**	**362.1**	**862.1**	**24.8**	**886.9**	**10,355.1**	**11,242.0**

Earmarked Reserves have been established to finance future projects and form part of the overall funding available for the Investment Programme and revenue projects. Application of funds against specific projects is dependent on the level and mix of other sources of funding also available to fund TfL's Investment Programme.

Corporation Statement of Cash Flows

Year ended 31 March	Note	2021 £m	2020 £m
(Deficit)/surplus on the provision of services		**(180.2)**	1,047.8
Adjustments to deficit/surplus after tax for non-cash movements	36 a	**(298.1)**	(665.5)
Net cash flows from operating activities		**(478.3)**	382.3
Investing activities	36 b	**(105.8)**	(470.5)
Financing activities	36 c	**801.8**	(5.7)
Increase/(decrease) in net cash and cash equivalents in the year		**217.7**	(93.9)
Net cash and cash equivalents at the start of the year		**1,410.7**	1,504.6
Net cash and cash equivalents at the end of the year	24	**1,628.4**	1,410.7

Expenditure and Funding Analysis

For the year ended 31 March 2021	London Underground £m	Elizabeth line £m	Buses, streets and other operations £m	Rail £m	Other segments £m	Group items £m	**Total per management reports £m**	Accounting policy adjustments between management and statutory accounts £m	**Total per the Group Comprehensive Income and Expenditure Statement £m**	Less amounts recognised in subsidiaries £m	**Total per the Corporation Comprehensive Income and Expenditure Statement £m**	Adjustments between accounting basis and funding basis under regulations £m	**Amounts remaining chargeable to the General Fund £m**
Gross income	664.0	49.0	1,225.0	146.0	128.0	165.0	**2,377.0**	18.8	**2,395.8**	(1,861.5)	**534.3**	-	**534.3**
Gross expenditure	(2,282.0)	(368.0)	(2,926.0)	(475.0)	(158.0)	(172.0)	**(6,381.0)**	(1,023.8)	**(7,404.8)**	6,229.9	**(1,174.9)**	184.0	**(990.9)**
Net cost of services before exceptional items	(1,618.0)	(319.0)	(1,701.0)	(329.0)	(30.0)	(7.0)	**(4,004.0)**	(1,005.0)	**(5,009.0)**	4,368.4	**(640.6)**	184.0	**(456.6)**
Exceptional items	-	-	-	-	-	-	**-**	(29.4)	**(29.4)**	29.4	**-**	-	**-**
Net cost of services after exceptional items	(1,618.0)	(319.0)	(1,701.0)	(329.0)	(30.0)	(7.0)	**(4,004.0)**	(1,034.4)	**(5,038.4)**	4,397.8	**(640.6)**	184.0	**(456.6)**
Other net operating expenditure	-	-	-	-	-	-	**-**	(63.4)	**(63.4)**	43.0	**(20.4)**	20.4	**-**
Financing and investment income	-	-	-	-	-	-	**-**	49.4	**49.4**	387.3	**436.7**	(30.9)	**405.8**
Financing and investment expenditure	(280.0)	(87.0)	(41.0)	(27.0)	-	(5.0)	**(440.0)**	(158.6)	**(598.6)**	63.7	**(534.9)**	92.0	**(442.9)**
Grant income	37.0	1.0	9.0	-	2.0	3,495.0	**3,544.0**	1,188.3	**4,732.3**	(4,153.3)	**579.0**	(786.3)	**(207.3)**
Group share of profit after tax of joint ventures	-	-	-	-	-	-	**-**	0.7	**0.7**	(0.7)	**-**	-	**-**
Group share of loss after tax of associated undertakings	-	-	-	-	-	-	**-**	(3.5)	**(3.5)**	3.5	**-**	-	**-**
Capital renewals	(203.0)	-	(99.0)	(34.0)	(3.0)	(28.0)	**(367.0)**	367.0	**-**	-	**-**	-	**-**
(Deficit)/surplus on the provision of services before tax	(2,064.0)	(405.0)	(1,832.0)	(390.0)	(31.0)	3,455.0	**(1,267.0)**	345.5	**(921.5)**	741.3	**(180.2)**	(520.8)	**(701.0)**
Taxation	-	-	-	-	-	-	**-**	10.5	**10.5**	(10.5)	**-**	-	**-**
(Deficit)/surplus on the provision of services after tax	(2,064.0)	(405.0)	(1,832.0)	(390.0)	(31.0)	3,455.0	**(1,267.0)**	356.0	**(911.0)**	730.8	**(180.2)**	(520.8)	**(701.0)**
Employer's pension contributions and direct payments to pensioners payable in the year											**-**	49.8	**49.8**
Minimum revenue provision											**-**	(55.7)	**(55.7)**
Amortisation of premium on financing											**-**	(11.7)	**(11.7)**
Net decrease in 2020/21											**(180.2)**	(538.4)	**(718.6)**
Balance of General Fund and Earmarked Reserves at 1 April 2020													**1,580.7**
Balance of General Fund and Earmarked Reserves at 31 March 2021													**862.1**

Expenditure and Funding Analysis (continued)

For the year ended 31 March 2020	London Underground £m	Elizabeth line £m	Streets, buses and other operations £m	Rail £m	Other segments £m	Group items £m	**Total per management reports* £m**	Accounting policy adjustments between management and statutory accounts £m	**Total per the Group Comprehensive Income and Expenditure Statement £m**	Less amounts recognised in subsidiaries £m	**Total per the Corporation Comprehensive Income and Expenditure Statement £m**	Adjustments between accounting basis and funding basis under regulations £m	**Amounts remaining chargeable to the General Fund £m**
Gross income	2,762.0	147.0	1,981.0	436.0	278.0	170.0	**5,774.0**	(11.8)	**5,762.2**	(5,174.2)	**588.0**	(3.3)	**584.7**
Gross expenditure	(2,338.0)	(363.0)	(3,002.0)	(490.0)	(113.0)	(167.0)	**(6,473.0)**	(1,265.8)	**(7,738.8)**	6,243.8	**(1,495.0)**	559.6	**(935.4)**
Net cost of services before exceptional items	424.0	(216.0)	(1,021.0)	(54.0)	165.0	3.0	**(699.0)**	(1,277.6)	**(1,976.6)**	1,069.6	**(907.0)**	556.3	**(350.7)**
Exceptional items	-	-	-	-	-	-	**-**	(19.3)	**(19.3)**	11.5	**(7.8)**	-	**(7.8)**
Net cost of services after exceptional items	424.0	(216.0)	(1,021.0)	(54.0)	165.0	3.0	**(699.0)**	(1,296.9)	**(1,995.9)**	1,081.1	**(914.8)**	556.3	**(358.5)**
Other net operating expenditure	-	-	-	-	-	-	**-**	(30.9)	**(30.9)**	30.6	**(0.3)**	0.3	**-**
Financing and investment income	-	-	-	-	-	-	**-**	108.7	**108.7**	304.9	**413.6**	(19.3)	**394.3**
Financing and investment expenditure	(261.0)	(81.0)	(38.0)	(25.0)	-	(6.0)	**(411.0)**	(108.9)	**(519.9)**	(36.3)	**(556.2)**	122.0	**(434.2)**
Grant income	-	-	-	-	-	1,105.0	**1,105.0**	2,163.1	**3,268.1**	(1,162.6)	**2,105.5**	(1,578.9)	**526.6**
Group share of loss after tax of joint ventures	-	-	-	-	-	-	**-**	(0.1)	**(0.1)**	0.1	**-**	-	**-**
Group share of loss after tax of associated undertakings	-	-	-	-	-	-	**-**	(52.0)	**(52.0)**	52.0	**-**	-	**-**
Capital renewals	(311.0)	-	(71.0)	(35.0)	(19.0)	(17.0)	**(453.0)**	453.0	**-**	-	**-**	-	**-**
Surplus on the provision of services before tax	(148.0)	(297.0)	(1,130.0)	(114.0)	146.0	1,085.0	**(458.0)**	1,236.0	**778.0**	269.8	**1,047.8**	(919.6)	**128.2**
Taxation	-	-	-	-	-		**-**	(106.8)	**(106.8)**	106.8	**-**	-	**-**
Surplus on the provision of services after tax	(148.0)	(297.0)	(1,130.0)	(114.0)	146.0	1,085.0	**(458.0)**	1,129.2	**671.2**	376.6	**1,047.8**	(919.6)	**128.2**
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											**1,047.8**	(1,073.6)	**(25.8)**
Balance of General Fund and Earmarked Reserves at 1 April 2019													**1,606.5**
Balance of General Fund and Earmarked Reserves at 31 March 2020													**1,580.7**

* The divisional split of management reporting 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 2020/21 (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 2020/21 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 Leases in the Code until 1 April 2022. 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 were obliged, under EU Adopted IFRS, to apply IFRS 16 from 1 April 2019, CIPFA included a provision in the Code that permits TfL to adopt IFRS 16 from the same date. The Group has therefore adopted IFRS 16 in its financial statements from 1 April 2019.

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 assets funded by that grant.

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.

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.

Peppercorn rents

The Code includes an adaptation to IFRS 16 Leases in respect of the accounting for peppercorn lease arrangements for lessees. Leases with payments at peppercorn or nominal consideration that are provided at substantially below market terms, and leases for nil consideration, are accounted for as follows:

a) Any portion of the lease that is payable is accounted for in the same way as other lease obligations under IFRS 16 Leases;

b) The difference between the present value of any future lease payments due and the fair value of the lease on initial recognition is recognised as a fair value right-of-use asset on the balance sheet, with a corresponding gain recognised in grant income within the surplus or deficit recognised on the provision of services.

TfL has a number of leases over property and other transport infrastructure under which it pays £nil or peppercorn rents. A majority of these leases were held at peppercorn rents by a previous lessee prior to the leases being taken on by TfL. We have undertaken an exercise to assess the fair value of the assets leased under these arrangements and has concluded that they have no material value. No amounts have therefore been recorded in the financial statements in 2020/21 or 2019/20 in respect of these leases.

b) Basis of preparation

The accounts are made up to 31 March 2021. 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.

Accounting Policies (continued)

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.

The Group incorporates its share of the profits or losses and its share of the net assets of associated undertakings and joint ventures 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. Joint ventures are those where the Group has an interest in the net assets of an investee and has joint control over its financial and operating policies.

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 the Board remain confident 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, the unprecedented global pandemic of coronavirus has significantly impacted the Company's ability to execute its activities.

In response to coronavirus, TfL has fully supported the Government's nationwide message to 'stay at home'. As a result, the Group saw demand reduce by over 90 per cent on the Tube and around 85 per cent on Buses in the early part of 2020/21 with significant reductions in demand expected to continue throughout 2021/22. This has had a profound impact on our finances as passenger revenues have contributed more than 70 per cent of total TfL Group revenue income in recent years. Other income streams, including 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.

The Group has continued delivering essential transport services supporting the crisis response and is well positioned to partner with the Government in driving economic recovery and growth. Nevertheless, the pandemic has acted to decimate our finances and has exposed the inadequacy of the Group's current funding model. TfL's significant exposure to changes in demand due to its high fixed costs and dependence on fares revenue mean that it is particularly susceptible to recessions.

Accounting Policies (continued)

During 2020/21, the Group was able to utilise the Job Retention Scheme as a source of additional funding. It also secured a series of Extraordinary Funding and Financing Agreements from the Secretary of State, as set out in the Viability Statement section of the Narrative report, which give it secure access to funding in the form of a mixture of Government grant and borrowing from the Public Works Loan Board until 28 May 2021. These agreements contain an acknowledgement from the Secretary of State for Transport that further financial support from the Government is likely to be needed until at least 2022/23, with longer term external funding being required to support TfL's capital investment programme.

Absorption of the financial impacts of the unprecedented coronavirus pandemic directly restricts the level and availability of funding to the Group for spend on capital investment and certain projects have been already terminated or paused, and others are likely to continue 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 Governmental priorities (such as those that promote cycling or walking) or which are already committed and nearing completion. Other pipeline projects may be abandoned, as coupled with reduced availability of funding, planned infrastructure projects may be de-prioritised or no longer considered optimal.

A material uncertainty remains as to the level of longer-term support that will be agreed, and what this means for the shape of TfL's planned future activities. This uncertainty casts significant doubt over TfL's ability both to continue operating the level of services currently provided and to continue with all projects included in the capital investment plan. As part of the wider Government review of the Group, a review of the capital programme has been conducted and a Financial Sustainability Plan has been drawn up identifying the projects that remain priorities for future funding. TfL's current and planned future capital investment projects have been categorised by management according to their relative funding priority, taking into consideration such factors as health and safety requirements, the phase at which a project sits in its lifecycle, Government and mayoral priorities, sources of funding and penalties that may be incurred if projects are paused or permanently halted. Certain lower priority projects where termination penalties are not prohibitive have been paused or terminated during the year and related assets under construction have been written off or impaired as appropriate (see note 13). Work is ongoing to identify possible cost savings that could be made while delivering against the core priorities of the Investment Programme.

As at 31 March 2021, TfL had capital projects in the course of construction totalling £20bn, of which £14.7bn related to Crossrail and £1.4bn to the Four Lines Modernisation project. The remaining balance related to a range of projects across the network at varying stages of completion. Through the work outlined above, and through ongoing current discussions with the Government and the GLA, management believe that all projects in progress at 31 March 2021 should continue to be funded. However, until a longer-term financing package is formally agreed, a material level of uncertainty remains as to whether all projects in the course of construction at 31 March 2021 will be fully funded to completion. Uncertainty also exists in respect of the levels of future funding available to support our operational services. If future funding levels are set such that the level of services currently operated needs to be revised, some assets in use as at 31 March may no longer have the useful economic lives assumed in these financial statements. If projects or non-essential elements of in-progress projects are not funded, or if changes in services provided are required, there could be a possible further impairment of carrying values at 31 March 2021, which is not reflected in these financial statements.

As at 31 March 2021, the Group had usable reserves totalling £886.9m.

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:

- Amendments to IFRS 3 Definition of a business

  The amendment to IFRS 3 Business Combinations clarifies that, to be considered a business, an integrated 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 output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

  These amendments have no impact on the consolidated financial statements of the Group but may impact future periods should the Group enter into any business combinations.

- Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

  The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments were early-adopted in the consolidated financial statements of the Group for the year ended 31 March 2020.

- Amendments to IAS 1 and IAS 8 Definition of material

  The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments have no impact on the consolidated financial statements of, nor is there expected to be any future impact to, the Group.

- Conceptual Framework for Financial Reporting

  The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments have no impact on the consolidated financial statements of the Group.

- Amendments to IFRS 16 Covid-19 Related Rent Concessions

  On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

  The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted and TfL has applied the amendment from 1 April 2020. This amendment has no significant impact on the consolidated financial statements of the Group.

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:

- IFRS 17 Insurance Contracts (mandatory for years commencing on or after 1 January 2023)

  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 expected to have a significant impact for the TfL Group.

- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective for annual periods beginning on or after 1 January 2021)

  The phase 2 amendment addresses financial reporting implications when an existing interest rate benchmark is replaced with an alternative and highlights the following:

  (i) Facilitates a practical expedient when accounting for changes in the basis for determining the contractual cash flows (and resultant carrying value) of financial assets and liabilities measured at amortised cost or fair value through comprehensive income, to allow the effective interest rate to be adjusted

  (ii) Relief from discontinuing hedge relationships because of changes to hedge documentation required by the Reform

  (iii) Temporary relief from having to meet the separately identifiable requirement when an alternative Risk Free Rate, such as SONIA, is designated as a risk component of a hedge relationship as a replacement for the existing interest rate benchmark (LIBOR)

(iv) IFRS 16 lessees are required to remeasure their lease liabilities in similar fashion to any other change in estimate, rather than as a lease modification

Our initial assessment of Interest Rate Benchmark Reform is that the new basis for determining the contractual cash flows would be 'economically equivalent' to the previous basis.

- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 (effective for annual periods beginning on or after 1 January 2022)

  The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

  The amendment must be applied retrospectively only to assets made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 (effective for annual periods beginning on or after 1 January 2022)

  The amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets specifies that only directly related costs need to be included when assessing whether a contract is onerous or loss-making. The directly related costs include both incremental costs (e.g. the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g. depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded, unless they are explicitly chargeable to the counterparty under the contract.

  The amendments must be applied prospectively to contracts for which an entity has not yet fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

- Classification of Liabilities as Current or Non-current - Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2023)

  The amendments clarify the requirements for classifying liabilities as current or non-current.

- Reference to the Conceptual Framework – Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022)

  The amendment adds an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments must be applied prospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in IFRS Standards.

- Amendments from the 2018-2020 annual improvements cycle consisting of:

  (i) Subsidiary as a first-time adopter of International Financial Reporting Standards (IFRS 1). The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

  An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted

  (ii) Fees in the '10 per cent' test for derecognition of financial liabilities under IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

  An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method)

  The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3.

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 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 represented as if the operation had been discontinued from the start of the comparative period.

h) Uses of estimates, judgements and errors

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, 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 a finance or an operating lease.

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 are 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.

Availability of future capital funding

In assessing whether any impairment of the carrying value of assets under construction on the Balance Sheet date is required, management exercises judgement as to the level of funding that may be available to fund future expenditure on these projects through to completion. If insufficient future funding is anticipated, management reviews the carrying value of existing assets under construction for possible impairment.

Accounting Policies (continued)

Capitalisation of assets with third party interest

In assessing situations where TfL assets are constructed on, or have significant involvement with, external third parties, judgement 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 35.

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 34 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 29.

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 2021, 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.

Taxes

Deferred tax assets are recognised for unused tax losses only to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

The Group has tax losses carried forward with a tax value of £999.0m (2020 £1,001.9m). These losses relate to subsidiaries that have a history of losses, do not expire, and may be used to offset future taxable income in those subsidiaries. If the Group was able to recognise all unrecognised deferred tax assets, profit and equity would have increased by £1,885.6m (2020 £1,751.4m).

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. Market activity has been impacted in many sectors by the coronavirus pandemic. As at 31 March 2021, our valuers were able to attach less weight to previous market evidence for comparison purposes in informing their opinions of value of car park assets which comprise only seven per cent of our investment portfolio. The valuations included in these financial statements in respect of this element of the portfolio are therefore reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty and a higher degree of caution should be attached to these values than would normally be the case. As at 31 March 2021 car parks comprised approximately seven per cent of the investment property portfolio.

Office buildings

Owner-occupied office buildings held within property, plant and equipment are held at their existing use value, as estimated by external, professionally qualified surveyors in accordance with RICS guidelines. Movements in the value of the property are taken to the revaluation reserve.

Leases

When the interest rate implicit in the lease cannot be readily determined, TfL's incremental borrowing rate (IBR) at the lease commencement date is used to calculate the present value of the lease payments. This is the interest rate that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. When no observable inputs are available, the Group estimates the IBR, making assumptions to reflect the terms and conditions of the lease and certain entity-specific estimates. These assumptions include the consideration of a number of components including the risk-free rate, the lease term, the credit spread and adjustments related to the specific nature of the underlying asset.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension or termination option. The assessment is reviewed if a significant event or change in circumstances occurs which affects this assessment.

Accounting Policies (continued)

Valuation of peppercorn leases

TfL has a number of leases over property and other transport infrastructure under which it pays £nil or peppercorn rents. It has undertaken an exercise to assess the fair value of the assets leased under these arrangements and has concluded that they have no material value. No amounts have therefore been recorded in the financial statements in respect of these leases.

Defined benefit plans

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality.

Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

The mortality rate is based on publicly available mortality tables. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and pension increases are based on expected future inflation rates.

Further details about pension obligations are provided in note 35.

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 –

Accounting Policies (continued)

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.

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 16, 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.

Accounting Policies (continued)

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. Rental income based on tenant turnover is considered to be variable income and is therefore recognised as income in the period in which it is earned.

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.

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.

Accounting Policies (continued)

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.

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, streets and other operations – Provision of bus services; maintenance of London's roads and cycle routes; and 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
- Rail – Provision of passenger rail services through contracted third-party operators on the Docklands Light Railway, London Overground and London Trams

Accounting Policies (continued)

- Major projects – Delivery of TfL's largest and most complex infrastructure projects
- Property development– Investment in our commercial and residential estate and building portfolio
- Media – Advertising estate and digital marketing infrastructure

Within these financial statements, the Major projects, Property and Media segments outlined above have been combined and disclosed collectively as "Other segments".

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 during 2020/21 was the Extraordinary Support Grant from the DfT. Other grants included 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.

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.

Grant received on the Furlough Scheme is credited to the Comprehensive Income and Expenditure Statement upon receipt.

Accounting Policies (continued)

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).

Also included within financing and investment income or expenditure are fair value gains or losses recognised in relation to the revaluation of investment properties, and any profits or losses recognised on disposal of investment properties.

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.

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.

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	Up to 10 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.

Owner-occupied office buildings are valued at existing use value by external, professionally qualified surveyors in accordance with RICS Guidelines. Existing use value is the estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction disregarding potential alternative uses and any other characteristics of the asset that would cause its market value to differ from that needed to replace the remaining service potential at the measurement date. In determining the existing use value, the capitalisation of net income method and the discounting of future cash flows to their present value has been used. This is based upon various assumptions including the anticipated future rental income, maintenance costs and the appropriate discount rate, making reference to market evidence of transaction prices for similar properties. A deduction is made to reflect purchaser's acquisition costs. 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 annually. Movements in the 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.

Accounting Policies (continued)

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.

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 120 years
Road pavement	up to 40 years
Road foundations	up to 50 years
Signalling	up to 40 years
Stations	up to 120 years
Other property	up to 120 years
Rolling stock	up to 50 years
Lifts and escalators	up to 40 years
Plant and equipment	up to 75 years
Computer equipment	up to 15 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.

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 within financing and investment income or expenditure. During 2019/20 and 2020/21, as part of an exercise undertaken by management to create a consolidated commercial property portfolio, new lease structures created allowed the recognition, for the first time, of newly separable investment property assets which were recorded within investment property at fair value at the date of creation of the lease structure. Due to the fact that these assets were created through the separation of new lease structures from larger items of transport infrastructure (included within property, plant and equipment) and the revaluation uplift recorded on initial recognition does not fairly represent the increase in value in the period of the underlying assets, these valuation gains were recognised directly within other comprehensive income. Movement in the fair values of existing investment properties continued to be recognised within financing income or expenditure.

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 annually at fair value by external, professionally qualified surveyors in accordance with RICS Guidelines. Fair value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. The methodology assumes the valuation is based on the highest and best use of the asset. In determining the fair value, the capitalisation of net income method and the discounting of future cash flows to their present value has been used. This is based upon various assumptions including the anticipated future rental income, maintenance costs and the appropriate discount rate, making reference to market evidence of transaction prices for similar properties. A deduction is made to reflect purchaser's acquisition costs. 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.

v) 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 investments in joint ventures are accounted for using the equity method. 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 joint venture.

Accounting Policies (continued)

w) 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.

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).

In the initial phase of the first lockdown in 2020, on-site works on our capital projects were brought to a temporary Safe Stop. During this period, capitalisation of borrowing costs was temporarily paused and interest incurred during this period was recognised within financing and investment expenditure.

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.

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)

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.

