MAYOR OF LONDON

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Agenda

Meeting: Audit and Assurance Committee

Date: Friday 11 September 2020

Time: 11.00am

Place: via Microsoft Teams

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

How decisions will be taken during the Covid-19 emergency measures
To maintain social distancing in the current circumstances, the meeting will be held by videoconference or teleconference. The meeting remains open to the public, except for where exempt information is being discussed as noted on the agenda, as it will be webcast live. 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.

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

Further Information

If you have questions, would like further information about the meeting or require special facilities please contact: Sue Riley, Secretariat Officer; telephone: 020 7983 4392;sueriley@tfl.gov.uk

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

Howard Carter, General Counsel
Thursday 3 September 2020

Agenda
Audit and Assurance Committee
Friday 11 September 2020

1 Apologies for Absence and Chair's Announcements

2 Declarations of Interests

General Counsel

Members are reminded that any interests in a matter under discussion must be declared at the start of the meeting, or at the commencement of the item of business.

Members must not take part in any discussion or decision on such a matter and, depending on the nature of the interest, may be asked to leave the room during the discussion.

3 Minutes of the Meeting of the Committee held on 8 June 2020
(Pages 1 - 10)

General Counsel

The Committee is asked to approve the minutes of the meeting of the Committee held on 8 June 2020 and authorise the Chair to sign them.

4 Matters Arising and Actions List (Pages 11 - 16)

General Counsel

The Committee is asked to note the updated actions list.

Accounting

5 TfL Statement of Accounts - Year Ended 31 March 2020 - Changes Made Prior to Finalisation (Pages 17 - 256)

Chief Finance Officer

The Committee is asked to note the paper.

6 Financial Reporting Council Review of the Audit of the TfL Financial Statements and Value for Money Arrangements for the Year Ended 31 March 2019 (Pages 257 - 258)

Chief Finance Officer

The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda.

7 Procurement Update (Pages 259 - 264)

Chief Finance Officer

The Committee is asked to note the paper.

8 Control Environment Trend Indicators (Pages 265 - 274)

Chief Finance Officer

The Committee is asked to consider the proposed Financial Indicators and approve the dashboard for reporting at future meetings.

External Audit Items

9 Effectiveness Review of the External Auditors (Pages 275 - 278)

Chief Finance Officer

The Committee is asked to note and comment on the paper and the supplementary information on Part 2 of the paper.

10 Annual Audit Letter (Pages 279 - 314)

Chief Finance Officer

The Committee is asked to note the letter.

Audit, Risk and Assurance Items

11 Independent Investment Programme Advisory Group Quarterly Report (Pages 315 - 340)

Director of Risk and Assurance

The Committee is asked to note the report, the management response and the exempt supplementary information on Part 2 of the agenda.

12 Risk and Assurance Quarter 1 Report 2020/21 (Pages 341 - 384)

Director of Risk and Assurance

The Committee is asked to note the report and the supplementary information on Part 2 of the agenda.

13 Pan-TfL Revenue Protection Programme (Pages 385 - 386)

Director of Compliance and On- Street Policing

The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda.

Governance

14 TfL International Benchmarking During Covid-19 (Pages 387 - 394)

Director of Crossrail 2 and IIPAG

The Committee is asked to note the paper and the work to date.

15 Freedom of Information Update (Pages 395 - 404)

General Counsel

The Committee is asked to note the paper.

16 Governance Improvement Plan 2020/21 (Pages 405 - 410)

General Counsel

The Committee is asked to note the paper and approve the Improvement Plan 2020/21.

17 Members' Suggestions for Future Discussion Items (Pages 411 - 414)

General Counsel

The Committee is asked to note the forward programme and is invited to raise any suggestions for future discussion items for the forward programme and for informal briefings.

18 Any Other Business the Chair Considers Urgent

The Chair will state the reason for urgency of any item taken.

19 Date of Next Meeting

Wednesday 2 December 2020 at 10.00am.

20 Exclusion of Press and Public

The Committee is recommended to agree to exclude the press and public from the meeting, in accordance with paragraphs 3,5 &7 of Schedule 12A to the Local Government Act 1972 (as amended), in order to consider the following items of business.

Agenda Part 2

Papers containing supplemental confidential or exempt information not included in the related item on Part 1 of the agenda.

21 Financial Reporting Council Review of the Audit of the TfL Financial Statements and Value for Money Arrangements for the Year Ended 31 March 2019 (Pages 415 - 422)

Chief Finance Officer

Exempt supplemental information relating to the item to Part 1

22 Effectiveness Review of the External Auditors (Pages 423 - 426)

Chief Finance Officer

Exempt supplemental information relating to the item on Part 1.

23 Independent Investment Programme Advisory Group Quarterly Report (Pages 427 - 434)

Director of Risk and Assurance

Exempt supplemental information relating to the item on Part 1.

24 Risk and Assurance Quarter 1 2020/21 (Pages 435 - 450)

Director of Risk and Assurance

Exempt supplemental information relating to the item on Part 1.

25 Pan-TfL Revenue Protection Programme (Pages 451 - 462)

Director of Compliance and On- Street Policing

Exempt supplemental information relating to the item on Part 1.

Transport for London

Minutes of the Audit and Assurance Committee

Teams Virtual Meeting
10.00am, Monday 8 June 2020

Members

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

Executive Committee

Howard Carter	General Counsel
Simon Kilonback	Chief Finance Officer

Staff

Tanya Coff	Divisional Finance and Procurement Director, London Underground
Patrick Doig	Divisional Finance Director, Surface Transport
Lorraine Humphrey	Head of TfL Project Assurance
Tony King	Group Finance Director and Statutory Chief Finance Officer
Nico Lategan	Head of Enterprise Risk
Richard Mullings	Head of Counter-Fraud & Corruption
Rachel Shaw	Head of External Reporting, Finance
Mike Shirbon	Head of Integrated Assurance
Jamie Mordue	Secretariat

Also In Attendance

Karl Havers	Partner, Ernst & Young
Caroline Mulley	Associate Partner, Ernst & Young
Alison Munro	Independent Investment Programme Advisory Group, Chair
Joanne White	Independent Investment Programme