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
- 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 five per cent of the total contract value or £500,000, whichever is lower, then the non-lease and lease components are treated as a single lease.

Peppercorn leases

Leases with payments at peppercorn or nominal consideration that are provided at substantially below market terms, and leases for nil consideration, are accounted for as follows:

Accounting Policies (continued)

- Any portion of the lease that is payable is accounted for in the same way as other lease obligations under IFRS 16 Leases
- The difference between the present value of any future lease payments due and the fair value of the lease on initial recognition is recognised as a fair value right-of-use asset on the Balance Sheet, with a corresponding gain recognised in grant income within the surplus or deficit recognised on the provision of services

TfL has a number of leases over property and other transport infrastructure under which it pays £nil or peppercorn rents. It has undertaken an exercise to assess the fair value of the assets leased under these arrangements and has concluded that they have no material value. No amounts have therefore been recorded in the financial statements in respect of these leases.

ad) Leases (the Group as lessor)

Lease income from operating leases is recognised as income on a straight-line basis over the lease term. 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. Rental income based on turnover is considered variable and therefore is recognised in the period in which it is earned. 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.

Lease income in respect of property leases has been adversely impacted by the coronavirus pandemic. Bespoke support has been provided to tenants on a case-by-case basis and includes the grant of rent-free periods and other arrangements reflecting the position of each customer. The accounting treatment for the tenant support, which results in some divergence between net rental income on a reported basis and cash flow basis, is as follows:

- Rent-free periods are generally considered to constitute a lease modification under IFRS 16, with the lease incentive deferred over the remaining lease term. The lease incentive balance will be assessed for impairment at each reporting date. If the pandemic continues and if the level of tenant failures is higher than expected, the impairment of tenant incentives and bad debt expense is also expected to increase.
- 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.

Accounting Policies (continued)

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.

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.

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, joint ventures and associates 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.

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.

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.

Accounting Policies (continued)

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.

aj) Financial instruments

Financial instruments within the scope of IFRS 9 Financial Instruments (IFRS 9) 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 principal 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.

Accounting Policies (continued)

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.

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.

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).

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.

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.

Accounting Policies (continued)

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.

Notes to the Financial Statements

1. Gross income

a) Group gross income

Year ended 31 March	2021 £m	% of total	2020 £m	% of total
Passenger income	**1,284.6**	**53.6**	4,432.9	76.9
Revenue in respect of free travel for older and disabled customers	**315.0**	**13.1**	317.9	5.5
Congestion Charging	**315.7**	**13.2**	247.0	4.3
Ultra Low Emission Zone charges	**77.1**	**3.2**	149.1	2.6
Low Emission Zone charges	**5.7**	**0.2**	5.5	0.1
Charges to London Boroughs and Local Authorities	**12.4**	**0.5**	15.3	0.3
Charges to transport operators	**1.6**	**0.1**	10.2	0.2
Road Network compliance income	**47.4**	**2.0**	69.0	1.2
Commercial advertising receipts	**58.9**	**2.5**	158.3	2.7
Rents receivable	**77.1**	**3.2**	93.9	1.6
Contributions from third parties to operating costs	**54.2**	**2.3**	77.7	1.3
Taxi licensing	**26.5**	**1.1**	36.7	0.6
Ticket and photocard commission income	**7.6**	**0.3**	14.4	0.3
General fees and charges	**7.5**	**0.3**	13.7	0.2
ATM and car parking income	**3.3**	**0.1**	21.7	0.4
Museum income	**3.9**	**0.2**	11.4	0.2
Training and specialist services	**19.8**	**0.8**	16.7	0.3
Cycle hire scheme	**16.8**	**0.7**	11.0	0.2
Other	**60.7**	**2.6**	59.8	1.1
	2,395.8	**100.0**	5,762.2	100.0

1. Gross income (continued)

b) Corporation gross income

Year ended 31 March	2021 £m	% of total	2020 £m	% of total
Congestion Charging	**315.7**	**59.1**	247.0	42.0
Ultra Low Emission Zone charges	**77.1**	**14.4**	149.1	25.4
Low Emission Zone charges	**5.7**	**1.1**	5.5	0.9
Charges to London Boroughs and Local Authorities	**11.9**	**2.2**	11.5	2.0
Road Network compliance income	**47.4**	**8.9**	69.0	11.7
Rents receivable	**0.5**	**0.1**	0.4	0.1
Contributions from third parties to operating costs	**24.5**	**4.6**	39.6	6.7
Taxi licensing	**26.5**	**5.0**	36.2	6.2
General fees and charges	**3.2**	**0.6**	-	-
Training and specialist services	**12.1**	**2.3**	13.4	2.3
Other	**9.7**	**1.7**	16.3	2.7
	534.3	**100.0**	588.0	100.0

c) Congestion Charging

Year ended 31 March	Group and Corporation 2021 £m	Group and Corporation 2020 £m
Income	**315.7**	247.0
Toll facilities and traffic management	**(83.0)**	(73.2)
	232.7	173.8
Administration, support services and depreciation	**(8.5)**	(11.7)
Net income from Congestion Charging	**224.2**	162.1

Net income from the Congestion Charge (above), Low Emission Zone and Ultra Low Emission Zone (below) is spent on delivering the Mayor's Transport Strategy.

1. Gross income (continued)

d) Low Emission Zone (LEZ) Charging

Year ended 31 March	**Group and Corporation 2021 £m**	Group and Corporation 2020 £m
Income	**5.7**	5.5
Toll facilities and traffic management	**(0.7)**	(1.7)
	5.0	3.8
Administration, support services and depreciation	**-**	-
Net income from LEZ Charging	**5.0**	3.8

e) Ultra Low Emission Zone (ULEZ) Charging

Year ended 31 March	**Group and Corporation 2021 £m**	Group and Corporation 2020 £m
Income	**77.1**	149.1
Toll facilities and traffic management *	**(33.1)**	(54.8)
	44.0	94.3
Administration, support services and depreciation	**(6.4)**	(3.8)
Net income from ULEZ Charging	**37.6**	90.5

* Traffic management costs for 2019/20 have been restated to remove costs of operating van, car and motorcycle scrappage and taxi delicensing schemes, as these are no longer considered direct costs of operating the charge.

1. Gross income (continued)

f) Street works

Year ended 31 March	Group and Corporation 2021 £m	Group and Corporation 2020 £m
Income	**8.7**	9.1
Allowable operating costs of managing the lane rental scheme	**(1.9)**	(1.7)
Application of Street Works Reserve to projects reducing the adverse effects caused by street works	**(5.4)**	(4.1)
Net income recognised within net cost of services	**1.4**	3.3
Allowable capital costs of managing the lane rental scheme	**(0.1)**	(0.3)
Net income for the year transferred to the Street Works Reserve	**1.3**	3.0

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

The breakdown of performance reporting by segment is presented in the Expenditure and Funding Analysis on page 58. The analysis only shows Group segmental 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.

Prior year segmental information has been restated to reflect the fact that the Buses, Streets and Other operations segments are now being reported as a single combined division. The realignment of operating divisions has also had a consequential impact on the historically reported allocation of indirect costs between divisions.

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.

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

The segmental information presented in the Expenditure and Funding Analysis reflects the presentation of the Operating Account as 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 2021	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)	2,377.0	-	-	-	18.8	2,395.8
Gross expenditure/(operating cost)	(6,381.0)	(1,802.5)	751.5	29.4	(2.2)	(7,404.8)
Net cost of services before exceptional items/(divisional net operating deficit excluding grant income)	(4,004.0)	(1,802.5)	751.5	29.4	16.6	(5,009.0)
Exceptional items	-		-	(29.4)	-	(29.4)
Net cost of services after exceptional items	(4,004.0)	(1,802.5)	751.5	-	16.6	(5,038.4)
Other net operating expenditure	-	(63.4)	-	-	-	(63.4)
Grant income	3,544.0	933.5	-	-	254.8	4,732.3
Group share of profit after tax of joint ventures	-	0.7	-	-	-	0.7
Group share of loss after tax of associated undertakings	-	(3.5)	-	-	-	(3.5)
(Capital renewals)	(367.0)	-	367.0	-	-	-
(Net cost of operations before financing)	(827.0)	(935.2)	1,118.5	-	271.4	(372.3)
Financing and investment income	-	35.8	-	13.6	-	49.4
Financing and investment expenditure	-	(146.0)	-	(453.6)	1.0	(598.6)
(Net financing costs)	(440.0)	-	-	440.0	-	-
Deficit on the provision of services before tax/(net cost of operations after extraordinary grant)	(1,267.0)	(1,045.4)	1,118.5	-	272.4	(921.5)
Taxation expense	-	10.5	-	-	-	10.5
Deficit on the provision of services after tax	(1,267.0)	(1,034.9)	1,118.5	-	272.4	(911.0)

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) (restated)

Year ended 31 March 2020	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)	5,774.0	-	-	-	(11.8)	5,762.2
Gross expenditure/(operating cost)	(6,473.0)	(1,997.7)	648.5	19.3	64.1	(7,738.8)
Net cost of services/(divisional net operating deficit excluding grant income)	(699.0)	(1,997.7)	648.5	19.3	52.3	(1,976.6)
Exceptional items	-	-	-	(19.3)	-	(19.3)
Net cost of services/(divisional net operating deficit)	(699.0)	(1,997.7)	648.5	-	52.3	(1,995.9)
Other net operating expenditure	-	(30.9)	-	-	-	(30.9)
Grant income	1,105.0	2,231.6	-	-	(68.5)	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)
(Capital renewals)	(453.0)	-	453.0	-	-	-
(Net cost of operations before financing)	(47.0)	150.9	1,101.5	-	(16.2)	1,189.2
Financing and investment income	-	90.7	-	18.0	-	108.7
Financing and investment expenditure	-	(82.0)	-	(429.0)	(8.9)	(519.9)
(Net financing costs)	(411.0)	-	-	411.0	-	-
Surplus on the provision of services before tax/(net cost of operations after extraordinary grant)	(458.0)	159.6	1,101.5	-	(25.1)	778.0
Taxation income	-	(106.8)	-	-	-	(106.8)
Deficit/surplus on the provision of services after tax	(458.0)	52.8	1,101.5	-	(25.1)	671.2

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 tables.

2. Segmental analysis (continued)

2c) Detailed reconciliation of segmental information reported in internal management reports to amounts included in the surplus/(deficit) on the provision 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 explained in the paragraphs and table below:

- Depreciation, amortisation of intangibles and impairment charges are not included in the segmental analysis
- The cost of retirement benefits is recognised within gross expenditure in the Operating Account as a charge based on cash contributions paid during the year, rather than the pension service cost and net interest charge on defined benefit pension obligations recognised in the Comprehensive Income and Expenditure Statement. 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 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. 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
- Similarly, the Operating Account excludes gains and losses on the disposal of property, plant and equipment and intangible assets recognised within other operating expenditure, and instead includes the net proceeds from these disposals in the Capital Account
- Internal management reporting includes a charge within operating expenditure for the costs of right-of-use leases, based on cash payments made in the period in relation to those leases. In the net cost of services in the Comprehensive Income and Expenditure Statement, this charge has been stripped out and replaced with the amortisation charge in respect of right-of-use assets within net cost of services and a financing charge included within financing and investment expenditure
- 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. 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

2. Segmental analysis (continued)

- The Operating Account 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
- Certain grants received (primarily Business Rates Retention) are treated as capital grant for management reporting purposes and are thus excluded from the Operating Account (being instead included in the Capital Account). For statutory reporting purposes, however, all grant is recognised as income in the Comprehensive Income and Expenditure Statement. Moreover, certain grants badged as 'capital grant' for management reporting purposes, under law constitute resource grants, and may only be classified as capital grant where they have been applied to fund capital expenditure during the year
- The results of joint ventures and associated undertakings are excluded from the Operating Account as the TfL Group does not hold a controlling interest in these undertakings
- Other minor differences between the Comprehensive Income and Expenditure Statement and the Operating Account are collectively referred to as Central items and are not included in reports to management

2. Segmental analysis (continued)

Detailed reconciliation of net cost of operations per internal management reports to net cost of services per the Comprehensive Income and Expenditure Statement

	Note	2021 £m	2021 £m	2020 £m*	2020 £m*
Net cost of operations after Extraordinary grant per internal management reports			**(1,267.0)**		(458.0)
Adjustments between management and statutory reports:					
Add amounts included in the Comprehensive Income and Expenditure Statement not reported in management reports					
Depreciation	3	**(939.7)**		(1,032.9)	
Amortisation of right-of-use assets	3	**(367.6)**		(334.8)	
Amortisation of software intangibles	3	**(37.2)**		(36.4)	
Impairment	3	**(6.3)**		-	
Pension service costs	35	**(451.7)**		(593.6)	
			(1,802.5)		(1,997.7)
Other net operating expenditure	7		**(63.4)**		(30.9)
Group share of profit/(loss) after tax of joint ventures	17		**0.7**		(0.1)
Group share of loss after tax of associated undertakings	18		**(3.5)**		(52.0)
Change in fair value of investment properties included in financing and investment income	8	**-**		59.0	
Net gain on disposal of investment properties	8	**35.8**		31.7	
			35.8		90.7
Net interest on defined benefit obligation	9	**(90.1)**		(122.7)	
Interest payable on lease and PFI liabilities	9	**(63.0)**		(67.8)	
Change in fair value of investment properties included in financing and investment expenditure	9	**(83.3)**		-	
Amounts capitalised into qualifying assets	9	**90.4**		108.5	
			(146.0)		(82.0)
Capital grant income	10		**933.5**		2,231.6
Tax	11		**10.5**		(106.8)
			(1,034.9)		52.8
Less items included in the Operating Account but excluded from the Comprehensive Income and Expenditure Statement					
Cash payments under PFI and lease arrangements		**351.2**		350.1	
Pension payments charged to operating costs		**400.3**		298.4	
			751.5		648.5
Capital renewals			**367.0**		453.0
			1,118.5		1,101.5
Amounts subject to differing accounting treatment between the Operating Account and the Comprehensive Income and Expenditure Statement					
Grant income			**254.8**		(68.5)
Central items			**17.6**		43.4
			272.4		(25.1)
(Deficit)/surplus on the provision of services after tax per the Comprehensive Income and Expenditure Statement			**(911.0)**		671.2

3. Gross expenditure

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

Year ended 31 March	Note	Group 2021 £m	Group 2020 £m	Corporation 2021 £m	Corporation 2020 £m
Staff costs:					
Wages and salaries *		**1,422.8**	1,427.7	**388.6**	390.4
Social security costs		**163.9**	164.1	**44.9**	45.0
Pension costs	35	**442.4**	581.1	**169.2**	368.6
		2,029.1	2,172.9	**602.7**	804.0
Other service expenditure **		**3,896.7**	4,046.1	**303.1**	406.3
Credit loss expense		**128.2**	115.7	**85.7**	108.6
Depreciation	13	**939.7**	1,032.9	**131.2**	125.5
Amortisation right-of-use assets	14	**367.6**	334.8	**30.0**	28.6
Amortisation of software intangibles	12	**37.2**	36.4	**22.2**	22.0
Impairment	13	**6.3**	-	**-**	-
		7,404.8	7,738.8	**1,174.9**	1,495.0

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

** Included in the Corporation's other service expenditure is £108.5m (2019/20 £164.2m) relating to financial assistance to London Boroughs and other third parties (see note 41 for detailed analysis).

The average number of persons employed in the year was:

Year ended 31 March	Group 2021 Number	Group 2020 Number	Corporation 2021 Number	Corporation 2020 Number
Permanent staff (including fixed term contracts)	**25,692**	25,814	**7,006**	7,069
Agency staff	**1,175**	1,711	**814**	928
	26,867	27,525	**7,820**	7,997

4. External audit fees

External audit fees are made up as follows:

Year ended 31 March	Group 2021 £m	Group 2020 £m	Corporation 2021 £m	Corporation 2020 £m
Auditor's remuneration:				
for statutory audit services	**1.8**	1.4	**0.1**	0.3
for non-statutory audit services	**0.1**	0.1	**-**	0.1
for non-audit services *	**-**	-	**-**	-
	1.9	1.5	**0.1**	0.4

* 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 2021 £m	Group 2020 £m	Corporation 2021 £m	Corporation 2020 £m
Exceptional costs relating to the coronavirus pandemic	**29.4**	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 2021 £m**	Group 2020 £m	**Corporation 2021 £m**	Corporation 2020 £m
Net loss on disposal of property, plant and equipment	**63.4**	30.9	**20.4**	0.3
Total other operating expenditure	**63.4**	30.9	**20.4**	0.3

8. Financing and investment income

Year ended 31 March	Note	**Group 2021 £m**	Group 2020 £m	**Corporation 2021 £m**	Corporation 2020 £m
Interest income on bank deposits and other investments		**2.2**	14.5	**2.1**	14.1
Realised exchange gain on foreign currency investments		**4.1**	-	**-**	-
Interest income on loans to subsidiaries		**-**	-	**400.1**	376.6
Change in fair value of investment properties (including those classified as held for sale)	15, 22	**-**	59.0	**-**	-
Net gain on disposal of investment properties		**35.8**	31.7	**30.9**	22.9
Interest receivable on finance lease receivables		**2.7**	3.2	**-**	-
Other investment income		**4.6**	0.3	**3.6**	-
		49.4	108.7	**436.7**	413.6

9. Financing and investment expenditure

Year ended 31 March	Note	Group 2021 £m	Group 2020 £m	Corporation 2021 £m	Corporation 2020 £m
Interest payable on loans and derivatives		**437.3**	422.2	**415.5**	401.5
Interest payable on right-of-use lease liabilities		**57.5**	59.1	**11.6**	12.1
Interest payable on PFI liabilities		**5.5**	8.7	**5.2**	5.7
Contingent rentals on PFI contracts		**9.7**	14.1	**9.5**	10.4
Change in fair value of investment properties (including those classified as held for sale)	15, 22	**83.3**	-	**2.3**	3.6
Net interest on defined benefit obligation	35	**90.1**	122.7	**89.7**	122.0
Other financing and investment expenditure		**5.6**	1.6	**1.1**	0.9
		689.0	628.4	**534.9**	556.2
Less: amounts capitalised into qualifying assets	13	**(90.4)**	(108.5)	**-**	-
		598.6	519.9	**534.9**	556.2

10. Grant income

Year ended 31 March	**Group 2021 £m**	Group 2020 £m	**Corporation 2021 £m**	Corporation 2020 £m
Non ring-fenced resource grant from the DfT used to fund operations	**2,457.2**	27.1	**2,457.2**	27.1
Non ring-fenced Business Rates Retention from the GLA used to fund operations	**1,189.4**	913.5	**1,189.4**	913.5
Coronavirus Job Retention Scheme grant	**57.7**	-	**17.3**	-
Other revenue grant received	**88.5**	89.9	**87.1**	89.9
Council tax precept	**6.0**	6.0	**6.0**	6.0
Total grants allocated to revenue	**3,798.8**	1,036.5	**3,757.0**	1,036.5
Ring-fenced grant from the GLA used to fund capital expenditure relating to Crossrail	**46.0**	989.0	**46.0**	989.0
Non ring-fenced Business Rates Retention from the GLA used to fund capital	**689.6**	967.8	**689.6**	967.8
Other capital grants and contributions received	**197.9**	274.8	**120.6**	188.6
Total grants allocated to capital	**933.5**	2,231.6	**856.2**	2,145.4
Total grants	**4,732.3**	3,268.1	**4,613.2**	3,181.9

Allocation of capital grants

Year ended 31 March	Note	**Group 2021 £m**	Group 2020 £m	**Corporation 2021 £m**	Corporation 2020 £m
Capital grant funding of subsidiaries		**-**	-	**69.9**	566.5
Applied capital grants	37	**933.5**	2,231.6	**786.3**	1,578.9
Total capital grants		**933.5**	2,231.6	**856.2**	2,145.4

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 (2019/20 19 per cent) comprised:

Year ended 31 March	Group 2021 £m	Group 2020 £m
UK Corporation Tax - current year charge	-	-
UK Corporation Tax - adjustments in respect of prior years	(1.6)	-
Total current tax income	(1.6)	-
Deferred tax - current year (credit)/charge	(8.9)	106.8
Total tax (credit)/charge for the year	(10.5)	106.8

Reconciliation of tax expense

Year ended 31 March	Group 2021 £m	Group 2020 £m
(Deficit)/surplus on the provision of services before tax	(921.5)	778.0
(Deficit)/surplus on the provision of services before tax multiplied by standard rate of Corporation Tax in the UK of 19% (2019/20 19%)	(175.1)	147.8
Effects of:		
Non-taxable income/non-deductible expenses	99.0	92.7
Prior period adjustments	(1.6)	-
Permanent difference in TfL Corporation	8.0	(277.0)
Amount charged to current tax for which no deferred tax was recognised	58.7	137.9
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)	(0.9)
Overseas earnings	1.4	(0.6)
Total tax (credit)/expense for the year	(10.5)	106.8

11. Taxation (continued)

b) Unrecognised deferred tax assets

The Group has a potential net deferred tax asset of £1,885.6m (2020 £1,751.4m) in respect of the following items:

	Group 2021 £m	Group 2020 £m
Deductible temporary differences	**886.6**	749.5
Tax losses	**999.0**	1,001.9
Unrecognised deferred tax asset	**1,885.6**	1,751.4

No net deferred tax asset has been recognised in respect of the above 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 only 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 2021	Balance at 1 April 2020 £m	Movement in the provision of services £m	Movement in other comprehensive income during the year £m	**Balance at 31 March 2021 £m**
Deferred tax assets				
Property, plant and equipment (net of losses)	16.0	(1.5)	-	**14.5**
Derivative financial instruments	23.3	(2.6)	-	**20.7**
Total	39.3	(4.1)	-	**35.2**
Deferred tax liabilities				
Investment properties	(263.9)	9.9	(0.7)	**(254.7)**
Assets held for sale	(17.9)	3.1	-	**(14.8)**
Total	(281.8)	13.0	(0.7)	**(269.5)**
Net deferred tax liability	(242.5)	8.9	(0.7)	**(234.3)**

11. Taxation (continued)

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

For the year ended 31 March 2020	Balance at 1 April 2019 £m	Movement in the provision of services £m	Movement in other comprehensive income during the 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)	(50.3)	(135.7)	(263.9)
Assets held for sale	(16.6)	(1.3)	-	(17.9)
Total	(94.5)	(51.6)	(135.7)	(281.8)
Net deferred tax liability	-	(106.8)	(135.7)	(242.5)

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 reduced due to the revaluation movements recognised in financing and investment income and other comprehensive income during the year
- Certain properties that had not previously been held at a value were reclassified as investment property and valued at open market value prior to transfer to TTL Properties Limited (a subsidiary of the Corporation) during the year. It is not considered that sufficient deferred tax assets will be available to offset this deferred tax liability in full. A deferred tax liability has been recognised in other comprehensive income in relation to the revaluation gain recognised in other comprehensive income in respect of these assets
- 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 decreased during 2020/21 due to movement in the fair value of derivatives

The Finance Bill 2020 set the main rate of Corporation Tax for all non-ringfenced profits to 19 per cent from 1 April 2020. The Corporation Tax charge and the main rate are also set at 19 per cent from April 2021. In his Spring Budget on 3 March 2021, the Chancellor of the Exchequer announced that the main rate of Corporation Tax will rise to 25 per cent from April 2023. However, as this change had not yet been substantively enacted by the end of the reporting period, deferred tax balances at 31 March 2021 have been calculated at the rate of 19 per cent. If the recognised deferred tax liability was calculated at a rate of 25 per cent it would increase to £308.3m.

11. Taxation (continued)

No deferred tax asset has been recognised on the Corporation's pension deficit of £5,546.3m 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 2021, 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 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
Additions		**37.8**	**1.9**	**-**	**39.7**
Net transfers from property, plant and equipment	13	**28.1**	**-**	**-**	**28.1**
Transfers between asset classes		**0.1**	**(0.1)**	**-**	**-**
At 31 March 2021		**529.7**	**18.3**	**351.8**	**899.8**
Amortisation and impairment					
At 1 April 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
Amortisation charge for the year	3	**37.2**	**-**	**-**	**37.2**
At 31 March 2021		**401.3**	**-**	**349.2**	**750.5**
Net book value at 31 March 2021		**128.4**	**18.3**	**2.6**	**149.3**
Net book value at 31 March 2020		99.6	16.5	2.6	118.7

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 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
Additions		**31.4**	**-**	**31.4**
Transfers between asset classes		**2.6**	**(2.6)**	**-**
At 31 March 2021		**365.9**	**7.9**	**373.8**
Amortisation and impairment				
At 1 April 2019		242.7	-	242.7
Amortisation charge for the year	3	22.0	-	22.0
At 31 March 2020		264.7	-	264.7
Amortisation charge for the year	3	**22.2**	**-**	**22.2**
At 31 March 2021		**286.9**	**-**	**286.9**
Net book value at 31 March 2021		**79.0**	**7.9**	**86.9**
Net book value at 31 March 2020		67.2	10.5	77.7

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 2021 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 2020		**34,182.4**	**4,976.6**	**2,129.7**	**19,252.7**	**60,541.4**
Additions		**953.2**	**74.1**	**126.5**	**894.8**	**2,048.6**
Transfers to intangible assets	12	**-**	**-**	**-**	**(28.1)**	**(28.1)**
Transfers to investment properties	15	**(21.1)**	**-**	**-**	**-**	**(21.1)**
Transfers between asset classes		**0.2**	**-**	**21.3**	**(21.5)**	**-**
Disposals		**(1.1)**	**-**	**(35.8)**	**(3.0)**	**(39.9)**
Write offs		**-**	**-**	**(1.5)**	**(56.2)**	**(57.7)**
Revaluation		**7.4**	**-**	**-**	**-**	**7.4**
At 31 March 2021		**35,121.0**	**5,050.7**	**2,240.2**	**20,038.7**	**62,450.6**
Depreciation and impairment						
At 1 April 2020		**14,754.8**	**2,266.1**	**1,427.9**	**-**	**18,448.8**
Depreciation charge for the year	3	**716.8**	**117.5**	**105.4**	**-**	**939.7**
Impairment charge for the year	3	**-**	**-**	**1.4**	**4.9**	**6.3**
Transfers to investment properties	15	**(0.2)**	**-**	**-**	**-**	**(0.2)**
Disposals		**-**	**-**	**(33.9)**	**-**	**(33.9)**
Revaluation		**(4.0)**	**-**	**-**	**-**	**(4.0)**
At 31 March 2021		**15,467.4**	**2,383.6**	**1,500.8**	**4.9**	**19,356.7**
Net book value at 31 March 2021		**19,653.6**	**2,667.1**	**739.4**	**20,033.8**	**43,093.9**
Net book value at 31 March 2020		19,427.6	2,710.5	701.8	19,252.7	42,092.6

13. Property, plant and equipment (continued)

b) 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	2,253.2	2,680.1
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	19,252.7	60,541.4
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 right-of-use assets	14	-	(180.8)	(0.1)	-	(180.9)
Transfers to investment properties	15	(18.9)	-	-	-	(18.9)
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

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

As set out in the going concern note to the accounting policies, as part of the wider Government review of the Group, a review of the capital programme has been conducted and a Financial Sustainability Plan has been drawn up identifying capital projects that remain priorities for future funding. TfL's current and planned future capital investment projects have been categorised by management according to their relative funding priority, taking into consideration such factors as health and safety requirements, the phase at which a project sits in its lifecycle, Government and mayoral priorities, sources of funding and penalties that may be incurred if projects are paused or permanently halted. Certain lower priority projects where termination penalties are not prohibitive have been paused or terminated during the year and related assets under construction have been written off or impaired as appropriate in the table above. Management believe that all capital projects in progress at 31 March 2021 should continue to be funded. However, until a longer-term financing package has been formally agreed, a material level of uncertainty remains as to whether all projects in the course of construction at 31 March 2021 will be fully funded to completion.

13. Property, plant and equipment (continued)

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 £90.4m (2020 £108.5m). The cumulative borrowing costs capitalised are £808.8m (2020 £718.4m). 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 2021, the Group had capital commitments which are contracted for but not provided for in the financial statements amounting to £1,240.9m (2020 £1,237.9m).

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.

c) Group PFI assets

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

	Infrastructure and office buildings £m	**Rolling stock £m**	**Plant and equipment £m**	**Total £m**
Gross cost	**976.6**	**45.3**	**16.7**	**1,038.6**
Accumulated depreciation	**(588.1)**	**(45.3)**	**(16.7)**	**(650.1)**
Net book value at 31 March 2021	**388.5**	**-**	**-**	**388.5**
Net book value at 31 March 2020	426.8	-	-	426.8

d) Depreciation charge

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

Year ended 31 March	Note	**2021 £m**	2020 £m
Depreciation of owned assets		**901.4**	993.0
Depreciation of assets held under PFI arrangements		**38.3**	39.9
Total depreciation	3	**939.7**	1,032.9

13. Property, plant and equipment (continued)

e) Group office buildings

The existing use value of owner-occupied office buildings at 31 March 2021 has been arrived at on the basis of a valuation carried out at that date by CBRE, a real estate advisory business not connected with the Group, and by chartered surveyors working for TfL. In determining the existing use value, the capitalisation of net income method and the discounting of future cash flows to their present value has been used. This is based upon various assumptions including the anticipated future rental income, maintenance costs and the appropriate discount rate, making reference to market evidence of transaction prices for similar properties. A deduction is made to reflect purchaser's acquisition costs. The methodology therefore falls under level 3 of the fair value hierarchy. There were no transfers of properties in or out of level 3 of the fair value hierarchy during the year (2019/20 none).

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

Valuations are performed annually. The value of these buildings at 31 March 2021 was £185.2m (2020 £204.2m) and the depreciated historical cost value was £36.6m (2020 £25.7m). A related revaluation gain for the year of £11.4m (2019/20 a gain of £29.4m) 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 2021, the latest available insurance value for the collection was £37.5m (2020 £37.5m). The net book value of these assets at 31 March 2021 was £nil (2020 £nil).

13 Property, plant and equipment (continued)

g) Corporation property, plant and equipment at 31 March 2021 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 2020		**5,356.9**	**253.1**	**1,274.1**	**6,884.1**
Additions		**163.2**	**40.2**	**47.6**	**251.0**
Disposals		**-**	**-**	**(1.5)**	**(1.5)**
Write offs		**-**	**-**	**(18.9)**	**(18.9)**
Revaluation		**2.4**	**-**	**-**	**2.4**
At 31 March 2021		**5,522.5**	**293.3**	**1,301.3**	**7,117.1**
Depreciation					
At 1 April 2020		**2,549.2**	**183.4**	**-**	**2,732.6**
Depreciation charge for the year	3	**113.2**	**18.0**	**-**	**131.2**
Revaluation		**(0.4)**	**-**	**-**	**(0.4)**
At 31 March 2021		**2,662.0**	**201.4**	**-**	**2,863.4**
Net book value at 31 March 2021		**2,860.5**	**91.9**	**1,301.3**	**4,253.7**
Net book value at 31 March 2020		2,807.7	69.7	1,274.1	4,151.5

13 Property, plant and equipment (continued)

h) 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
Transfers to intangible assets	12	-	-	(4.6)	(4.6)
Transfers to investment properties	15	(3.2)	-	-	(3.2)
Transfers between asset classes		17.4	22.7	(40.1)	-
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

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 (2020 £nil). The cumulative borrowing costs capitalised are also £nil (2020 £nil).

At 31 March 2021, the Corporation had capital commitments which are contracted for but not provided for in the financial statements amounting to £64.9m (2020 £30.7m).

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

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	**209.1**	**16.7**	**225.8**
Depreciation	**(96.3)**	**(16.7)**	**(113.0)**
Net book value at 31 March 2021	**112.8**	**-**	**112.8**
Net book value at 31 March 2020	115.4	-	115.4

j) Depreciation charge

The total depreciation charge for the Corporation comprised:

Year ended 31 March	Note	**2021 £m**	2020 £m
Depreciation of owned assets		**128.6**	122.8
Depreciation of assets held under PFI		**2.6**	2.7
Total depreciation	3	**131.2**	125.5

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

The existing use value of owner-occupied office buildings at 31 March 2021 has been arrived at on the basis of a valuation carried out at that date by CBRE, a real estate advisory business not connected with the Group, and by chartered surveyors working for TfL. In determining the existing use value, the capitalisation of net income method and the discounting of future cash flows to their present value has been used. This is based upon various assumptions including the anticipated future rental income, maintenance costs and the appropriate discount rate, making reference to market evidence of transaction prices for similar properties. A deduction is made to reflect purchaser's acquisition costs. The methodology therefore falls under level 3 of the fair value hierarchy. There were no transfers of properties in or out of level 3 of the fair value hierarchy during the year (2019/20 none).

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

Valuations are performed annually. The value of these buildings held by the Corporation at 31 March 2021 was £10.2m (2020 £nil) and the depreciated historical cost value was £nil (2020 £nil). A related revaluation gain for the year of £2.8m (2019/20 a gain of £nil) has been recognised within Other Comprehensive Income and Expenditure.

During 2019/20 the Corporation transferred operational land that had previously been classified as operational infrastructure and held at a nominal net book value, 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 immediately prior to transfer. The resultant revaluation gains were recognised in the revaluation reserve.

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.

As described in note e) to the Accounting Policies, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the coronavirus pandemic. In a few instances, particularly on property leases, a rent concession in the form of a rent holiday has been received. We have applied the practical expedient where TfL as a lessee has elected not to assess whether a Covid-19 related rent concession from a lessor is a lease modification.

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) Group right-of-use assets at 31 March 2021 comprised the following elements:

	Note	Infrastructure and office buildings £m	Rolling stock £m	Buses £m	Motor vehicles £m	Other equipment £m	Total £m
Cost or valuation							
At 1 April 2020		**555.8**	**1,384.7**	**762.1**	**11.4**	**111.3**	**2,825.3**
Additions		**23.2**	**127.3**	**123.9**	**2.3**	**6.3**	**283.0**
Lease extensions		**-**	**-**	**120.6**	**-**	**1.7**	**122.3**
Valuation adjustment		**(1.5)**	**(16.3)**	**-**	**-**	**-**	**(17.8)**
At 31 March 2021		**577.5**	**1,495.7**	**1,006.6**	**13.7**	**119.3**	**3,212.8**
Amortisation							
At 1 April 2020		**38.3**	**245.5**	**213.8**	**2.5**	**15.6**	**515.7**
Charge for the year	3	**39.1**	**78.9**	**224.6**	**3.0**	**22.0**	**367.6**
At 31 March 2021		**77.4**	**324.4**	**438.4**	**5.5**	**37.6**	**883.3**
Net book value at 31 March 2021		**500.1**	**1,171.3**	**568.2**	**8.2**	**81.7**	**2,329.5**
Net book value at 31 March 2020		517.5	1,139.2	548.3	8.9	95.7	2,309.6

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

b) Group right-of-use assets at 31 March 2020 comprised the following elements:

	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 as at 1 April 2019 *	13	-	407.7	0.4	-	-	408.1
Assets held under operating leases as 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
Amortisation							
Assets held under finance leases as 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

* 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 cost and accumulated amortisation of assets at 1 April 2019 in the table above represents the right-of-use assets recognised on transition to IFRS 16.

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

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

At 31 March	2021 £m	2020 £m
Principal outstanding		
Short-term liabilities	**329.3**	318.2
Long-term liabilities	**2,179.8**	2,098.8
	2,509.1	2,417.0

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

At 31 March	2021 £m	2020 £m
Contractual undiscounted payments due in:		
Not later than one year	**361.8**	352.0
Later than one year but not later than two years	**334.4**	322.2
Later than two years but not later than five years	**596.6**	583.4
Later than five years	**1,875.8**	1,880.9
	3,168.6	3,138.5
Less:		
Present value discount	**(659.2)**	(720.8)
Prepaid amounts	**-**	(0.3)
Exempt cashflows	**(0.3)**	(0.4)
Present value of minimum lease payments	**2,509.1**	2,417.0

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

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

Year ended 31 March	Note	2021 £m	2020 £m
Amortisation of right-of-use assets	3	**367.6**	334.8
Interest payable on right-of-use lease liabilities (before impact of interest rate hedges)		**61.8**	58.8
Expense relating to short-term leases (included in gross expenditure)		**0.5**	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)		**10.7**	13.8

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

The total cash outflow in the Group in respect of leases was £357.2m (2019/20 £317.4m).

g) 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).

h) 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

As at 31 March 2021 two rolling stock contracts had commenced. However, while a certain number of units of rolling stock had been accepted and leased under these contracts as at 31 March, the entire quota in each contract had not yet been received or recognised. The right-of-use asset and the related lease liability in relation to the rolling stock accepted at 31 March 2021 were £911.4m and £1,037.5m respectively (2020 £848.8m and £914.3m respectively), out of a total commitment of £1,100m in the contracts. Because contractual payments under these lease arrangements are set at the outset of the contract in relation to the full quota of trains to be received, and the total contractual payments are not linked to the timing of acceptance of specific batches of trains, the Incremental Borrowing Rate at the commencement of the lease has been applied as the rate at which future liabilities relating to all trains under these contracts are discounted, irrespective of the date of their acceptance into use by TfL.

i) Corporation right-of-use assets at 31 March 2021 comprised the following elements:

	Note	Infrastructure and office buildings £m	Other equipment £m	Total £m
Cost or valuation				
At 1 April 2020		**432.3**	**17.4**	**449.7**
Additions		**(0.1)**	**1.7**	**1.6**
Revaluation		**(1.4)**	**-**	**(1.4)**
At 31 March 2021		**430.8**	**19.1**	**449.9**
Amortisation				
At 1 April 2020		**25.2**	**3.4**	**28.6**
Charge for the year	3	**25.2**	**4.8**	**30.0**
At 31 March 2021		**50.4**	**8.2**	**58.6**
Net book value at 31 March 2021		**380.4**	**10.9**	**391.3**
Net book value at 31 March 2020		407.1	14.0	421.1

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

j) Corporation right-of-use assets at 31 March 2020 comprised the following elements:

	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
Amortisation				
At 1 April 2019*		-	-	-
Charge for the year	3	25.2	3.4	28.6
At 31 March 2020		25.2	3.4	28.6

* 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.

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

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

At 31 March	2021 £m	2020 £m
Principal outstanding		
Short-term liabilities	**26.7**	25.7
Long-term liabilities	**386.8**	413.6
	413.5	439.3

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

At 31 March	2021 £m	2020 £m
Contractual undiscounted payments due in:		
Not later than one year	**37.6**	37.3
Later than one year but not later than two years	**35.8**	37.2
Later than two years but not later than five years	**101.2**	104.5
Later than five years	**340.4**	373.5
	515.0	552.5
Less:		
Present value discount	**(101.5)**	(113.2)
Present value of minimum lease payments	**413.5**	439.3

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

Year ended 31 March	Note	2021 £m	2020 £m
Amortisation of right-of-use assets	3	**30.0**	28.6
Interest payable on right-of-use lease liabilities		**11.6**	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)

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

The total cash outflow in the Corporation in respect of leases in 2020/21 was £37.7m (2019/20 £26.5m).

o) 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).

p) 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 2021 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 (2020 none).

q) Peppercorn leases in the Group and Corporation

TfL has a number of leases over property and other transport infrastructure under which it pays £nil or peppercorn rents. It has undertaken an exercise to assess the fair value of the assets leased under these arrangements and has concluded that they have no material value. No amounts have therefore been recorded in these financial statements in respect of these leases.

15. Investment properties

	Note	Group £m	Corporation £m
Valuation			
At 1 April 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
Additions		**22.7**	**17.7**
Transfers to subsidiary undertakings		**-**	**(1.6)**
Transfers to assets held for sale	22	**19.7**	**1.0**
Transfers from property, plant and equipment	13	**20.9**	**-**
Disposals		**(22.3)**	**(17.7)**
Fair value adjustments		**(12.8)**	**(1.9)**
At 31 March 2021		**1,458.7**	**11.6**

The fair value of the Group's investment properties at 31 March 2021 has been arrived at on the basis of valuations at that date by CBRE, a real estate advisory business not connected with the Group, and by chartered surveyors working for TfL. In determining the fair value, the capitalisation of net income method and the discounting of future cash flows to their present value has been used. This is based upon various assumptions including the anticipated future rental income, maintenance costs and the appropriate discount rate; making reference to market evidence of transaction prices for similar properties. A deduction is made to reflect purchaser's acquisition costs. Values are therefore calculated under level 3 of the fair value hierarchy. 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 (2019/20 none).

Market activity has been impacted in many sectors by the coronavirus pandemic. As at 31 March 2021 our valuers were able to attach less weight to previous market evidence for comparison purposes in informing their opinions of value for certain assets, namely car parks, held within the investment portfolio. The valuations included in these financial statements are therefore reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty and a higher degree of caution should be attached to these values than would normally be the case.

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

15. Investment properties (continued)

During 2019/20 and 2020/21, in order to create a consolidated commercial property portfolio, assets previously held at a depreciated historical cost value within property, plant and equipment, have been identified and transferred into a designated investment portfolio alongside a range of existing investment properties. In addition, the creation of new lease structures allowed the recognition, for the first time, of newly separable investment property assets which have been recorded at fair value at the date of creation of the lease structure. These assets have been combined into 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 2021, a total net revaluation loss of £10.7m (including movements on investment properties held for sale) was recognised for the Group (2019/20 a gain of £934.2m). Of this, a gain of £72.6m (2019/20 £875.2m) in relation to the initial valuation of newly created assets was recognised within other comprehensive income. The remaining £83.3m net loss (2019/20 £59.0m net gain) relating to movements in the valuation of assets already held at valuation has been reflected within financing expenditure/income.

Rental income earned in relation to investment properties is disclosed in note 1. Operating expenditure for the year in respect of investment properties totalled £55.7m for the Group (2019/20 £24.3m). The increase was primarily a reflection of an increased credit loss expense during 2020/21 as our tenants faced the financial challenges posed by the coronavirus pandemic.

Information about the impact of changes in unobservable inputs (level 3) on the fair value of the Group's investment portfolio is set out in the table below.

All other factors being equal:

- a higher equivalent yield or discount rate would lead to a decrease in the valuation of an asset
- an increase in the current or estimated future rental stream would have the effect of increasing the capital value

However, there are interrelationships between the unobservable inputs which are partially determined by market conditions, which would impact on these changes

15. Investment properties (continued)

Information about fair value measurements for the TfL Group using unobservable inputs (level 3) for the year ended 31 March 2021

		Estimated value £m Yield shift (0.5)%	% change from baseline Yield shift (0.5)%	Estimated value £m Yield shift (0.25)%	% change from baseline Yield shift (0.25)%	**Estimated value £m Yield shift (0.0)%**	**% change from baseline Yield shift (0.0)%**	Estimated value £m Yield shift 0.25%	% change from baseline Yield shift 0.25%	Estimated value £m Yield shift 0.5%	% change from baseline Yield shift 0.5%
	(10)%	1,427.2	(2.16)%	1,443.2	(1.06)%	1,357.5	(6.94)%	1,331.1	(8.75)%	1,246.0	(14.58)%
	(5)%	1,484.8	1.79%	1,419.8	(2.67)%	1,408.2	(3.46)%	1,384.3	(5.10)%	1,294.7	(11.24)%
Estimated rental value	0%	1,542.3	5.73%	1,474.2	1.06%	1,458.7	0.00%	1,437.8	(1.43)%	1,343.9	(7.87)%
	5%	1,599.6	9.66%	1,528.6	4.79%	1,509.3	3.47%	1,490.9	2.21%	1,392.6	(4.53)%
	10%	1,656.9	13.59%	1,583.0	8.52%	1,559.9	6.94%	1,544.2	5.86%	1,441.6	(1.17)%

16. Investments in subsidiaries

Cost	Corporation 2021 £m	Corporation 2020 £m
At 1 April	**11,562.5**	10,322.5
Investments in year	**660.0**	1,240.0
At 31 March	**12,222.5**	11,562.5

During the year, the Corporation increased its investment in the ordinary share capital of Transport Trading Limited (TTL) by £660.0m (2019/20 £1,240.0m). TTL subsequently increased its investment in the ordinary share capital of a number of its subsidiaries, including Crossrail Limited.

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	Property investment and development
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

17. Investment in joint ventures

Connected Living London (BTR) Limited

In 2019/20, the Group via its subsidiary, TTL Build to Rent Limited, acquired a 49 per cent 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 through equal representation on the board and equal voting rights, 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, unaudited management accounts have been employed. For prior period comparatives unaudited management accounts from the date of incorporation of 25 April 2019 up to 31 March 2020 have been used.

During 2019/20 the Group invested £7.3m in the equity of CLL, and in the year to 31 March 2021 a further £1.6m was invested. 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 2021 £m	Group 2020 £m
Long-term assets		
Investment property under construction	**15.5**	10.5
	15.5	10.5
Current assets		
Cash	**3.2**	5.0
Other short-term assets	**0.2**	6.6
	3.4	11.6
Current liabilities		
Other short-term liabilities	**(1.8)**	(7.4)
	(1.8)	(7.4)
Long-term liabilities		
Borrowings	**-**	-
Other long-term liabilities	**-**	-
	-	-

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

At 31 March	Group 2021 £m	Group 2020 £m
Net assets at 100%	**17.1**	14.7
Percentage held by the TfL Group	**49%**	49%
Carrying amount of the Group's equity interest in CLL	**8.4**	7.2

17. Investment in joint ventures (continued)

Group share of comprehensive income and expenditure of CCL

Year ended 31 March	Group 2021 £m	Group 2020 £m
Group share of loss from continuing operations	**(0.4)**	(0.1)
Group share of other comprehensive income	**-**	-
Total Group share of comprehensive income and expenditure for the year	**(0.4)**	(0.1)

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

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. During 2019/20, through its voting rights, it was assessed that the Group had significant influence but not control over the relevant activities of KP LLP. The Group's investment was therefore accounted for as an associate using the equity method for the that year. In 2020/21, the partnership agreements were reassessed, and through a combination of its voting rights, Board representation and other rights embedded in the relevant management agreements, the Group was assessed as having joint control. The investment has therefore been accounted for as a joint venture using the equity method for 2020/21.

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 2021 £m	Group 2020 £m
Current assets		
Cash	**2.3**	1.8
Other short-term assets	**36.6**	29.0
	38.9	30.8
Current liabilities		
Other short-term liabilities	**(1.3)**	(0.6)
	(1.3)	(0.6)

17. Investment in joint ventures (continued)

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

At 31 March	Group 2021 £m	Group 2020 £m
Net assets at 100%	**37.6**	30.2
Percentage held by the TfL Group	**49%**	49%
Carrying amount of the Group's equity interest in KP LLP	**18.4**	14.7

KP LLP has recognised neither a profit nor loss in the year to 31 March 2021 (2019/20 £nil). There is therefore no impact on Group consolidated profits relating to the joint venture. The increase in the carrying amount of the Group's equity interest during the year reflects an investment of £3.7m in additional equity share capital of KP LLP during the year. 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 £11.3m. The investment was purchased through a newly incorporated subsidiary of the Group, TTL Blackhorse Road Properties Limited. During 2019/20, through its voting rights it was assessed that the Group had significant influence but not control over the relevant activities of BRP LLP. The Group's investment was therefore accounted for as an associate using the equity method for the that year. In 2020/21, the partnership agreements were reassessed, and through a combination of its voting rights, Board representation and other rights embedded in the relevant management agreements, the Group was assessed as having joint control. The investment has therefore been accounted for as a joint venture using the equity method for 2020/21.

During 2019/20 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.

17. Investment in joint ventures (continued)

Balance sheet of BRP LLP at the 100 per cent level

At 31 March	Group 2021 £m	Group 2020 £m
Current assets		
Cash	**9.4**	14.6
Other short-term assets	**28.8**	18.8
	38.2	33.4
Current liabilities		
Other short-term liabilities	**(8.7)**	(5.9)
	(8.7)	(5.9)

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

At 31 March	Group 2021 £m	Group 2020 £m
Net assets at 100%	**29.5**	27.5
Percentage held by the TfL Group	**49%**	49%
Carrying amount of the Group's equity interest in BRP LLP	**14.5**	13.4

Group share of comprehensive income and expenditure of BRP LLP

Year ended 31 March	Group 2021 £m	Group 2020 £m
Group share of profit from continuing operations	**1.1**	2.1
Group share of other comprehensive income	**-**	-
Total Group share of comprehensive income and expenditure for the year	**1.1**	2.1

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 2021 the Group had invested £44.4m in share capital and a further £416.2m in loan notes, of which a total of £3.9m was invested in 2020/21.

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 have been used, and appropriate adjustments made for the effects of significant transactions between that date and 31 March. On 31 March 2021, TfL obtained an independent valuation of the underlying investment and development property assets of ECP. This indicated no material movement in the value of the assets between 31 December and 31 March. Neither were there any material movements in net income/expenditure or in the net assets of ECP between 31 December 2020 and 31 March 2021.

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 2020 £m	Group 2019 £m
Current assets	**6.9**	10.4
Long-term assets	**516.2**	514.5
Current liabilities	**(1.8)**	(3.2)
Long-term liabilities	**(73.4)**	(71.7)

Included within current assets above at 31 December 2020 is £5.7m of cash (2019 £9.2m). Long-term liabilities represent third-party borrowings.

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

	Group 2021 £m	Group 2020 £m
Net assets at 100% at 31 December 2020/ 31 December 2019	**447.9**	450.0
Percentage held by the TfL Group	**37%**	37%
TfL Group share of net assets at 31 December	**165.7**	166.5
Investment in equity loan notes between 31 December and 31 March	**1.2**	-
Carrying amount of the Group's equity interest in Earls Court Partnership Limited at 31 March	**166.9**	166.5

18. Investment in associated undertakings (continued)

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

Year ended 31 March	Group 2021 £m	Group 2020 £m
Group share of loss from continuing operations	**(3.5)**	(54.1)
Group share of other comprehensive income	**-**	-
Total Group share of comprehensive income and expenditure for the year	**(3.5)**	(54.1)

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.

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.

As at 31 March	2021 £m	2020 £m
Principal outstanding		
Short-term	**15.4**	15.7
Long-term	**28.6**	37.0
	44.0	52.7

	2021 £m	2020 £m
Principal outstanding		
At 1 April	**52.7**	52.2
Additions	**7.0**	14.8
Interest	**2.6**	3.2
Repayments	**(18.3)**	(17.5)
	44.0	52.7

At 31 March	2021 £m	2020 £m
Minimum cash receipts in:		
Not later than one year	**17.2**	18.4
Later than one year but not later than five years	**29.7**	39.8
	46.9	58.2
Less unearned finance income	**(2.9)**	(5.5)
	44.0	52.7

20. Inventories

As at 31 March	Group 2021 £m	Group 2020 £m
Raw materials and consumables	**50.7**	58.1
Goods held for resale	**0.8**	0.8
	51.5	58.9

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 2021 or 31 March 2020.

The movement on inventories was as follows:

	Group £m
Balance at 1 April 2019	61.0
Purchases in the year	76.1
Recognised as an expense in the year:	
Consumed/sold in the year	(71.7)
Net write offs in the year	(6.5)
Balance at 31 March 2020	58.9
Purchases in the year	**50.4**
Recognised as an expense in the year:	
Consumed in the year	**(54.9)**
Goods sold in the year	**(0.1)**
Net write offs in the year	**(2.8)**
Balance at 31 March 2021	**51.5**

21. Debtors

At 31 March	Group 2021 £m	Group 2020 £m
Short-term		
Trade debtors	**140.3**	99.7
Capital debtors	**5.5**	22.7
Other debtors	**76.7**	22.8
Other tax and social security	**58.8**	61.1
Grant debtors	**68.5**	118.2
Interest debtors	**1.2**	1.7
Contract assets: accrued income	**35.7**	58.5
Prepayments for goods and services	**106.4**	128.1
	493.1	512.8
Long-term		
Other debtors	**17.4**	59.4
Prepayments for goods and services	**34.8**	38.0
	52.2	97.4

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

As at 31 March 2021, £488.4m (2020 £424.9m) was recognised as a provision for expected credit losses on trade and other debtors (see note 34).

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 2021 £m	Corporation 2020 £m
Short-term		
Trade debtors	**30.4**	31.8
Amounts due from subsidiary companies	**297.8**	412.4
Capital debtors	**0.6**	6.4
Other debtors	**49.3**	5.7
Other tax and social security	**7.6**	-
Grant debtors	**17.4**	64.8
Interest debtors	**(0.4)**	1.5
Contract assets: accrued income	**13.0**	5.6
Prepayments for goods and services	**24.2**	25.1
	439.9	553.3
Long-term		
Loans made to subsidiary companies	**12,251.9**	11,106.2
Other debtors	**-**	42.8
Prepayments for goods and services	**7.6**	6.0
	12,259.5	11,155.0

Trade debtors are non-interest bearing and are generally paid within 28 days. In 2021, £457.9m (2020 £415.3m) was recognised as a provision for expected credit losses on trade debtors (see note 34).

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 are interest-bearing loans, primarily representing the pass-down of external third-party borrowings to the subsidiaries that hold the assets which have been funded by that borrowing. These loans 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 2021 was 3.3 per cent (2020 3.6 per cent).

22. Assets held for sale

	Note	Group £m	Corporation £m
Balance at 1 April 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
Assets transferred from held for sale to investment property:			
Investment properties	15	**(19.7)**	**(1.0)**
Revaluation gains/(losses)			
Investment properties		**2.1**	**(0.4)**
Disposals			
Investment properties		**(0.3)**	**(0.2)**
Balance at 31 March 2021		**95.5**	**17.5**

As at 31 March 2021, 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 2021 £m	Group 2020 £m
Short-term		
Investments held at amortised cost	**19.0**	642.4

At 31 March	Corporation 2021 £m	Corporation 2020 £m
Short-term		
Investments held at amortised cost	**-**	623.5

Short-term investments comprise fixed deposits, UK treasury bills and other tradeable instruments with a maturity of greater than three but less than 12 months.

24. Cash and cash equivalents

At 31 March	Group 2021 £m	Group 2020 £m
Cash at bank	**126.5**	231.4
Short term investments with a maturity of less than three months	**1,575.8**	1,325.1
Cash in hand and in transit	**7.9**	10.3
	1,710.2	1,566.8

At 31 March	Corporation 2021 £m	Corporation 2020 £m
Cash at bank	**52.6**	85.6
Short term investments with a maturity of less than three months	**1,575.8**	1,325.1
	1,628.4	1,410.7

Short term investments comprise fixed deposits, UK treasury bills, repo 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 2021 £m	Group 2020 £m
Short-term		
Trade creditors	**164.7**	101.9
Accrued interest	**111.7**	109.9
Capital works	**656.3**	677.0
Retentions on capital contracts	**9.4**	8.5
Capital grants received in advance	**32.2**	26.8
Wages and salaries	**136.9**	144.6
Other taxation and social security creditors	**49.3**	47.9
Contract liabilities: receipts in advance for Travelcards, bus passes and Oyster cards	**217.7**	348.2
Contract liabilities representing other deferred income	**48.3**	58.7
Accruals and other payables	**651.4**	605.3
	2,077.9	2,128.8
Long-term		
Trade creditors	**-**	0.7
Capital grants received in advance	**11.1**	2.4
Retentions on capital contracts	**3.9**	4.7
Contract liabilities representing other deferred income	**29.7**	46.6
Accruals and other payables	**12.0**	7.2
	56.7	61.6

25. Creditors (continued)

The level of outstanding long-term liabilities as at 31 March 2021 has decreased from the prior year primarily as a result of £16.3m of deferred income recorded at 31 March 2020, relating to the redevelopment of a depot, being released to income during 2020/21.

The performance obligations, related to deferred income balances recorded as at 31 March 2021, which are expected to be met in more than one year relate to:

i. License revenue and funding received from developers for improvements to bus services, which together total £21.6m (2020 £20.4m), of which £13.1m (2020 £16.6m) relates to obligations that are to be satisfied within two to three years, and £4.7m (2020 £3.8m) within five years and £3.8m (2020 £nil) over 5 years

ii. Maintenance income of £6.4m (2020 £5.2m) expected to be released over 30 years

iii. Other miscellaneous contracts, together totalling £1.6m (2020 £4.7m)

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

Year ended 31 March	Group 2021 £m	Group 2020 £m
Amounts included in contract liabilities at 1 April	213.0	294.3
Performance obligations satisfied in previous years	-	-

25. Creditors (continued)

b) Corporation creditors at 31 March comprised:

At 31 March	Corporation 2021 £m	Corporation 2020 £m
Short-term		
Trade creditors	44.6	50.2
Accrued interest	109.3	107.8
Capital works	127.9	118.9
Retentions on capital contracts	1.8	-
Capital grants received in advance	14.2	11.7
Amounts due to subsidiary companies	278.0	208.2
Wages and salaries	37.2	28.3
Other taxation and social security creditors	2.8	2.5
Contract liabilities representing other deferred income	16.0	18.3
Accruals and other payables	275.2	194.5
	907.0	740.4
Long-term		
Capital grants received in advance	8.3	2.4
Contract liabilities representing other deferred income	16.3	18.4
	24.6	20.8

Total long-term contract liabilities balances in the Corporation are broadly consistent with the prior year.

At 31 March 2021, the significant balance of remaining performance obligations in relation to contract liabilities expected to be recognised in more than one year represents deferred license revenue totalling £9.8m (2020 £11.5m), of which £9.6m is expected to be satisfied within three to four years (2020 £10.6m) and £0.2m (2020 £0.9m) within five years. Maintenance income of £6.4m (2020 £5.2m) is expected to be released over 30 years. Balances relating to other miscellaneous contracts totalled £0.1m (2020 £1.7m).

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

Year ended 31 March	Corporation 2021 £m	Corporation 2020 £m
Amounts included in contract liabilities at 1 April	14.9	11.1
Performance obligations satisfied in previous years	-	-

26. Borrowings and overdrafts

At 31 March	**Group 2021 £m**	Group 2020 £m
Short-term		
Borrowings	**1,198.1**	936.5
Long-term		
Borrowings	**11,769.7**	10,752.5

At 31 March	**Corporation 2021 £m**	Corporation 2020 £m
Short-term		
Borrowings	**1,198.1**	936.5
Long-term		
Borrowings	**11,774.1**	10,757.5

Further information about the maturity and interest rate profiles of the Group and Corporation's borrowings is provided in note 34 (Funding and financial risk management).

We have a number of loan facilities with the European Investment Bank (EIB) and Export Development Canada (EDC), all of which were fully drawn as at 31 March 2021. We also have a loan facility with the DfT for the purposes of the Crossrail project. 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 £600m was borrowed from the PWLB, of which £336m is at floating rates of interest, and £100m was drawn under our EDC facilities, at fixed interest rates, during the year. A further £676m was borrowed from the DfT, as part of a £750m facility. The remaining £74m was drawn down after the year end, in April 2021.

26. Borrowings and overdrafts (continued)

Changes in liabilities arising from financing activities

	Group 2021 £m	Group 2020 £m
Balance at 1 April		
Short-term	**1,272.1**	816.2
Long-term	**13,095.4**	10,879.6
	14,367.5	11,695.8
Right-of-use lease liabilities recognised on the implementation of IFRS 16	**-**	1,768.1
Borrowings drawn down	**1,541.0**	640.9
Net (repayment of)/additions to other financing liabilities	**(1.7)**	3.3
Repayment of borrowings	**(263.6)**	(96.0)
Repayment of PFI liabilities	**(13.9)**	(54.2)
Repayment of right-of-use lease liabilities	**(295.4)**	(248.4)
Non-cash increase in right-of-use lease liabilities	**387.5**	658.5
Other movements *	**1.4**	(0.5)
At 31 March	**15,722.8**	14,367.5
Short-term	**1,543.5**	1,272.1
Long-term	**14,179.3**	13,095.4
	15,722.8	14,367.5

* 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 2021 £m	Corporation 2020 £m
Balance at 1 April		
Short-term	**971.2**	756.9
Long-term	**11,282.3**	10,524.8
	12,253.5	11,281.7
Right-of-use lease liabilities recognised on the implementation of IFRS 16	**-**	447.2
Borrowings drawn down	**1,541.0**	640.9
Repayment of borrowings	**(263.6)**	(96.0)
Repayment of PFI lease liabilities	**(9.0)**	(11.1)
Repayment of right-of-use lease liabilities	**(26.0)**	(24.6)
Non-cash increase in right-of-use-lease liabilities	**0.2**	16.7
Other movements *	**0.8**	(1.3)
At 31 March	**13,496.9**	12,253.5
Short-term	**1,234.4**	971.2
Long-term	**12,262.5**	11,282.3
	13,496.9	12,253.5

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

27. 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.

27. Private finance initiative contracts (continued)

Contract	Contract dates	Description
London Underground Limited (LU)		
British Transport Police (London Underground)	1999 to 2022	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 required 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. The contract terminated on 31 March 2021.

27. Private finance initiative contracts (continued)

PFI finance lease liabilities

	Group 2021 £m	Group 2020 £m	Corporation 2021 £m	Corporation 2020 £m
At 1 April	**125.5**	179.7	**120.2**	131.3
Payments	**(19.4)**	(62.9)	**(14.2)**	(16.8)
Interest	**5.5**	8.7	**5.2**	5.7
At 31 March	**111.6**	125.5	**111.2**	120.2

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 2021				
Less than 1 year	**4.8**	**9.9**	**29.3**	**44.0**
Between 1 and 5 years	**14.4**	**55.9**	**128.2**	**198.5**
Between 6 and 10 years	**3.9**	**45.8**	**110.3**	**160.0**
	23.1	**111.6**	**267.8**	**402.5**
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

27. 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 2021				
Less than 1 year	**4.8**	**9.6**	**25.1**	**39.5**
Between 2 and 5 years	**14.4**	**55.8**	**127.5**	**197.7**
Between 6 and 10 years	**3.9**	**45.8**	**110.3**	**160.0**
	23.1	**111.2**	**262.9**	**397.2**
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

28. Other financing liabilities

Group other financing liabilities at 31 March comprised:

	Group 2021 £m	Group 2020 £m
Short-term		
Deferred capital payments	**6.2**	3.5
Long-term		
Deferred capital payments	**128.1**	132.5

Other financing liabilities comprise deferred capital payments in respect of the acquisition of property, plant and equipment. Gross payments with a nominal value of £162.1m (2020 £159.7m) fall due over the period to March 2033. These have been discounted back at an effective rate of interest of 3.2 per cent (2020 2.5 per cent) to the present value recorded in the table above.

29. Provisions

a) Group provisions

	At 1 April 2020 £m	Payments in the year £m	Charge for the year £m	Releases in the year £m	**At 31 March 2021 £m**
Compensation and contractual	100.4	(19.3)	16.2	(25.4)	**71.9**
Capital investment activities	76.9	(8.2)	0.1	(2.3)	**66.5**
Environmental harm	1.4	-	-	-	**1.4**
Severance and other	71.9	(35.1)	12.9	(19.5)	**30.2**
	250.6	(62.6)	29.2	(47.2)	**170.0**

At 31 March	**2021 £m**	2020 £m
Due		
Short-term	**109.1**	192.6
Long-term	**60.9**	58.0
	170.0	250.6

b) Corporation provisions

	At 1 April 2020 £m	Payments in the year £m	Charge for the year £m	Releases in the year £m	**At 31 March 2021 £m**
Compensation and contractual	19.1	(2.5)	9.2	(7.6)	**18.2**
Capital investment activities	76.9	(8.2)	0.3	(2.3)	**66.7**
Severance and other	51.6	(30.5)	6.3	(17.8)	**9.6**
	147.6	(41.2)	15.8	(27.7)	**94.5**

At 31 March	**2021 £m**	2020 £m
Due		
Short-term	**64.9**	124.6
Long-term	**29.6**	23.0
	94.5	147.6

29. 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.

30. Derivative financial instruments

Cash flow hedges

At 31 March	Fair value 2021 £m	Notional amount 2021 £m	Fair value 2020 £m	Notional amount 2020 £m
Long-term assets				
Foreign currency forward contracts	**0.2**	**19.7**	1.5	20.1
	0.2	**19.7**	1.5	20.1
Current assets				
Foreign currency forward contracts	**6.5**	**229.1**	3.4	40.5
	6.5	**229.1**	3.4	40.5
Current liabilities				
Interest rate swaps	**(1.2)**	**75.0**	(0.3)	25.0
Foreign currency forward contracts	**(10.8)**	**165.7**	(26.0)	688.5
	(12.0)	**240.7**	(26.3)	713.5
Long-term liabilities				
Interest rate swaps	**(29.6)**	**336.9**	(50.9)	408.6
Foreign currency forward contracts	**(17.7)**	**271.5**	(12.2)	316.6
	(47.3)	**608.4**	(63.1)	725.2

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

31. 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.

32. 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	1,050
Agreements with QW Rail Leasing Ltd	380
Agreement with London Rail Leasing Ltd	350
Agreement with Lloyds Bank PLC	109
Agreement with Pittville Leasing Ltd	51
Agreement with Lombard North Central Plc	7
Agreement with Services Support (BTP) Limited (formerly APSLL)	4

In addition, TfL also guarantees the payments of certain of its subsidiaries under a number of other service and construction contracts. 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. 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.

32. Guarantees (continued)

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 2021 is £52.6m (2020 £84.5m).

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 2021 the fair value of all financial guarantees granted has been recorded as £nil (2020 £nil).

33. Financial commitments

Operating leases – The Group and Corporation as lessor

The Group and Corporation lease out commercial, retail and office property, and land that they hold as a result of their infrastructure holdings.

At the Balance Sheet date, the Group and Corporation had contracted with customers for the following future minimum lease payments:

Land and buildings	Group £m	Corporation £m
At 31 March 2021		
Within one year	**57.3**	**0.7**
Between one and two years	**52.1**	**0.7**
Between two and five years	**111.4**	**1.7**
Later than five years	**617.8**	**4.9**
	838.6	**8.0**
At 31 March 2020		
Within one year	73.8	3.7
Between one and two years	64.8	3.1
Between two and five years	148.5	6.9
Later than five years	611.6	53.4
	898.7	67.1

34. Funding and financial risk management

Introduction

TfL is a statutory corporation established under the GLA Act 1999. TfL is funded by revenues, 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. The Treasury Management Strategy for 2020/21 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 (2018 Edition) issued by the Ministry for Housing, Communities and local Government (the Investment Guidance). The strategy was approved by the TfL Board prior to the commencement of the year.

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.

34. 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, approves 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.

Notes to the Financial Statements

34. 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 32, 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 2021 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 2021						
Expected credit loss rate	**0.7%**	**36.1%**	**87.8%**	**94.4%**	**99.0%**	**54.7%**
Estimated total gross carrying amount at default	**340.6**	**82.3**	**43.3**	**84.4**	**341.9**	**892.5**
Expected credit loss allowance	**(2.5)**	**(29.7)**	**(38.0)**	**(79.7)**	**(338.5)**	**(488.4)**
At 31 March 2020						
Expected credit loss rate	0.3%	48.1%	93.8%	99.9%	100.0%	48.9%
Estimated total gross carrying amount at default	421.7	40.1	42.2	71.8	293.2	869.0
Expected credit loss allowance	(1.1)	(19.3)	(39.6)	(71.7)	(293.2)	(424.9)

34. 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 2021						
Expected credit loss rate	**-**	**58.9%**	**87.9%**	**98.0%**	**99.4%**	**3.5%**
Estimated total gross carrying amount at default	**12,645.0**	**35.8**	**36.5**	**73.5**	**334.7**	**13,125.5**
Expected credit loss allowance	**-**	**(21.1)**	**(32.1)**	**(72.0)**	**(332.7)**	**(457.9)**
At 31 March 2020						
Expected credit loss rate	-	64.0%	97.4%	100.0%	100.0%	3.4%
Estimated total gross carrying amount at default	11,665.5	29.7	37.9	68.3	291.1	12,092.5
Expected credit loss allowance	-	(19.0)	(36.9)	(68.3)	(291.1)	(415.3)

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.

Throughout 2020/21 investments were made within limits approved by the TfL Board. From 2021/22 limits will be approved annually by the Finance Committee. 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 2021, the fair value of the collateral held amounted to £200m (2020 £nil).

The centrally managed cash reserves at 31 March 2021 totalled £1,575.8m (2020 £1,949.1m).

34. Funding and financial risk management (continued)

As at 31 March, principal 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 2021			
UK Debt Management Office	**388.0**	**P-1/A-/1+**	**45**
Other Government Agencies	**201.2**	**P-1/A-1+/F1+**	**43**
Money Market Funds	**374.7**	**AAA/AAA/AAA**	**1**
Banks (including Gilt backed repos)	**526.7**	**P-1/A-1+/F1+**	**33**
Corporates	**85.2**	**P-1/A-1/F1**	**8**
Total	**1,575.8**		**29**
At 31 March 2020			
UK Debt Management Office	742.0	P-1/A-1+	28
Other Government Agencies	480.6	P-1/A-1+/F1+	47
Banks (including Gilt backed repos)	377.0	P-1/A-1+/F1+	34
Corporates	349.5	P-2/A-2/F2	37
Total	1,949.1		35

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 2021 and as at 31 March 2020 was immaterial.

34. 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, for 2020/21, was 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 32, 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 2021, the fair value of the Corporation's financial guarantees has been assessed as £nil (2020 £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.

34. Funding and financial risk management (continued)

For the years ended 31 March 2021 and 2020 all derivatives in designated hedge relationships were assessed as highly effective and no ineffectiveness was recognised. Accordingly, the full movement in the fair value of those derivatives was taken to reserves.

(i) Foreign exchange risk

During 2020/21, TfL held certain short-term investments denominated in Euros. 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 2021, the Group held foreign exchange contracts to hedge €215.0m future Euro receipts in relation to its Euro investments (2020 €720.4m). 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 £0.1m as at 31 March 2021 (2020 a net gain of £0.7m). These derivative instruments mature in the period to May 2021.

For 2020/21, 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 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 2021, the Group held forward foreign exchange 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 £371.5m (2020 £443.1m). At 31 March 2021, these contracts had a combined net fair value of £(25.7)m (2020 £(10.2)m). The fair value of forward contracts was recognised in equity at 31 March 2021, with the exception of Swiss Franc contracts with a fair value of £(0.3)m for which hedge accounting was discontinued as future hedged payments in that currency were no longer considered probable. The fair value loss was recognised in the income statement. For all other currencies, once hedged purchases occur, the subsequent realised gain or loss will be transferred to fixed asset additions as a basis adjustment.

34. Funding and financial risk management (continued)

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 2020 has been offset by the change in value of hedging instruments.

It is expected that the hedged purchases will take place in the period to March 2027. 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 at 31 March

	2021 Net nominal value £m	**2021 Fair value £m**	**2021 Fair value after a 10% increase in GBP against other currency**	**2021 Fair value after a 10% decrease in GBP against other currency**	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
Impact on Comprehensive Income and Expenditure								
Net sell								
Euros	**(183.2)**	**3.9**	**20.6**	**(16.4)**	(614.3)	(23.1)	34.8	(93.9)
Net buy								
Swiss Francs	**2.5**	**(0.3)**	**(0.5)**	**(0.1)**	-	-	-	-
	n/a	**3.6**	**20.1**	**(16.5)**	n/a	(23.1)	34.8	(93.9)
Impact on Hedging Reserves								
Net buy								
Euros	**302.5**	**(24.7)**	**(52.5)**	**9.3**	349.6	(10.2)	(41.1)	27.4
Canadian dollars	**36.4**	**1.2**	**(2.1)**	**5.2**	62.3	2.5	(3.4)	9.6
Swiss Francs	**-**	**-**	**-**	**-**	2.3	(0.1)	(0.3)	0.2
Swedish Krona	**23.3**	**(1.8)**	**(3.9)**	**0.8**	22.5	(2.9)	(4.4)	(0.5)
Chinese Yuan Renminbi	**6.8**	**(0.1)**	**(0.7)**	**0.6**	6.4	0.5	(0.1)	1.3
	n/a	**(25.4)**	**(59.2)**	**15.9**	n/a	(10.2)	(49.3)	38.0
Total liability	**n/a**	**(21.8)**	**(39.1)**	**(0.6)**	n/a	(33.3)	(14.5)	(55.9)

34. Funding and financial risk management (continued)

(ii) Interest rate risk

The Group is mainly exposed to interest rate risk on its planned future borrowings. As TfL is required by legislation to produce a balanced Budget and also produces a balanced Business Plan, 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. The Financial Conduct Authority has confirmed that LIBOR will either cease to be provided by any administrator or no longer be representative immediately after 31 December 2021. Sterling Overnight Index Average (SONIA) has been selected as the preferred sterling risk-free rate by the Bank of England's Working Group on Sterling Risk Free Reference Rates.

The Group's most significant risk exposure affected by these changes relates to its LIBOR linked floating rate borrowing and lease payments, for which we are actively transitioning away from LIBOR before 31 December 2021.

The notional amount of interest rates swaps designated as hedges relating to LIBOR is disclosed below. We have adopted the International Swaps and Derivatives Association IBOR Fallbacks Protocol for all our interest rate swaps.

In assessing whether the hedge is expected to be highly effective on a forward looking basis, the Group has early adopted IFRS 9 Phase 1 amendments and applied the associated temporary reliefs to assume 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.

Effects of hedge accounting - Interest rate swaps

As at 31 March 2021, the Group, through its wholly owned subsidiary, Transport for London Finance Limited, held eight interest rate swaps at a total notional value of £411.9m (2020 nine interest rate swaps at a total notional value of £433.6m). The net fair value of these contracts at 31 March 2021 was a liability of £30.8m (2020 £51.2m). The fair value is recognised in equity at 31 March 2021 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.

34. 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 on net income figures in respect of these items.

(b) Fair value sensitivity analysis for derivative instruments

As at 31 March 2021, the Group holds interest rate derivative contracts with a combined notional value of £411.9m (2020 £433.6m) 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 £29.6m/£(24.9)m (2020 £31.9m/£(30.3)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.

34. 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.

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.

In response to the funding pressures faced over the course of 2020/21, TfL secured a number of Extraordinary Funding and Financing Agreements from the Secretary of State, as set out in the Viability Statement section of the Narrative report, which give it secure access to funding in the form of a mixture of Government grant and borrowing from the Public Works Loan Board until XX 2021. These agreements contain an acknowledgement from the Secretary of State for Transport that further financial support from the Government is likely to be needed until at least 2022/23, with longer term external funding being required to support TfL's capital investment programme.

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.

34. Funding and financial risk management (continued)

Maturity profile of derivatives

The Group's foreign currency derivatives have the following maturities:

At 31 March	2021 Average exchange rate	2021 Fair value £m	2021 Notional amount £m	2020 Average exchange rate	2020 Fair value £m	2020 Notional amount £m
Foreign currency forward contracts						
Buy euro						
Less than one year	**0.874**	**(8.3)**	**79.2**	0.898	(0.7)	54.3
Between one and two years	**0.885**	**(3.3)**	**43.3**	0.916	(2.2)	97.6
Between two and five years	**0.916**	**(13.0)**	**173.8**	0.950	(5.4)	154.1
After five years	**0.914**	**(0.1)**	**6.2**	0.970	(1.9)	43.6
Sell euro						
Less than one year	**0.870**	**3.9**	**(183.2)**	0.853	(23.1)	(614.3)
Total euro	**0.892**	**(20.8)**	**119.3**	0.883	(33.3)	(264.7)
Buy Canadian Dollars						
Less than one year	**0.560**	**1.2**	**36.1**	0.542	1.8	38.4
Between one and two years	**0.590**	**-**	**0.3**	0.550	0.7	23.6
Between two and five years	**-**	**-**	**-**	0.590	-	0.3
Total Canadian Dollars	**0.561**	**1.2**	**36.4**	0.545	2.5	62.3

34. Funding and financial risk management (continued)

Maturity profile of derivatives (continued)

The Group's foreign currency derivatives have the following maturities:

At 31 March	2021 Average exchange rate	2021 Fair value £m	2021 Notional amount £m	2020 Average exchange rate	2020 Fair value £m	2020 Notional amount £m
Foreign currency forward contracts						
Buy Swiss Francs						
Less than one year	**0.868**	**(0.2)**	**2.1**	0.864	-	0.9
Between one and two years	**0.889**	**(0.1)**	**0.2**	0.878	(0.1)	1.0
Between two and five years	**0.905**	**-**	**0.2**	0.899	-	0.4
Total Swiss Francs	**0.880**	**(0.3)**	**2.5**	0.877	(0.1)	2.3
Buy Swedish Krona						
Less than one year	**0.086**	**(0.9)**	**2.4**	0.093	(1.0)	7.6
Between one and two years	**0.087**	**(0.4)**	**3.7**	0.093	(1.1)	8.7
Between two and five years	**0.086**	**(0.5)**	**15.0**	0.094	(0.8)	6.2
After five years	**0.086**	**-**	**2.2**	-	-	-
Total Swedish Krona	**0.086**	**(1.8)**	**23.3**	0.093	(2.9)	22.5
Buy Chinese Yuan Renminbi						
Less than one year	**0.103**	**-**	**-**	0.104	0.8	9.8
Between one and two years	**0.110**	**(0.1)**	**6.3**	0.100	0.1	0.8
Between two and five years	**0.107**	**-**	**0.5**	-	-	-
Sell Chinese Yuan Renminbi						
Less than one year	**-**	**-**	**-**	0.104	(0.4)	3.8
Between one and two years	**-**	**-**	**-**	0.100	-	0.4
Total Chinese Yuan Renminbi	**0.106**	**(0.1)**	**6.8**	0.104	0.5	14.8
Grand total	**n/a**	**(21.8)**	**188.3**	n/a	(33.3)	(162.8)

34. Funding and financial risk management (continued)

Maturity profile of derivatives (continued)

The Group's interest rate derivatives have the following maturities:

At 31 March	2021 Average contracted fixed interest rate (%)	2021 Fair value £m	2021 Notional amount £m	2020 Average contracted fixed interest rate (%)	2020 Fair value £m	2020 Notional amount £m
Interest rate hedges						
Less than one year	**3.837**	**(1.2)**	**75.0**	3.548	(0.2)	25.0
Between one and two years	**4.284**	**(6.4)**	**100.0**	3.837	(3.6)	75.0
Between two and five years	**4.489**	**(2.3)**	**25.0**	4.325	(13.1)	125.0
After five years	**2.285**	**(20.9)**	**211.9**	2.306	(34.3)	208.6
Total	**3.187**	**(30.8)**	**411.9**	3.224	(51.2)	433.6

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.

34. 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 2021					
Derivatives settled gross					
Foreign exchange forward contracts:					
Amounts receivable	**453.3**	**76.7**	**206.5**	**8.4**	**744.9**
Amounts payable	**(457.8)**	**(81.1)**	**(226.5)**	**(8.9)**	**(774.3)**
Derivatives settled net					
Interest rate swaps	**(11.8)**	**(9.2)**	**(13.3)**	**(3.5)**	**(37.8)**
	(16.3)	**(13.6)**	**(33.3)**	**(4.0)**	**(67.2)**
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)

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 2021, the fair value of the interest rate derivatives was a net liability of £30.8m (2020 £51.2m). The fair value of forward exchange derivatives was a net liability of £21.8m (2020 £33.3m).

34. 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 2021					
Trade and other creditors	**1,779.7**	**15.9**	**-**	**-**	**1,795.6**
Borrowings - principal	**1,173.4**	**694.1**	**1,170.3**	**9,957.7**	**12,995.5**
Borrowings - interest	**336.3**	**404.1**	**1,136.7**	**5,610.2**	**7,487.3**
Right-of-use lease liabilities	**361.8**	**334.4**	**596.6**	**1,875.8**	**3,168.6**
PFI liabilities	**14.7**	**15.0**	**55.3**	**49.7**	**134.7**
Other financing liabilities	**10.4**	**10.4**	**47.7**	**93.6**	**162.1**
	3,676.3	**1,473.9**	**3,006.6**	**17,587.0**	**25,743.8**
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	9,456.2	11,719.5
Borrowings - interest	401.7	390.7	1,103.5	5,675.9	7,571.8
Right-of-use lease liabilities	352.0	322.2	583.4	1,880.9	3,138.5
PFI 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
Corporation - as at 31 March 2021					
Trade and other payables	**876.8**	**-**	**-**	**-**	**876.8**
Borrowings - principal	**1,173.4**	**694.1**	**1,170.3**	**9,957.7**	**12,995.5**
Borrowings - interest	**336.3**	**404.1**	**1,136.7**	**5,610.2**	**7,487.3**
Right-of-use lease liabilities	**37.6**	**35.8**	**101.2**	**340.4**	**515.0**
PFI lease liabilities	**14.4**	**15.0**	**55.2**	**49.7**	**134.3**
	2,438.5	**1,149.0**	**2,463.4**	**15,958.0**	**22,008.9**
Corporation - as at 31 March 2020					
Trade and other payables	710.4	-	-	-	710.4
Borrowings - principal	938.5	360.2	964.6	9,456.2	11,719.5
Borrowings - interest	401.7	390.7	1,103.5	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
	2,102.1	802.5	2,224.7	15,573.4	20,702.7

34. 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
- Right-of-use lease liabilities – approximates to the carrying amount
- PFI liabilities – approximates to the carrying amount
- Other financing liabilities – approximates to the carrying amount

34. 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 Sheet are illustrated below:

At 31 March	2021 Carrying value £m	2021 Fair value £m	2020 Carrying value £m	2020 Fair value £m
Cash and cash equivalents	1,710.2	1,710.2	1,566.8	1,566.8
Short-term investments	19.0	19.0	642.4	642.4
Trade and other debtors	404.1	404.1	444.1	444.1
Finance lease receivables	44.0	44.0	52.7	52.7
Derivative financial instruments	6.7	6.7	4.9	4.9
Total financial assets	2,184.0	2,184.0	2,710.9	2,710.9
Trade and other creditors	(1,795.6)	(1,795.6)	(1,707.7)	(1,707.7)
Borrowings	(12,967.8)	(19,742.4)	(11,689.0)	(15,669.7)
Right-of-use lease liabilities	(2,509.1)	(2,509.1)	(2,417.0)	(2,417.0)
PFI liabilities	(111.6)	(111.6)	(125.5)	(125.5)
Other financing liabilities	(134.3)	(134.3)	(136.0)	(136.0)
Derivative financial instruments	(59.3)	(59.3)	(89.4)	(89.4)
Total financial liabilities	(17,577.7)	(24,352.3)	(16,164.6)	(20,145.3)
Net financial liabilities	(15,393.7)	(22,168.3)	(13,453.7)	(17,434.4)

34. 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	2021 Carrying value £m	2021 Fair value £m	2020 Carrying value £m	2020 Fair value £m
Cash and cash equivalents	1,628.4	1,628.4	1,410.7	1,410.7
Short-term investments	-	-	623.5	623.5
Trade and other debtors	12,667.6	12,667.6	11,677.2	11,677.2
Total financial assets	**14,296.0**	**14,296.0**	**13,711.4**	**13,711.4**
Trade and other creditors	(876.8)	(876.8)	(710.4)	(710.4)
Borrowings	(12,972.2)	(19,742.4)	(11,694.0)	(15,669.7)
Right-of-use lease liabilities	(413.5)	(413.5)	(439.3)	(439.3)
PFI liabilities	(111.2)	(111.2)	(120.2)	(120.2)
Total financial liabilities	**(14,373.7)**	**(21,143.9)**	**(12,963.9)**	**(16,939.6)**
Net financial (liabilities)/assets	**(77.7)**	**(6,847.9)**	**747.5**	**(3,228.2)**

35. 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 2021 £m	Group 2020 £m	Corporation 2021 £m	Corporation 2020 £m
TfL Pension Fund		**443.7**	581.3	**176.9**	371.9
Local Government Pension Fund		**1.3**	2.3	**1.3**	2.3
Crossrail Section of the Railways Pension Scheme		**3.0**	3.5	**-**	-
Unfunded schemes provision		**3.7**	6.5	**2.6**	5.2
Total for schemes accounted for as defined benefit		**451.7**	593.6	**180.8**	379.4
Principal Civil Service Pension Scheme		**0.6**	0.6	**0.6**	0.6
Other schemes		**6.7**	3.8	**1.1**	1.8
Less: pension costs capitalised		**(3.0)**	(3.5)	**-**	-
Amounts included in net cost of services		**456.0**	594.5	**182.5**	381.8
Less: scheme expenses		**(13.6)**	(13.4)	**(13.3)**	(13.2)
Amount included in staff costs	3	**442.4**	581.1	**169.2**	368.6

35. 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 have risen 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 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 2021. 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 2020 projections with a long-term improvement rate of 1.25 per cent per annum. No weighting has been given to 2020 mortality experience.

The discounted scheme liabilities have an average duration of 18 years.

35. Pensions (continued)

London Pension Fund Authority Pension Fund (Local Government Pension Fund)

The London Pension Fund Authority Pension Fund is a funded multi-employer defined benefit scheme, administered by the London Pension 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 15.6 per cent for 2020/21 (2019/20 15.9 per cent) of pensionable pay, plus a lump sum deficit reduction payment of £0.8m (2019/20 £1.2m). The Corporation's share of the underlying assets and defined benefit obligation resulted in an IAS 19 deficit as at 31 March 2021 of £60.4m (2020 £40.7m). The discounted scheme liabilities have an average duration of 21 years.

The last full actuarial valuation available was carried out at 31 March 2019. The report showed a funding surplus of £481m at that date. The annual report and financial statements for the whole scheme can be found on the London Pension Fund Authority's website (www.lpfa.org.uk). A separate valuation as at 31 March 2021 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.

The latest available 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 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 2021 by actuaries at the XPS Pensions Group. Assumptions underlying this valuation have been updated from the preliminary results of a full actuarial valuation of the scheme carried out at 31 December 2019. The Group's share of the underlying assets and defined benefit obligation resulted in a deficit, as at 31 March 2021, of £56.8m (2020 £18.3m). The discounted Crossrail Section liabilities have a duration of approximately 24 years.

The defined benefit obligation for the Crossrail Section has been calculated using the mortality assumptions adopted for the draft funding valuation as at 31 December 2019. 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 2020 projections with a long-term improvement rate of 1.25 per cent per annum. No weighting has been given to 2020 mortality experience.

35. 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 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 2021 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 2021 was £113.8m (2020 £99.9m) and is fully provided for in these financial statements.

35. Pensions (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 2021 %	IAS 19 valuation at 31 March 2020 %
RPI Inflation	**3.15-3.20**	2.35-2.70
CPI Inflation	**2.65-2.85**	1.45-1.90
Rate of increase in salaries	**3.15-3.85**	2.35-2.90
Rate of increase in pensions in payment and deferred pensions	**2.20-3.15**	1.45-2.40
Discount rate	**1.95-2.00**	2.30-2.35

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 £379.5m/(increase by £393.0m)
- If the expected salary growth were increased/(decreased) by 0.1 per cent, the defined benefit obligation would increase by 105.7m/(decrease by £103.7m)
- If life expectancy were increased/(decreased) by one year, the defined benefit obligation would increase by £647.4m/(decrease by £641.8m)
- If the inflation rate were 0.1 per cent higher/(lower), the defined benefit obligation would increase by £374.2m/(decrease by £309.8m)

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.

35. Pensions (continued)

c) Accounting for defined benefit schemes

The total assets in the schemes were:

At 31 March	Value 2021 £m	Value 2020 £m
Equities and alternatives	10,142.4	7,949.0
Bonds	2,619.0	2,527.5
Cash and other	299.6	163.3
Total fair value of assets	**13,061.0**	10,639.8

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	2021 %	2020 %
Equities	78	75
Bonds	20	24
Cash and other assets	2	1
	100	100

The unfunded pension schemes have no assets to cover their defined benefit obligation.

35. Pensions (continued)

Total pension deficit at 31 March

Group	**2021 £m**	2020 £m
Fair value of scheme assets	**13,061.0**	10,639.8
Actuarial valuation of defined benefit obligation	**(18,664.1)**	(14,740.4)
Deficit recognised as a liability in the Balance Sheet	**(5,603.1)**	(4,100.6)

Group	**2021 £m**	2020 £m
TfL Pension Fund	**(5,372.1)**	(3,941.7)
Local Government Pension Fund	**(60.4)**	(40.7)
Crossrail Section of the Railways Pension Scheme	**(56.8)**	(18.3)
Unfunded schemes provision	**(113.8)**	(99.9)
Deficit recognised as a liability in the Balance Sheet	**(5,603.1)**	(4,100.6)

Corporation	**2021 £m**	2020 £m
Fair value of scheme assets	**12,973.9**	10,563.3
Actuarial valuation of defined benefit obligation	**(18,520.2)**	(14,645.6)
Deficit recognised as a liability in the Balance Sheet	**(5,546.3)**	(4,082.3)

Corporation	**2021 £m**	2020 £m
TfL Pension Fund	**(5,372.1)**	(3,941.7)
Local Government Pension Fund	**(60.4)**	(40.7)
Unfunded schemes provision	**(113.8)**	(99.9)
Deficit recognised as a liability in the Balance Sheet	**(5,546.3)**	(4,082.3)

35. 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 2021 £m	Group 2020 £m	Corporation 2021 £m	Corporation 2020 £m
Current service cost	434.9	573.6	432.2	570.3
Less contributions paid by subsidiaries	-	-	(267.9)	(210.7)
Past service cost	3.2	6.6	3.2	6.6
Total included in staff costs	438.1	580.2	167.5	366.2
Scheme expenses	13.6	13.4	13.3	13.2
Total amount charged to net cost of services	451.7	593.6	180.8	379.4

Amounts charged to financing and investment expenditure

Year ended 31 March	Group 2021 £m	Group 2020 £m	Corporation 2021 £m	Corporation 2020 £m
Net interest expense on scheme defined benefit obligation	90.1	122.7	89.7	122.0

Amount recognised in other comprehensive income and expenditure

Year ended 31 March	Group 2021 £m	Group 2020 £m	Corporation 2021 £m	Corporation 2020 £m
Net remeasurement losses/(gains) recognised in the year	1,361.0	(1,687.9)	1,324.5	(1,673.7)

Analysis of scheme defined benefit obligation into amounts arising from schemes that are wholly or partly funded and wholly unfunded

At 31 March	Group 2021 £m	Group 2020 £m	Corporation 2021 £m	Corporation 2020 £m
Wholly unfunded schemes	113.8	99.9	113.8	99.9
Wholly or partly funded schemes	18,550.3	14,640.5	18,406.4	14,545.7
Total scheme defined benefit obligation	18,664.1	14,740.4	18,520.2	14,645.6

35. Pensions (continued)

Reconciliation of defined benefit obligation

	Group 2021 £m	Group 2020 £m	**Corporation 2021 £m**	Corporation 2020 £m
Actuarial value of defined benefit obligation at 1 April	**14,740.4**	16,371.9	**14,645.6**	16,267.7
Current service cost	**434.9**	573.6	**432.2**	570.3
Interest cost	**335.2**	380.9	**333.0**	378.4
Employee contributions	**55.7**	54.2	**55.4**	53.8
Remeasurement losses/(gains) on scheme liabilities:				
Net remeasurement - financial	**3,435.0**	(2,082.0)	**3,391.3**	(2,066.5)
Net remeasurement - experience	**85.9**	(202.4)	**85.5**	(202.4)
Net remeasurement - demographic	**(22.1)**	29.8	**(23.7)**	29.6
Actual benefit payments	**(404.1)**	(392.2)	**(402.3)**	(391.9)
Past service cost	**3.2**	6.6	**3.2**	6.6
Actuarial value of defined benefit obligation at 31 March	**18,664.1**	14,740.4	**18,520.2**	14,645.6

Reconciliation of fair value of the scheme assets

	Group 2021 £m	Group 2020 £m	**Corporation 2021 £m**	Corporation 2020 £m
Fair value of assets at 1 April	**10,639.8**	11,001.3	**10,563.3**	10,927.0
Expected return on assets net of expenses	**245.1**	258.2	**243.3**	256.4
Scheme expenses	**(13.6)**	(13.4)	**(13.3)**	(13.2)
Return on assets excluding interest income	**2,137.8**	(566.7)	**2,128.6**	(565.6)
Actual employer contributions	**394.8**	293.0	**125.5**	80.7
Contributions paid by subsidiaries	**-**	-	**267.9**	210.7
Employee contributions	**55.7**	54.2	**55.4**	53.8
Actual benefits paid	**(398.6)**	(386.8)	**(396.8)**	(386.5)
Fair value of assets at 31 March	**13,061.0**	10,639.8	**12,973.9**	10,563.3

Notes to the Financial Statements

35. 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 gain of £2,382.9m (2019/20 a loss of £308.5m).

Total contributions of £380.9m are expected to be made to the schemes in the year ending 31 March 2022.

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 2020/21 employers' contributions represented an average of 27.3 per cent of pensionable pay (2019/20 27.3 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 Scheme) 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 cent per annum of Pensionable Salaries into the Scheme, the PPF levy and additional contributions if actual pensionable salary increases exceed RPI + 1.5 per cent per annum.

35. 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 cent 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 cent per annum).

Over the year beginning 1 April 2021 the contributions payable to the DLR Scheme are expected to be around £5.2m from KAD and £4.1m 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 cent per annum.

A valuation of the DLR Scheme has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2021. The assumptions used by the actuary are best estimates chosen from a range of possible actuarial assumptions, while 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 £4.3m were paid by DLR in 2020/21, with an additional £5.6m being paid by KAD (2019/20 £2.2m paid by DLR and £5.9m by KAD). These costs are not reflected within staff costs for the TfL Group but are instead reflected elsewhere within the operating expenditure of the Group, as the costs relate to the staff costs of DLR's concessionaire.

Defined contribution schemes

The Group contributes to a number of defined contribution schemes, with total contributions, including contributions to the PCSPS and Alpha schemes as outlined in the paragraphs above, amounting to £7.3m (2019/20 £4.4m).

36. Cash flow notes

a) Adjustments to net deficit/surplus for non-cash movements

	Group 2021 £m	Group 2020 £m	Corporation 2021 £m	Corporation 2020 £m
Depreciation, amortisation and impairment of property, plant and equipment, intangibles and right-of-use assets	**1,350.8**	1,404.1	**183.4**	176.1
Loss on disposal of property, plant and equipment and intangibles	**63.4**	30.9	**20.4**	0.3
Net gain on sale of investment properties	**(35.8)**	(31.7)	**(30.9)**	(22.9)
Movements in the value of investment properties	**83.3**	(59.0)	**2.3**	3.6
Financing income	**(13.6)**	(18.0)	**(405.8)**	(390.7)
Financing expense	**515.3**	519.9	**532.6**	552.6
Capital grants received	**(933.5)**	(2,231.6)	**(856.2)**	(2,145.4)
Capital grants paid to subsidiaries	**-**	-	**-**	566.5
Reversal of share of net losses from joint ventures and associated undertakings	**2.8**	52.1	**-**	-
Reversal of defined benefit pension service costs	**451.7**	593.6	**180.8**	379.4
Reversal of tax (credit)/charge	**(10.5)**	106.8	**-**	-
Adjustments to net deficit/surplus for non-cash movements before movements in working capital	**1,473.9**	367.1	**(373.4)**	(880.5)
(Decrease)/increase in creditors	**(51.1)**	(47.7)	**149.7**	251.7
(Increase)/decrease in debtors	**(2.5)**	217.2	**99.5**	38.0
Decrease in inventories	**7.4**	2.1	**-**	-
(Decrease)/increase in provisions	**(70.2)**	(136.9)	**(42.9)**	11.4
Adjustments to net deficit/surplus for non-cash movements after movements in working capital	**1,357.5**	401.8	**(167.1)**	(579.4)
Net cash payments for employers' contributions to defined benefit pension funds and direct payments to pensioners	**(400.3)**	(298.4)	**(131.0)**	(86.1)
Tax received/(paid)	**1.6**	(0.1)	**-**	-
Total adjustments to net surplus for non-cash movements	**958.8**	103.3	**(298.1)**	(665.5)

36. Cash flow notes (continued)

b) Investing activities

Year ended 31 March	Group 2021 £m	Group 2020 £m	Corporation 2021 £m	Corporation 2020 £m
Interest and other investment income received	14.1	16.8	407.7	389.4
Capital grants received	997.3	2,216.9	912.0	2,160.2
Capital grants paid to subsidiaries	-	-	-	(566.5)
Purchase of property, plant and equipment and investment property	(2,084.6)	(2,602.2)	(262.3)	(181.0)
Purchase of intangible assets	(39.7)	(21.0)	(31.4)	(16.8)
Proceeds from the sale of property, plant and equipment and intangible assets	0.3	106.2	-	-
Net sales/(purchases) of other investments	596.6	(400.3)	623.5	(420.5)
Issue of loans to subsidiaries	-	-	(1,458.1)	(654.9)
Repayments of loans to subsidiaries	-	-	312.4	-
Finance leases granted in year	(9.6)	(17.9)	-	-
Finance leases repaid in year	18.3	17.5	-	-
Proceeds from sale of investment property	58.4	56.6	50.4	59.6
Investment in equity of associates and joint ventures	(9.2)	(20.4)	-	-
Investment in share capital of subsidiaries	-	-	(660.0)	(1,240.0)
Net cash flows from investing activities	**(458.1)**	(647.8)	**(105.8)**	(470.5)

c) Financing activities

Year ended 31 March	Group 2021 £m	Group 2020 £m	Corporation 2021 £m	Corporation 2020 £m
Cash payments for reduction of the outstanding liabilities relating to lease and PFI arrangements	(309.3)	(302.6)	(35.0)	(35.7)
Cash payments for reduction of other financing liabilities	(1.7)	-	-	-
Net proceeds from new borrowing	1,541.0	640.9	1,541.0	640.9
Repayments of borrowings	(263.6)	(96.0)	(262.9)	(96.0)
Cash paid/received on settlement of derivatives	-	0.7	-	-
Interest paid	(412.7)	(468.7)	(441.3)	(514.9)
Net cash flows from financing activities	**553.7**	(225.7)	**801.8**	(5.7)

37. Unusable reserves

At 31 March	2021 £m	2020 £m
Group		
Capital Adjustment Account	**28,165.1**	27,913.6
Pension Reserve	**(5,546.3)**	(4,082.3)
Accumulated Absences Reserve	**(16.2)**	(14.3)
Retained Earnings Reserve in Subsidiaries	**1,737.3**	2,011.9
Revaluation Reserve	**339.5**	333.6
Hedging Reserve	**(105.0)**	(119.4)
Cost of Hedging Reserve	**(3.9)**	(4.4)
Financial Instruments Adjustment Account	**(135.8)**	(147.5)
Merger reserve	**466.1**	466.1
	24,900.8	26,357.3

At 31 March	2021 £m	2020 £m
Corporation		
Capital Adjustment Account	**16,023.5**	15,356.1
Pension Reserve	**(5,546.3)**	(4,082.3)
Accumulated Absences Reserve	**(16.2)**	(14.3)
Revaluation Reserve	**29.9**	27.7
Financial Instruments Adjustment Account	**(135.8)**	(147.5)
	10,355.1	11,139.7

37. 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.

In the table below, the line item for 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.

37. Unusable reserves (continued)

Capital Adjustment Account

	Note	**Group 2021 £m**	Group 2020 £m	**Corporation 2021 £m**	Corporation 2020 £m
Balance at 1 April		**27,913.6**	26,481.8	**15,356.1**	13,857.9
Charges for depreciation and impairment of non-current assets		**(183.4)**	(176.1)	**(183.4)**	(176.1)
Gain on disposal of investment properties		**30.9**	22.9	**30.9**	22.9
Transfer from Revaluation Reserve of historical revaluation gains on office properties transferred to investment properties		**-**	3.2	**-**	3.2
Release of Revaluation Reserve relating to historical revaluation gains recognised in respect of properties disposed during the year		**0.2**	-	**0.2**	-
Release of Revaluation Reserve relating to the difference between fair value depreciation and historical cost depreciation, and to historical revaluation gains recognised in respect of properties disposed during the year		**0.4**	-	**0.4**	-
Movements in the market value of investment properties recognised in the deficit/surplus on the provision of services after tax		**(2.3)**	(3.6)	**(2.3)**	(3.6)
Movements in the market value of investment properties recognised directly in other comprehensive income		**-**	16.8	**-**	16.8
Capital grants and contributions	10	**933.5**	2,231.6	**786.3**	1,578.9
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		**55.7**	56.1	**55.7**	56.1
Loss on disposal of property, plant and equipment		**(20.4)**	(0.3)	**(20.4)**	(0.3)
Adjustments between Group and Corporation financial statements		**(563.1)**	(720.1)	**-**	-
Balance at 31 March		**28,165.1**	27,913.6	**16,023.5**	15,356.1

37. 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 2021 £m	Group 2020 £m	**Corporation 2021 £m**	Corporation 2020 £m
Balance at 1 April	**(4,082.3)**	(5,340.7)	**(4,082.3)**	(5,340.7)
Net remeasurement gains/(losses) on pension assets and defined benefit obligations	**(1,324.5)**	1,673.7	**(1,324.5)**	1,673.7
Reversal of charges relating to retirement benefits	**(538.4)**	(712.1)	**(270.5)**	(501.4)
Employer's pension contributions, contributions from subsidiaries and direct payments to pensioners payable in the year	**398.9**	296.8	**131.0**	86.1
Balance at 31 March	**(5,546.3)**	(4,082.3)	**(5,546.3)**	(4,082.3)

37. 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 2021 £m	Group 2020 £m	**Corporation 2021 £m**	Corporation 2020 £m
Balance at 1 April	**(14.3)**	(10.2)	**(14.3)**	(10.2)
Settlement or cancellation of accrual made at the end of the preceding year	**14.3**	10.2	**14.3**	10.2
Amounts accrued at the end of the current year	**(16.2)**	(14.3)	**(16.2)**	(14.3)
Balance at 31 March	**(16.2)**	(14.3)	**(16.2)**	(14.3)

37. Unusable reserves (continued)

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 2021 £m	Group 2020 £m
Balance at 1 April	**2,011.9**	1,550.0
Deficit on the provision of services after tax in subsidiaries	**(730.8)**	(376.6)
Surplus on valuation of newly created investment properties (net of tax)	**71.9**	722.7
Transfer of current year capital grants and contributions to the Capital Adjustment Account	**(147.2)**	(652.7)
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	**563.1**	720.1
Adjustment to reserves for the implementation of IFRS 16	**-**	(2.5)
Remeasurement gains/(losses) on defined benefit pension plan assets and liabilities	**(36.5)**	14.2
Release of Revaluation Reserve relating to historical revaluation gains recognised in respect of properties disposed during the year	**2.3**	-
Release of Revaluation Reserve relating to the difference between fair value depreciation and historical cost depreciation	**2.6**	37.7
Balance at 31 March	**1,737.3**	2,011.9

37. 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 2021 £m**	Group 2020 £m	**Corporation 2021 £m**	Corporation 2020 £m
Balance at 1 April		**333.6**	345.1	**27.7**	19.8
Revaluation of assets	13	**11.4**	29.4	**2.8**	11.1
Transfer to Capital Adjustment Account of historical revaluation gains on office properties transferred to investment properties during the year		**-**	(3.2)	**-**	(3.2)
Release of Revaluation Reserve relating to historical revaluation gains recognised in respect of properties disposed during the year		**(2.5)**	-	**(0.2)**	-
Release of Revaluation Reserve relating to the difference between fair value depreciation and historical cost depreciation, and to historical revaluation gains recognised in respect of properties disposed during the year		**(3.0)**	(37.7)	**(0.4)**	-
Balance at 31 March		**339.5**	333.6	**29.9**	27.7

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 2021 £m	Group 2020 £m
Balance at 1 April	**(119.4)**	(105.5)
Net change in fair value of cash flow interest rate hedges	**20.3**	(9.6)
Net change in fair value of cash flow foreign exchange hedges	**(15.2)**	(13.3)
Reclassification of interest rate fair value losses to profit and loss	**9.3**	9.0
Balance at 31 March	**(105.0)**	(119.4)

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.

37. 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 which the hedged forecast transaction affects profit or loss. The ineffective portion, if any, is recognised immediately through the Comprehensive Income and Expenditure Statement.

	Group 2021 £m	Group 2020 £m
Balance at 1 April	**(4.4)**	(0.7)
Net change in fair value of cash flow foreign exchange hedges	**-**	(3.9)
Reclassification of cashflow foreign exchange hedge losses to the Balance Sheet	**0.5**	0.2
Balance at 31 March	**(3.9)**	(4.4)

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 2021 £m	Group 2020 £m	**Corporation 2021 £m**	Corporation 2020 £m
Balance at 1 April	**(147.5)**	(159.3)	**(147.5)**	(159.3)
Release of premium	**11.7**	11.8	**11.7**	11.8
Balance at 31 March	**(135.8)**	(147.5)	**(135.8)**	(147.5)

37. 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 (LUL), to TfL in 2003. It represents the share capital of LUL 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 2021 £m	Group 2020 £m	Corporation 2021 £m	Corporation 2020 £m
Balance at 1 April and 31 March	**466.1**	466.1	**-**	-

38. 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.

38. Adjustments between accounting basis and funding basis under regulations (continued)

Corporation

Year ended 31 March 2021	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	183.4	(183.4)	-	-	-	-
Net gain on disposal of investment properties	8	(30.9)	30.9	-	-	-	-
Movements in the market value of investment properties	8	2.3	(2.3)	-	-	-	-
Capital grants and contributions	10	(786.3)	786.3	-	-	-	-
Loss on disposal of non-current assets	7	20.4	(20.4)	-	-	-	-
Reversal of items relating to retirement benefits		270.5	-	(270.5)	-	-	-
Transfers to/from Street Works Reserve		(1.3)	-	-	1.3	-	-
Difference between the remuneration charged on an accruals basis and the remuneration chargeable in accordance with statutory requirements		1.9	-	-	-	-	(1.9)
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		(131.0)	-	131.0	-	-	-
Minimum Revenue provision	40	(55.7)	55.7	-	-	-	-
Amortisation of premium on financing		(11.7)	-	-	-	11.7	-
		(538.4)	666.8	(139.5)	1.3	11.7	(1.9)

38. 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	3.6	(3.6)	-	-	-	-
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)	0.3	-	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	40	(56.1)	56.1	-	-	-	-
Amortisation of premium on financing		(11.8)	-	-	-	11.8	-
		(1,073.6)	1,478.2	(415.3)	3.0	11.8	(4.1)

39. Sources of finance

Capital expenditure analysed by source of finance:

Year ended 31 March	Note	Corporation 2021 £m	Corporation 2020 £m
Capital expenditure			
Intangible asset additions	12	**31.4**	16.8
Property, plant and equipment additions	13	**251.0**	226.4
Investment property	15	**17.7**	2.7
Investments in year	16	**660.0**	1,240.0
Loans made to subsidiaries in year for capital purposes		**1,458.1**	654.9
Capital grants allocated to subsidiaries in year	10	**69.9**	566.5
Total capital expenditure		**2,488.1**	2,707.3
Sources of finance			
Business Rates Retention used to fund capital	10	**689.6**	967.8
Community infrastructure levy and other third party contributions	10	**120.6**	188.6
Crossrail specific grant	10	**46.0**	989.0
Prudential borrowing		**1,277.4**	544.9
Repayment of loans to subsidiaries		**312.4**	-
Capital receipts		**48.8**	29.0
Transfer from street works reserve		**-**	0.3
Working capital		**(6.7)**	(12.3)
Total sources of finance		**2,488.1**	2,707.3

40. 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 2020/21, 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 £55.7m (2019/20 £56.1m).

41. 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 2021 £m	Corporation 2020 £m
Financial assistance to subsidiaries		
Transport Trading Limited	**55.0**	56.6
London Underground Limited	**2,780.2**	906.4
London Bus Services Limited	**1,511.7**	420.5
London River Services Limited	**7.2**	5.0
Victoria Coach Station	**5.3**	0.5
London Buses Limited	**2.8**	8.2
London Transport Museum Limited	**4.4**	3.1
Docklands Light Railway Limited	**71.8**	42.9
Rail for London Limited	**241.1**	200.3
Crossrail Limited	**722.6**	19.6
Tramtrack Croydon Limited	**37.6**	39.1
Rail for London (Infrastructure) Limited	**52.6**	29.1
	5,492.3	1,731.3

Year ended 31 March	Note	Corporation 2021 £m	Corporation 2020 £m
Financial assistance to London Boroughs and other third parties			
Local Implementation Plan		**43.0**	98.1
Crossrail Complementary Measures		**-**	4.3
Taxicard		**5.3**	8.5
London Streetspace		**39.0**	-
Cycling		**6.3**	35.0
Bus priority		**5.5**	10.0
Livable neighbourhoods		**4.7**	5.1
Other		**4.7**	3.2
Total financial assistance to London Boroughs and other third parties	3	**108.5**	164.2

Notes to the Financial Statements

42. 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 2020/21 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 2021 £m
GLA	12.4	(3.9)	1.9
Mayor's Office for Policing and Crime (MOPAC)	0.4	(100.2)	(7.6)
London Legacy Development Corporation (LLDC)	1.1	(0.1)	0.2

42. 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 transactions with the Corporation or its subsidiaries (2019/20 none). Details of the remuneration of the Commissioner and all employees earning a base salary of £150,000 or more 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 35.

Central Government

During 2020/21 the DfT contributed grant funding to TfL totalling £2,457m under two Extraordinary Funding and Financing Agreements dated 14 May 2020 and 31 October 2020. The funding agreements also permitted TfL to borrow a total of £600m for the year from the PWLB to fund its capital investment activities.

In addition to the funding set out in these agreements, in December 2018, the Mayor of London and the Government agreed a financial package to cover Crossrail overruns. The GLA was to 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 would also provide a £100m cash contribution, taking its initial total contribution to £1.4bn to be provided as a grant to TfL for the Crossrail project. A loan facility from the DfT was also directly granted from the DfT to TfL of up to £750m.

In August 2020, Crossrail Ltd announced that the opening of the Elizabeth line through central London was expected to be delayed until the first half of 2022 and that additional funding beyond the agreed funding envelope would be required. Under a further financing package agreed with the DfT in December 2020, the shortfall is to be covered by the GLA borrowing up to a further £825m from the DfT which will again be given by GLA to TfL as a grant. Again, the GLA will repay this loan from BRS and MCIL revenues.

In the year to 31 March 2021, the GLA paid grants totalling £46m to TfL in relation to the Crossrail project (2020 £989m) under the funding agreements outlined above. And as at 31 March 2021 £676m of the Crossrail loan facility from the DfT had been drawn down (2020 £nil).

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 41.

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.

43. 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
At 31 March 2021			
TfL Healthcare Trust	**2.5**	**(2.7)**	**4.0**
At 31 March 2020			
TfL Healthcare Trust	4.6	(4.1)	4.2

44. 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.

Since 31 March 2021, TfL has continued to experience revenue shortfalls as a result of the pandemic, and the TfL Group remains reliant on extraordinary funding support from the Department for Transport (DfT) for the continued provision of services. The funding package agreed in October 2020, and since extended to initially 18 May and subsequently to 28 May 2021, contains an acknowledgement from the Secretary of State for Transport that further financial support from the Government is likely to be needed until at least 2022/23, with longer term external funding being required to support TfL's capital investment programme.

Management have considered the impact of the pandemic and the status of ongoing discussions with Government regarding TfL's longer term funding requirements 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 2021 as reported in these financial statements. As at the date of signing of the accounts, TfL continues to provide a full level of service.

Throughout 2021/22 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.

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Appendix 2 – Template for annual letter of support from TfL to its subsidiary companies

The Directors

<insert Company name & address>

<insert date>

Dear Sirs

<insert Company name>

The Board of Transport for London has agreed that, as a TfL Officer, I am authorised to agree and execute any documentation to be entered into by TfL in connection with the incorporation of the Company.

In line with the standard letter of financial support provided to TfL subsidiaries, and having considered the financial position of the Company, I confirm that, from the date of its acquisition as a subsidiary within the TfL Group and for as long as the Company remains a subsidiary within the TfL Group, Transport for London shall continue to provide the Company with sufficient financial means to enable it to pay all its debts as they fall due.

We will inform you as soon as reasonably practicable in the event that circumstances change in a manner such that it would or might no longer be open to us to continue to provide such financial support.

This commitment has been reaffirmed as at 31 March <insert year end>.

Yours faithfully

………………..

Chief Finance Officer, Transport for London

Appendix 3

Remuneration Report

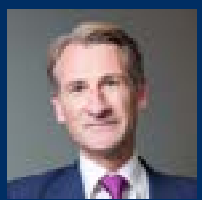
2020/21

MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Remuneration report 2020/21

‘It is vital that we attract and retain the right leadership to steer the organisation through the significant challenges that lie ahead.’



Ben Story
Chair, TfL Remuneration Committee

Message from the Chair

As chair of TfL's Remuneration Committee, my role is to ensure that TfL has an appropriate remuneration policy to help recruit and retain senior employees with the right experience to lead the organisation and deliver the Mayor's priorities.

This year's Annual Report sets out how TfL has kept London moving safely throughout the coronavirus pandemic and while facing significant financial challenges. Throughout the coronavirus pandemic, TfL has continued to run its services for key workers and essential journeys, and I commend all TfL staff, contractors, suppliers and other partners for their outstanding work throughout this difficult period. We also sadly remember those colleagues and friends who have died as a result of COVID-19. The important role they played for London will not be forgotten.

At our Remuneration Committee meeting in June 2020, we took the decision to defer pay out of all 2019/20 senior management performance awards for 12 months. We also agreed that senior management performance awards would be suspended for the 2020/21 performance year. We did not make this decision lightly and it was no reflection on the hard work and commitment of our staff. However, the decision demonstrated the circumstances in which TfL found itself due to the impact of the coronavirus pandemic on its revenue.

Over the last year, TfL has navigated its way through funding deals with the Government. It has made clear that continued support will be needed as London recovers from the devastating effects of the pandemic. It is vital that we attract and retain the right leadership to steer the organisation through the significant challenges that lie ahead. We need motivated and committed people to get TfL through this complex time and help get London moving and working in a safe and sustainable way.

The Committee is responsible for setting a policy that allows TfL to compete in a global market to secure the right talent, while delivering value for money. Extensive external benchmarking provides confidence that we continue to have an appropriate and balanced approach to rewarding senior staff that meets that goal.

Ben Story
Chair, TfL Remuneration Committee

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'We are focused on delivering a safe, efficient and reliable service in challenging times'

Governance

Remuneration Committee members

Ben Story
Chair

Kay Carberry CBE
Vice Chair

Heidi Alexander

Ron Kalifa OBE

Remuneration Committee role and responsibilities

Remuneration policy is set by TfL's Remuneration Committee to attract, motivate and retain high-calibre, suitably-qualified individuals to successfully manage a large and complex business. The Committee will take into account the need to remunerate at a level that is competitive in comparison with the external market and peer organisations while also, in a fair and reasonable manner, rewarding them for their individual contributions to TfL's long-term success, without paying more than is necessary.

The Committee's full terms of reference are published on the TfL website and essentially involve keeping an overview of TfL's reward and remuneration policies and its arrangements for talent management and succession planning. From time to time the Committee will review and set the remuneration of the Commissioner, Managing Directors, General Counsel, Chief Finance Officer and other direct reports of the Commissioner. The Committee also helps to review the remuneration strategies for the entire senior manager group, particularly regarding performance-related pay.

Dates of meetings during 2020/21

To comply with the coronavirus travel restrictions and social distancing requirements, members discussed the items on the agenda by video conference. This was recorded, in lieu of public access, and published on TfL's YouTube channel.

The Committee met formally on three occasions: 24 June 2020, 23 November 2020 and 11 March 2021.

Activities of the Remuneration Committee during 2020/21

Due to the very significant financial challenges faced by TfL, the ongoing discussions with Government about longer-term funding requirements and future revenue risk, Committee members agreed at the meeting in June 2020 that there was little option but to defer payout of all 2019/20 senior management performance awards for 12 months to June 2021.

It was agreed that all senior management performance award schemes would be suspended for the financial year 2020/21. This decision reflected the exceptional circumstances in which TfL found itself due to the impact of the coronavirus pandemic on its revenue, while it continued to run services to support key workers. At the time the Committee made it known that its decision was not a reflection on the hard work and commitment of staff, who the Committee recognised had made, and continue to make, an exceptional contribution to London, particularly in response to the coronavirus pandemic.

For 2020/21, it was critical that we continued to manage our performance effectively and to that end, TfL's performance management processes continued to operate. While normal reward mechanisms for individual performance were suspended, appropriate acknowledgement and recognition of good performance from senior management continued in a non-financial way. Committee members supported proposals for enhancing the Make a Difference Awards Scheme, including a COVID-19 Recognition Scheme, so that exceptional performance was recognised.

Information on the number of senior management staff and overall salary costs for the period 2016 to 2020 was reviewed in November. This clearly demonstrated that TfL's pay bill and headcount had reduced across the period, with a 17 per cent reduction in employees earning £100,000 or more. It was clear that the measures introduced to reduce the headcount and salary costs, including enhanced approval measures for high earners, were having an impact.

Also at the November meeting, members welcomed and supported the proposed approach to compliance training and recognised the work undertaken to ensure all mandatory training material was available and easily accessible online. Going forward, a Faculties of Learning project will be developed to identify representatives from TfL business areas to shape training strategy and content.

At the March 2021 meeting, the Committee was asked to note the new, integrated strategy for talent identification, performance management, critical roles and succession planning that is to be rolled out in 2021. The new approach is focused on how TfL will identify talent, develop its people and create a more inclusive culture that recognises everyone's strengths. This will develop a workforce with the skills and experience required for TfL to deliver its current and future business priorities against the backdrop of the significant changes and financial challenges facing TfL.

Throughout the year, the Committee has been responsible for approving salaries of £100,000 or more for any new appointments.

Policy

Board remuneration
Board members receive a basic fee of £16,000 per annum. Additional fees are paid for each appointment to a committee or panel, up to a maximum total remuneration of £20,000 per annum.

The additional fees are paid at the rate of £1,000 per annum as a member and £2,000 per annum as the Chair of a committee or panel. Members are also entitled to receive free travel on the TfL transport network. No allowances are paid to members.

Any expenses claimed by members, in relation to fulfilling their role as a TfL board member, are published on the board members page of our website, along with details of any gifts or hospitality received.

The remuneration for each member for the year ending 31 March 2021 is shown in appendix 5 of this report.

No fee is paid to the Chair or Deputy Chair of TfL.

General remuneration
Our general policy is to provide remuneration that attracts, retains and motivates individuals of the right calibre to manage a large, complex organisation. Remuneration packages reflect responsibilities, experience, performance and the market from which we recruit.

The reward structure that has been developed is commensurate with this policy. It includes a base salary and a performance award scheme against the achievement of a range of safety, operational, customer, people, delivery and financial targets.

The main objective of the remuneration policy is to ensure that reward is based on performance to drive delivery while ensuring that the overall reward package is affordable.

Executive remuneration
The base pay and the total remuneration of the Commissioner, Managing Directors, General Counsel, Chief Finance Officer and other direct reports of the Commissioner is set by the Remuneration Committee, which uses external benchmarking and other comparative information to determine remuneration. This is broken down into the following components:

Component	Purpose	Operation	Maximum
Base pay	To reflect the individual's role, experience and contribution. Set at a level to attract and retain individuals of the calibre required to lead a business of TfL's size and complexity.	The following factors are taken into account: • Remuneration benchmark information from a specific peer group to identify a market median range of base pay, which reflects what TfL's Commissioner, Managing Directors, General Counsel and Chief Finance Officer would receive if they were to work in a similar role in another company of similar size, complexity and scope • The scope and responsibility of the role • The individual's skill, experience and performance against targets • Affordability for TfL	There is no prescribed maximum salary. There will be no increases to base pay (where the accountabilities for the role remain unchanged) for the Commissioner, Managing Directors, General Counsel, Chief Finance Officer and Directors during the Mayor's current term in office.
Performance-related pay	To incentivise delivery of stretching one year key performance targets (both individual and collective) as measured through individual performance rating and scorecard results. The payment of senior manager performance awards for 2019/20 have been deferred to June 2021. No performance awards will be made for the 2020/21 performance year.	Performance awards are calculated using a matrix, which sets out the percentage performance award an employee will receive based on a combination of the scorecard result and their individual performance rating. Depending on the business area an employee works in, either the TfL Scorecard alone or a combination of the TfL Scorecard and the Delivery Business Scorecard sets the budget available for performance awards. An employee's contribution, in the form of a personal performance rating, determines the percentage performance award received from the available budget using a multiplier approach. Awards are paid in the following financial year.	The maximum award for the Commissioner is 50 per cent of base pay. The maximum award for Managing Directors, General Counsel and Chief Finance Officer is 30 per cent of base pay.

Component	Purpose	Operation	Maximum
Benefits	To provide a competitive total reward package that supports attraction, retention and motivation.	The Commissioner, Managing Directors, General Counsel and Chief Finance Officer receive the same core benefits as all other TfL employees. The only enhancements are full family cover for private medical benefit and an annual health assessment (which is available to all TfL Directors). Membership of the TfL Pension Fund, a 'defined benefit' scheme which provides for a pension payable from age 65, based on 1/60th of pensionable salary for each year of service or, if invited and eligible, similar benefits provided on an unfunded basis. Some legacy arrangements apply for certain employees whereby an employer contribution of 10 per cent of salary is paid to either a defined contribution arrangement or as cash supplement at a discounted amount.	Pensionable salary is capped at: • £166,200 from 6 April 2019 to 5 April 2020 • £170,400 from 6 April 2020 to 5 April 2021 for members who joined after 31 May 1989.

The remuneration received by the Commissioner, Managing Directors, General Counsel and Chief Finance Officer for 2020/21 is shown in appendix 2 of this report.

Performance-related pay

There were no senior manager performance awards for 2020/21 so the scorecard was used solely to outline our priorities and monitor our performance against them.

TfL's performance monitoring in 2020/21 focused on restart and recovery as we managed the challenges the coronavirus pandemic placed on our operations, customers, colleagues and finances. Short-term priorities, such as service availability, allow TfL to focus on maintaining our network and retaining customers' trust. This puts us in the best position to recover strongly and continue to deliver the outcomes set out in the Mayor's Transport Strategy.

We set out an immediate scorecard to cover the first half the performance year, focused on short-term priorities to ramp up our services to support the restart of the economy.

The total Scorecard performance for the first half of 2020/21 was 98.75 per cent. All measures except one were better than target, with many showing improvement following an earlier and stronger recovery than assumed.

Measure	First half 2020/21 results	First half 2020/21 target	First half 2020/21 weighted result
Safety			
People killed or seriously injured in road traffic collisions per million journey stages	0.44	0.78	10.0%
Customers and workforce killed or seriously injured per million passenger journeys	0.09	0.20	10.0%
Operations			
Percentage of normal service delivered (compared to pre-coronavirus levels) - Bus	99.0%	94.0%	7.5%
Percentage of normal service delivered (compared to pre- coronavirus levels) – Rail	96.0%	98.0%	3.75%
Percentage of normal service delivered (compared to pre- coronavirus levels) – Tube	89.73%	83.0%	7.5%
Customer			
Percentage of Londoners who agree TfL cares about its customers	57%	53%	10.0%
People			
Wellbeing survey – improvement from baseline survey carried out in June 2020	62%	3%-point improvement	7.5%
Wellbeing equality – BAME disparity	2% points	Max 3%-point disparity	3.75%
Wellbeing equality – gender disparity	0% points	Max 3%-point disparity	3.75%
Delivery			
Milestone delivery	98%	90%	10.0%
Elizabeth line: commence use of signalling and train software for dynamic testing in the tunnels	03/09/2020	25/09/2020	2.5%
Delivery of Streetspace programme – highway reallocation to pedestrians	22,516m^2	22,000m^2	2.5%
Delivery of Streetspace programme – improved cycling infrastructure	61.6km	57km	2.5%
Finance			
Maintaining liquidity	£1,580m	£1,200m	12.5%
Operating cost v Revised Budget	£3,415m	£3,450m	2.5%
Capital expenditure v Revised Budget	£508m	£552m	2.5%
Total TfL Scorecard for first half of 2020/21			**98.75%**

Measure	Target
Safety	
Ambition that nobody is killed or seriously injured on our transport network	0.14 or fewer customer and workforce killed or seriously injured per million passenger journeys
Continue progress towards 2022 Vision Zero goal	0.45 or fewer people killed or seriously injured per million passenger journeys
Operations	
Continue to ramp up service to normal levels	Average of normal service delivered – Bus 95%, Tube 79%
Encourage a carbon-conscious culture and reduce the level of carbon emissions from our operations	Reduce our carbon emissions by 10% compared to the same period last year
Customer	
Continue to provide customer confidence in our services	53% of Londoners agree we care about our customers
Support and encourage active travel for short journeys and use of public transport	Achieve 52.8% of active travel and public transport usage on our transport network
People	
Embed an inclusive culture and strive for equality	1 percentage point boost in Viewpoint total engagement
	0.5 percentage point increase in our people feeling involved, included and safe at work
	Reduce existing inclusion disparity gap by half to 14.22%
Delivery	
Continue the delivery of our investment programme to support economic recovery	90% delivery of our milestones
Enable operational testing to be undertaken on the Elizabeth line, with an increased number of trains	Commence Systems Integration Dynamic Testing by December 2020
Finance	
Preserve our liquidity and control costs	Maintain our liquidity above £1.2bn Do not exceed budget costs for operating and capital

For the second half of the performance year we developed a TfL scorecard (shown left), which was recovery-focused, with a return to our core safety and people priorities and an emphasis on active travel and reducing carbon emissions. The scorecard results for the second half of the year will be presented to the Remuneration Committee on 16 June 2021.

Severance policy

Most employees who leave owing to redundancy do so under TfL's voluntary severance arrangements.

Voluntary severance terms for employees may include, dependent on circumstances, some or all the following:

- A number of weeks of pay based on length of service, age and weekly pay
- Notice period that an employee may work or receive as a payment in lieu of notice
- Outplacement support or an equivalent cash payment
- Enhanced pension provision

There are minimum service requirements for some of these terms and some elements vary if employees volunteer to leave early during organisational change.

There are also some variations to these terms which have been agreed as local arrangements for the small number of employees who are members of the Local Government and Principal Civil Service Pension Schemes.

Following the Dawn Jarvis report, which was commissioned by the Mayor to review termination clauses and payments for senior employees across the GLA Group, the Remuneration Committee will have oversight of any proposed exit payments for the Commissioner, Managing Directors and other Senior Directors reporting to the Commissioner.

In addition, any exit payment outside of standard redundancy terms and which exceeds £100,000 (excluding notice periods, which are contractual) will be considered by the Remuneration Committee.

Other severance arrangements

In non-redundancy situations, TfL may enter into severance arrangements where to do so is in the interests of the organisation and represents value for money. All such arrangements are considered on a case-by-case basis.

Remuneration

Benchmarking of senior executives' pay
The Remuneration Committee uses data from remuneration consultants Aon Hewitt to benchmark the remuneration for the Commissioner, Managing Directors, General Counsel and Chief Finance Officer using two separate peer groups. The first is made up of comparable (scale, complexity and sector) private and public sector companies with a focus on transport, infrastructure and engineering (with data mainly derived from Aon's Executive Total Reward Survey (ETRS)); while the second is a peer group constituted solely from publicly accountable organisations.

This ETRS survey peer group comprises 176 organisations, focusing on the transportation, infrastructure and engineering sectors, and excluding those less relevant such as financial services. This provides a broad cross-section of the UK private sector market, while incorporating some key public sector businesses as well.

The publicly accountable group is made up of a range of 14 UK organisations with some degree of public accountability and, in most cases, a focus on infrastructure and transportation.

Each role is benchmarked against its respective counterparts in comparator organisations, with the scope of each role matched using Aon's JobLink system and TfL's internal Hay job evaluation scores. For combined roles, or where an incumbent has remit over multiple functions, benchmark data separately for each relevant role match is provided.

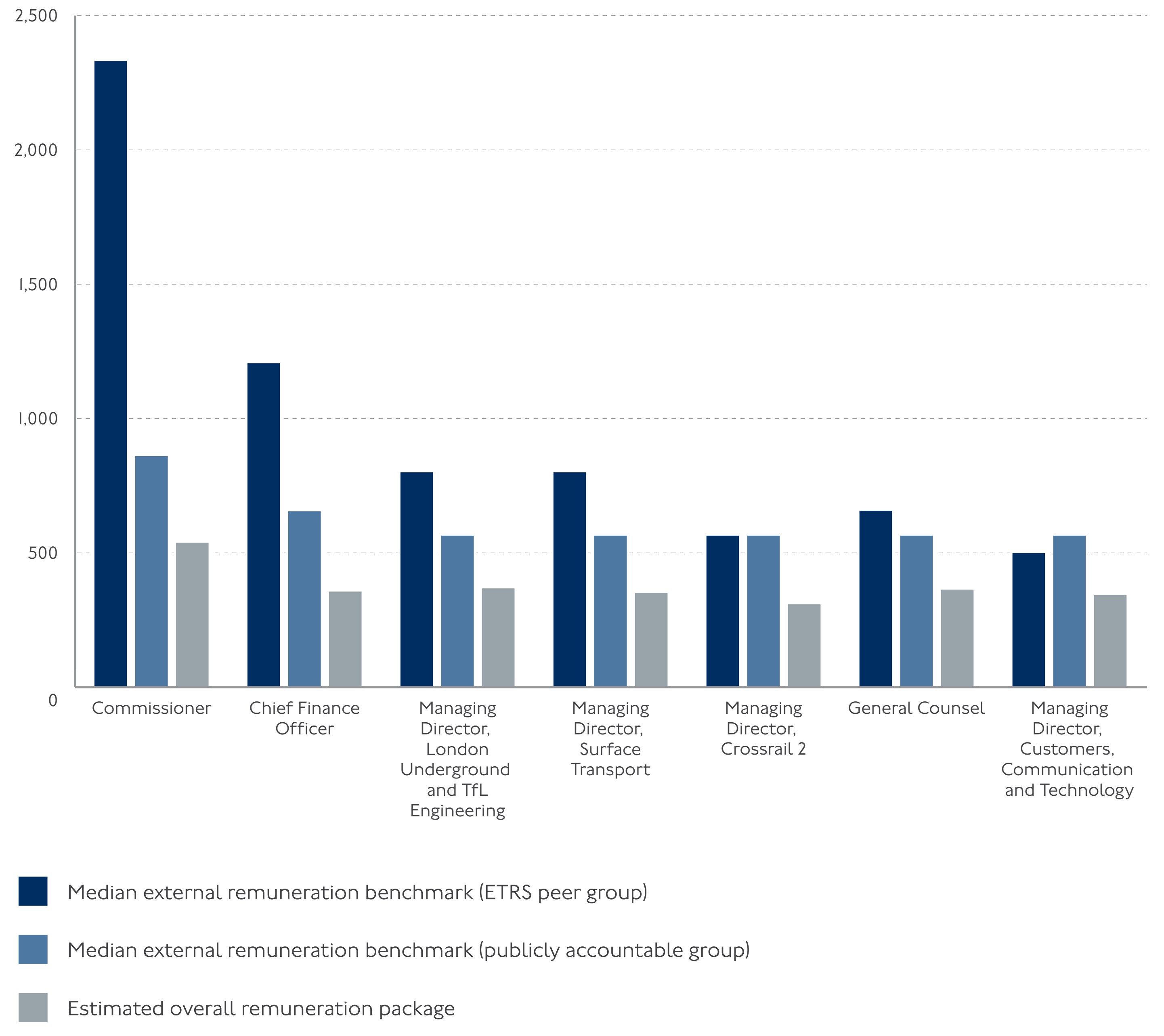
JobLink Levels are assigned to market data based on the scope and responsibilities of individual roles, as well as their seniority within their organisation and the scope of the organisation itself (typically with reference to group or divisional revenue). Role matching based on JobLink therefore ensures that a like-for-like comparison can be made between each role at TfL and the market data.

Estimated overall remuneration for each role has been calculated to include the base salary and estimates for performance-related pay and pension provision.

Performance-related pay has been based on the average level of performance over recent years and the value of the pension provision is based on standard actuarial assumptions. The value of the estimated overall remuneration package will therefore be different to the actual remuneration paid.

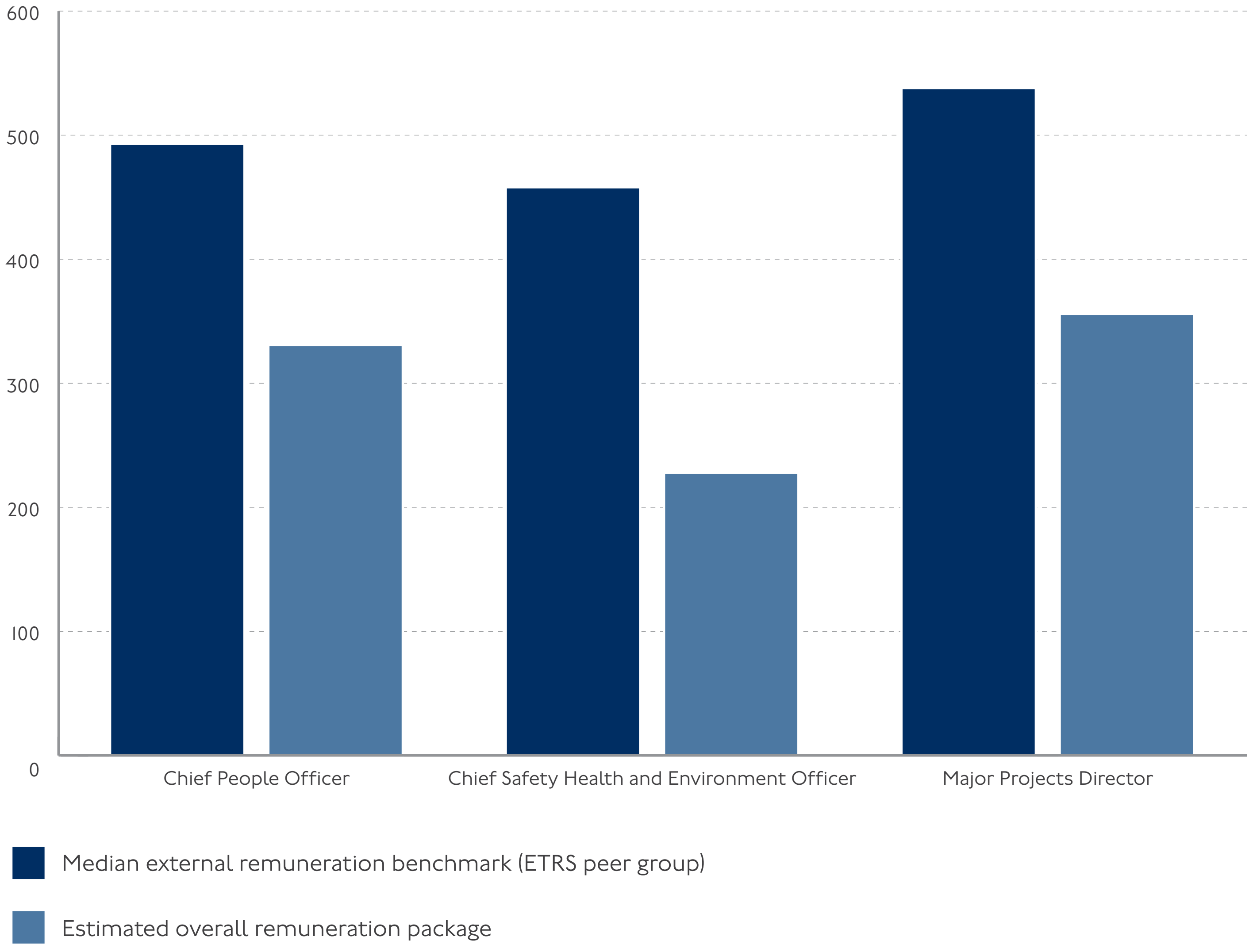
The benchmarking has shown that the base salaries and comparable remuneration for the Commissioner, Managing Directors, General Counsel and Chief Finance Officer are significantly below the market level; total estimated overall remuneration is on average 55 per cent of the ETRS peer group benchmark levels and 60 per cent of the publicly accountable group market benchmark levels. Individual alignment is shown in the following chart.

Benchmarking of remuneration for Commissioner, Chief Finance Officer, Managing Directors and General Counsel (£000s)



Benchmarking of other direct reports of the Commissioner (£000s)

Certain other direct reports of the Commissioner are benchmarked against the ETRS peer group as shown in the following chart.



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Comparison of senior executive pay to rest of TfL

The base salary of the Commissioner in 2020/21 was £355,000. This compares with the median base salary of £52,809 and the lowest base salary (excluding apprentices) of £19,700. The ratio between the Commissioner's salary and median base salary is 6.7:1 and the ratio to the lowest base salary is 18:1.

The following table shows how total remuneration is split between employees by grade.

	Percentage of total remuneration
Commissioner, Managing Directors, CFO and General Counsel	0.1
Directors	0.6
General managers	1.5
All other TfL employees	97.8

Note: employees' remuneration is consistent with the definition in appendix 1 of this report, and includes salaries, fees, performance-related pay, benefits in kind, lump sums and termination payments. It excludes employer pension contributions and employer national insurance contributions paid and is based on remuneration received by employees during the relevant year.

Summary of employee information

Total headcount (including agency staff) decreased by 810 people, from 27,605 on 31 March 2020 to 26,795 on 31 March 2021. The average headcount (permanent and fixed-term contract) has reduced by 122 since last year and the average number of agency staff has reduced by 536.

Total remuneration costs fell by £ 143.8m (seven per cent) compared to 2019/20.

Year	Average headcount*	Total remuneration costs (£m)*
2016/17	27,131	1,963.9
2017/18	26,994	2,250.6
2018/19	26,372	2,176.8
2019/20	25,814	2,172.9
2020/21	25,692	2,029.1

Note: average headcount and total remuneration costs include permanent, and fixed-term contract. Total remuneration costs include IAS 19 pension charges of £ £442.4m in 2020/21 (2019/20 £581.1m).

Other employees' remuneration (including Crossrail)

We publish the remuneration of all employees, including those working in our subsidiaries, whose total remuneration was more than £50,000 over the course of the financial year, grouped in rising bands of £5,000. This information is included as Appendix 1 of this report.

The impact of the transfer of employees into and out of the Corporation** from subsidiaries can cause distortion for year-on-year comparison purposes. An additional voluntary disclosure for the Group*** is therefore provided that shows the combined employee bands for TfL and its subsidiaries (Appendix 1 of this report).

The remuneration disclosure is also affected by the Crossrail project. The number of employees of Crossrail Limited receiving total remuneration of £50,000 or more increased from 201 in 2019/20 to 202 in 2020/21. The corresponding figures for those receiving total remuneration of more than £100,000 per year decreased from 36 in 2019/20 to 35 in 2020/21.

* From statutory accounts

** The Corporation 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 is made up of the Corporation and its subsidiaries

Employees with a total remuneration of more than £100,000 per year

In 2020/21, 162 people earned a total remuneration of more than £100,000 during the financial year and had a base salary of £100,000 or more per year, compared with 178 in 2019/20.

Overtime was worked by specialist engineers and highly-skilled project employees, 161 of whom earn a base salary of less than £100,000 per year, but the overtime they earned took their total remuneration above the threshold, compared with 131 in 2019/20. Many of these people are specialist engineers working overnight and at weekends on major projects, such as the Northern Line Extension, Bank station upgrade and installing new signalling on the Circle, District, Hammersmith & City and Metropolitan lines.

A total of 24 people (compared with 82 in 2019/20) who were on a base salary of less than £100,000 per year, received a one-off voluntary severance payment that took their total remuneration above this threshold. This is largely due to people leaving as part of our transformation programme, which is working to reduce management layers and eliminate duplication to improve efficiency and deliver recurring savings.

Therefore, the total number of TfL staff (excluding Crossrail) who received total remuneration of more than £100,000 per year, including severance payments and overtime, was 420 in 2020/21 compared with 521 in 2019/20.

	2020/21	2019/20
Base salary of £100k or more	162	178
Base salary between £80k and £100k	73	130
Voluntary severance payments taking earnings over £100k	24	82
Level of overtime worked taking earnings over £100k	161	131
Total TfL	**420**	**521**
Crossrail	35	36
Total (including Crossrail)	**455**	**557**

Appendices

1: Number of employees who received total remuneration of more than £50,000*

Employees' remuneration

This includes salaries, fees, performance-related pay, benefits in kind, lump sums and termination payments, but excludes pension contributions paid by the employer.

Remuneration (£)	Group 2021 number**	Group 2020 number**	Corporation 2021 number***	Corporation 2020 number***
50,000 - 54,999	2,508	3,993	824	744
55,000 - 59,999	4,691	3,885	732	689
60,000 - 64,999	2,603	1,807	514	515
65,000 - 69,999	1,730	1,428	575	438
70,000 - 74,999	1,248	962	395	327
75,000 - 79,999	840	795	236	264
80,000 - 84,999	652	539	179	174
85,000 - 89,999	456	394	106	126
90,000 - 94,999	329	265	62	90
95,000 - 99,999	229	193	55	72
100,000 - 104,999	120	136	29	47
105,000 - 109,999	83	77	22	35
110,000 - 114,999	49	64	14	22
115,000 - 119,999	33	53	9	21
120,000 - 124,999	32	33	10	15
125,000 - 129,999	25	27	13	11
130,000 - 134,999	19	20	8	5
135,000 - 139,999	7	23	2	12
140,000 - 144,999	14	16	9	7
145,000 - 149,999	7	4	4	1
150,000 - 154,999	13	11	6	9
155,000 - 159,999	4	9	2	6
160,000 - 164,999	4	12	2	4
165,000 - 169,999	6	9	4	5
170,000 - 174,999	2	7	1	6
175,000 - 179,999	4	3	-	-
180,000 - 184,999	6	4	4	2
185,000 - 189,999	2	6	1	4
190,000 - 194,999	1	4	1	3
200,000 - 204,999	2	7	1	2
205,000 - 209,999	2	2	2	2
210,000 - 214,999	-	2	-	1
215,000 - 219,999	-	2	-	2
220,000 - 224,999	2	1	1	-
225,000 - 229,999	1	2	1	2
230,000 - 234,999	4	-	3	-
235,000 - 239,999	-	4	-	4

* Information subject to audit

** The TfL Group is made up of the Corporation and its subsidiaries

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Remuneration (£)	Group 2021 number**	Group 2020 number**	Corporation 2021 number***	Corporation 2020 number***
240,000 - 244,999	3	2	3	2
245,000 - 249,999	1	-	-	-
250,000 - 254,999	-	2	-	2
265,000 - 269,999	1	-	1	-
270,000 - 274,999	-	2	-	2
275,000 - 279,999	1	1	1	-
285,000 - 289,999	1	-	-	-
290,000 - 294,999	1	1	1	1
305,000 - 309,999	1	-	1	-
310,000 - 314,999	1	-	1	-
315,000 - 319,999	1	1	1	1
355,000 - 359,999	-	3	-	2
360,000 - 364,999	1	2	-	2
370,000 - 374,999	-	1	-	1
375,000 - 379,999	-	1	-	1
400,000 - 404,999	-	1	-	-
445,000 - 449,999	1	-	-	-
475,000 - 479,999	-	1	-	-
515,000 - 519,999	-	1	-	1
Total	**15,741**	**14,818**	**3,836**	**3,682**

* Information subject to audit

** The TfL Group is made up of the Corporation and its subsidiaries

*** The Corporation is made up of London Streets, Taxi and Private Hire, and the corporate centre which, for legal and accounting purposes, constitutes TfL

Remuneration for senior employees

The Accounts and Audit Regulations 2015 require disclosure of individual remuneration details for senior employees with a base salary of £150,000 or more, calculated on a full-time equivalent basis for those working part time.

Disclosure is made for each financial year under various categories and set out in the tables in appendix 2 of this report.

Employer's pension contributions include the contribution in respect of future benefit accrual. Member contributions are payable by employees at a fixed rate of five per cent of pensionable salary.

Salary, fees and allowances are disclosed on an earned basis. Although performance-related pay is reported on a cash paid basis, it may not be determined for many months after the end of the relevant year.

2: Named employees receiving a base annual salary in excess of £150,000 at 31 March 2021*

Name	Notes	Salary (including fees & allowances) 2020/21 (£)	Performance-related pay and retention payments paid in the year 2020/21*** (£)	Compensation for loss of employment 2020/21 (£)	Benefits in kind 2020/21 (£)	Total remuneration excluding pension contributions 2020/21 (£)	Employer's contribution to pension 2020/21**** (£)	Salary (including fees & allowances) 2019/20 (£)	Performance-related pay for 2018/19 paid in the year 2019/20 (£)	Total remuneration excluding pension 2019/20***** (£)
TfL employees including subsidiary companies but excluding Crossrail										
Andy Byford, Commissioner	a	268,438	-	-	580	269,018	34,661	-	-	-
Howard Carter, General Counsel	b	**247,782	-	-	2,186	249,968	-	**232,905	58,255	293,346
Michèle Dix, Managing Director, Crossrail 2	c	**169,027	-	-	1,706	170,733	-	**169,037	31,856	202,599
Vernon Everitt, Managing Director, Customers, Communication and Technology	d	243,003	-	-	2,186	245,189	-	252,642	61,622	316,450
Simon Kilonback, Chief Finance Officer		**312,733	-	-	2,186	314,919	-	**306,361	65,170	373,717
Andy Lord, Managing Director, London Underground and TfL Engineering	e	**315,717	-	-	2,186	317,903	-	**128,911	-	129,788
Gareth Powell, Managing Director, Surface Transport	f	**306,954	-	-	2,186	309,140	-	**305,773	68,692	376,651
Fiona Brunskill, Director of Business Partnering and Employee Relations	g	155,142	-	-	2,186	157,328	40,032	37,027	-	37,525
George Clark, Chief Engineer for Transport for London		165,000	-	-	1,706	166,706	-	165,000	7,755	174,461
Andrea Clarke, Director of Legal	h	165,369	24,805	-	1,706	191,880	42,822	162,200	29,436	193,342

* Information subject to audit

** Salary, fees and allowances include an allowance paid as a result of the individual opting out of part or all of the benefits provided by the TfL Savings for Retirement Plan or TfL Pension Fund. The allowance is paid at the rate of the employer contribution foregone, discounted by the employer rate of National Insurance to ensure no additional employer cost is incurred. It also includes an allowance available to those employees who are employed on fixed term contracts and who choose to join a defined contribution scheme rather than the TfL Pension Fund

*** The payment of all 2019/20 performance-related pay awards has been deferred until 2021/22 and no awards will be made in respect of the 2020/21 financial year

**** A number of senior employees opted out of the TfL Pension Fund during 2015/16. They are instead accruing equivalent benefits under an unfunded defined benefit pension scheme

***** Total remuneration for 2019/20 also includes benefits in kind as reported in last year's Statement of Accounts

a entered service 29 June 2020

b salary sacrificed for pension of £8,517 (2019/20 £8,306) and holiday buy of £nil (2019/20 £4,558)

c salary sacrificed for pension of £22,000 (2019/20 £22,000). Paid for providing services four days per week

d salary sacrificed for pension of £8,517 (2019/20 £8,306)

e entered service 4 November 2019

f salary sacrificed for Cycle to Work scheme of £nil (2019/20 £538)

g entered service 6 January 2020

h salary sacrificed for holiday buy of £nil (2019/20 £3,169)

Name	Notes	Salary (including fees & allowances) 2020/21 (£)	Performance-related pay and retention payments paid in the year 2020/21*** (£)	Compensation for loss of employment 2020/21 (£)	Benefits in kind 2020/21 (£)	Total remuneration excluding pension contributions 2020/21 (£)	Employer's contribution to pension 2020/21**** (£)	Salary (including fees & allowances) 2019/20 (£)	Performance-related pay for 2018/19 paid in the year 2019/20 (£)	Total remuneration excluding pension 2019/20***** (£)
Graeme Craig, Director of Commercial Development		185,000	-	-	1,706	186,706	45,822	185,000	24,235	210,941
Nick Dent, Director of Customer Operations	i	150,658	-	-	1,706	152,364	37,342	145,000	16,617	163,323
Patrick Doig, Divisional Finance Director, Surface Transport & MPD	j	180,000	-	-	1,706	181,706	45,822	178,290	28,480	208,476
Stephen Field, Director of Compensation and Benefits	k	**189,906	-	-	1,706	191,612	-	**190,047	28,525	220,278
Lester Hampson, Property Development Director	l	176,135	-	-	1,706	177,841	45,403	177,301	179,638	358,645
Michael Hardaker, Director of Network Extensions		180,000	-	-	2,186	182,186	45,822	182,996	-	185,182
Stuart Harvey, Director of Major Projects		**277,136	-	-	1,706	278,842	-	**277,136	78,913	357,755
Joanna Hawkes, Corporate Finance Director	m	**210,542	18,000	-	-	228,542	-	**9,172	-	9,172
Chris Hobden, Head of Four Lines Modernisation		150,000	-	-	1,706	151,706	38,687	150,000	36,870	188,576
Antony King, Group Finance Director	n	**230,542	-	-	1,706	232,248	-	**208,287	27,590	237,583
Chris MacLeod, Customer Director		**207,411	-	-	-	207,411	-	**207,439	29,370	236,809
Lilli Matson, Chief Safety, Health and Environmental Officer	o	168,910	-	-	1,706	170,616	42,758	149,969	16,335	168,010
Peter McNaught, Director of Operational Readiness	p	180,988	-	-	1,024	182,012	45,822	166,622	18,336	186,664
Helen Murphy, Director of TfL Consulting and International Operations		151,000	-	-	1,706	152,706	38,956	151,000	15,067	167,773

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*** The payment of all 2019/20 performance-related pay awards has been deferred until 2021/22 and no awards will be made in respect of the 2020/21 financial year

**** A number of senior employees opted out of the TfL Pension Fund during 2015/16. They are instead accruing equivalent benefits under an unfunded defined benefit pension scheme

***** Total remuneration for 2019/20 also includes benefits in kind as reported in last year's Statement of Accounts

i changed role in 2020/21

j salary sacrificed for Cycle to Work scheme of £nil (2019/20 £71)

k salary sacrificed for pension of £8,439 (2019/20 £8,306)

l performance related pay disclosed as received in 2019/20 also includes a deferred payment in respect of 2017/18 totalling £30,608

m entered service 16 March 2020

n changed role in 2019/20

o changed role in 2019/20. Salary sacrificed for Cycle to Work scheme of £nil (2019/20 £154)

p changed role in 2019/20. Salary sacrificed for holiday buy of £nil (2019/20 £943)

Name	Notes	Salary (including fees & allowances) 2020/21 (£)	Performance-related pay and retention payments paid in the year 2020/21*** (£)	Compensation for loss of employment 2020/21 (£)	Benefits in kind 2020/21 (£)	Total remuneration excluding pension contributions 2020/21 (£)	Employer's contribution to pension 2020/21**** (£)	Salary (including fees & allowances) 2019/20 (£)	Performance-related pay for 2018/19 paid in the year 2019/20 (£)	Total remuneration excluding pension 2019/20***** (£)
Jonathan Patrick, Chief Procurement Officer	q	225,000	-	-	769	225,769	45,822	111,788	-	112,170
Caroline Sheridan, Director of TfL Engineering & Asset Strategy		166,240	-	-	769	167,009	41,377	162,584	18,336	181,689
Howard Smith, Chief Operating Officer, Elizabeth line	r	**181,786	-	-	1,706	183,492	-	**182,447	21,175	205,328
Shashi Verma, TfL Strategy Director		234,611	-	-	769	235,380	45,822	234,615	36,675	272,059
Alex Williams, Director of City Planning		**206,553	-	-	-	206,553	-	**206,569	30,260	236,829
Brian Woodhead, Director of Customer Service		**230,542	-	-	1,706	232,248	-	**234,907	42,920	279,533
Tricia Wright, Chief People Officer	s	**231,860	-	-	769	232,629	-	**235,839	36,675	273,283
Ken Youngman, Divisional Finance Director, Commercial Development		155,000	-	-	1,706	156,706	-	**169,884	54,250	225,840
Crossrail current office holders/employees										
Mark Wild, Chief Executive Officer		**446,147	-	-	1,706	447,853	-	**446,133	31,692	479,531
Carole Bardell-Wise, Health, Safety, Quality and Environment Director	t	180,639	18,000	-	1,706	200,345	18,000	129,740	-	131,153
Susan Beadles, General Counsel		156,163	-	-	1,706	157,869	30,461	155,872	-	157,578
Chris Binns, Chief Engineer		182,010	-	-	1,706	183,716	18,201	179,618	-	181,324

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q entered service 30 September 2019. Salary sacrificed for holiday buy of £nil (2019/20 £1,327)

r salary sacrificed for pension of £8,439 (2019/20 £8,306)

s salary sacrificed for pension of £8,517 (2019/20 £8,306)

t entered service 3 June 2019

Name	Notes	Salary (including fees & allowances) 2020/21 (£)	Performance-related pay and retention payments paid in the year 2020/21*** (£)	Compensation for loss of employment 2020/21 (£)	Benefits in kind 2020/21 (£)	Total remuneration excluding pension contributions 2020/21 (£)	Employer's contribution to pension 2020/21**** (£)	Salary (including fees & allowances) 2019/20 (£)	Performance-related pay for 2018/19 paid in the year 2019/20 (£)	Total remuneration excluding pension 2019/20***** (£)
Jim Crawford, Chief Programme Officer	u	359,040	-	-	1,706	360,746	-	61,381	-	61,670
Rachel McLean, Chief Finance Officer	v	233,000	11,650	-	2,186	246,836	45,822	57,295	-	57,817
Andy Weber, Delivery Construction Manager	w	150,629	-	-	769	151,398	15,113	149,356	-	150,125
Former Employees										
Mike Brown MVO, Commissioner	x	**146,600	-	-	631	147,231	-	**372,227	145,225	519,661
Tanya Coff, Divisional Finance Director, London Underground	y	127,573	-	-	1,158	128,731	30,627	176,211	26,406	204,323
Alexandra Kaufman, Communications Director, Crossrail	z	150,000	-	-	769	150,769	15,000	78,863	-	79,265
Tony Meggs, Non-Executive Chairman, Crossrail	aa	100,000	-	-	-	100,000	-	200,000	-	200,000
Nick Raynsford, Non-Executive Deputy Chairman, Crossrail	ab	24,000	-	-	-	24,000	-	48,000	-	48,000
Chris Sexton, Deputy Chief Executive, Crossrail	ac	68,323	-	8,070	370	76,763	7,409	302,784	100,000	404,490
Angela Williams, Chief People Officer, Crossrail	ad	166,488	-	57,000	-	223,488	16,649	-	-	-

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**** A number of senior employees opted out of the TfL Pension Fund during 2015/16. They are instead accruing equivalent benefits under an unfunded defined benefit pension scheme

***** Total remuneration for 2019/20 also includes benefits in kind as reported in last year's Statement of Accounts

u entered service 30 January 2020

v entered service 2 January 2020

w salary sacrificed for childcare vouchers of £496 (2019/20 £1,488)

x left service 10 July 2020

y left service 30 November 2020

z left service 31 March 2021

aa left service 30 September 2020

ab left service 30 September 2020

ac left service 18 June 2020

ad entered service 18 May 2020, left service 31 March 2021

3: Severance payments*

We have also published the number and cost of compulsory and voluntary severance termination packages agreed during the year. This is fully in line with the Code. Our policy on severance is found on page 8.

Termination payments disclosed in the table below include Crossrail and are reported on a cash paid basis to provide certainty on the amounts reported, and include pension contributions in respect of added years, ex-gratia payments and other related costs.

	Group 2021 (number)	Group 2021 (£m)	Corporation 2021 (number)	Corporation 2021 (£m)	Group 2020 (number)	Group 2020 (£m)	Corporation 2020 (number)	Corporation 2020 (£m)
Non-compulsory exit packages (£)								
0 - 20,000	15	0.2	4	-	28	0.4	24	0.4
20,001 - 40,000	18	0.6	4	0.1	40	1.2	28	0.9
40,001 - 60,000	11	0.5	7	0.4	44	2.2	25	1.3
60,001 - 80,000	8	0.5	4	0.3	41	2.8	25	1.7
80,001 - 100,000	17	1.5	14	1.2	30	2.7	11	1.0
100,001 - 150,000	16	2.0	11	1.3	35	4.1	16	1.9
150,001 - 200,000	4	0.7	3	0.5	9	1.6	7	1.2
200,001 - 250,000	1	0.2	1	0.2	2	0.4	2	0.4
250,001 - 300,000	-	-	-	-	5	1.4	4	1.1
300,001 - 350,000	-	-	-	-	2	0.6	2	0.6
350,001 - 400,000	-	-	-	-	2	0.8	2	0.8
400,001 - 450,000	-	-	-	-	1	0.4	1	0.4
Total non-compulsory exit packages	**90**	**6.2**	**48**	**4.0**	**239**	**18.6**	**147**	**11.7**
Compulsory exit packages (£)								
0 - 20,000	2	-	-	-	-	-	-	-
Total	**92**	**6.2**	**48**	**4.0**	**239**	**18.6**	**147**	**11.7**

* Information subject to audit

4: Representation of equalities groups at different pay levels as at 31 March 2021* **

	<£20,000		£20,001 to £30,000		£30,001 to £40,000		£40,001 to £50,000		£50,001 to £60,000		£60,001 to £70,000		£70,001 to £80,000		£80,001 to £90,000		£90,001 to £100,000		>£100,000	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%
Gender																				
Female	12	60	399	39	2,061	34	1,018	27	1,711	20	568	17	251	16	97	19	39	20	39	25
Male	8	40	625	61	3,986	66	2,770	73	7,032	80	2,837	83	1,573	84	412	81	157	80	116	75
Total	**20**		**1,024**		**6,047**		**3,788**		**8,743**		**3,405**		**1,824**		**509**		**196**		**155**	
Ethnicity																				
Black, Asian and minority ethnic	8	40	464	45	2,449	40	1,242	33	2,848	33	879	26	400	22	78	15	17	9	12	8
White	9	45	331	32	2,269	38	2,026	53	4,762	54	2,094	61	1,213	67	368	72	151	77	127	82
Not stated	3	15	229	23	1,329	22	520	14	1,133	13	432	13	211	11	63	13	28	14	16	10
Total	**20**		**1,024**		**6,047**		**3,788**		**8,743**		**3,405**		**1,824**		**509**		**196**		**155**	
Disabled/Not disabled																				
Disabled	2	10	48	5	225	4	114	3	211	2	101	3	45	2	28	5	3	2	3	2
Not disabled	14	70	605	59	3,853	64	2,142	57	5,232	60	1,931	57	932	51	283	56	126	64	112	72
Not stated	4	20	371	36	1,969	32	1,532	40	3,300	38	1,373	40	847	47	198	39	67	34	40	26
Total	**20**		**1,024**		**6,047**		**3,788**		**8,743**		**3,405**		**1,824**		**509**		**196**		**155**	

* Excluding Crossrail and TfL apprentices

** Information not subject to audit

5: Board remuneration*

	For the year ended 31/03/21 (£)
Current Board Member	
Sadiq Khan	Not remunerated by TfL
Heidi Alexander	Not remunerated by TfL
Cllr Julian Bell	18,000
Kay Carberry CBE	20,000
Professor Greg Clark CBE	20,000
Bronwen Handyside	18,000
Ron Kalifa OBE	20,000
Dr Alice Maynard CBE	18,000
Anne McMeel	20,000
Dr Mee Ling Ng OBE	20,000
Dr Nelson Ogunshakin OBE	19,000
Mark Phillips	19,000
Dr Nina Skorupska CBE	19,000
Dr Lynn Sloman	19,000
Ben Story	20,000

* Information subject to audit

** Information not subject to audit

6: Trade union facility time**

The Trade Union (Facility Time Publication Requirements) Regulations 2017 place a requirement on relevant public sector employers to collate and publish, on an annual basis, a range of data on the amount and cost of trade union facility time within their organisation. Facility time is the provision of paid or unpaid time off from an employee's normal role to undertake trade union duties and activities as a union representative.

Within TfL the following trade unions are represented:

- TSSA
- RMT
- Prospect
- UNISON
- Unite
- PCS
- ASLEF

As at 31 March 2021 TfL had 880 members of staff who are elected as union representatives. These employees spent the following amount of their working hours on facility time:

Percentage of time	Number of employees
0	-
1-50	826
51-99	19
100	35
Total	**880**

We allow representatives paid time off to carry out union duties and meeting these costs represents 0.3 per cent of our total wage bill.

Total cost of facility time (£m)	6.4
Total remuneration costs for all TfL employees (£m)	2,029.1
Percentage of pay bill spent on facility time (%)	0.3

We do not provide paid time off for representatives to carry out union activities. The above approach to paid time off, and the number of representatives for our 27,000 employees is in line with legislation, guidelines from ACAS and agreements with the trade unions.

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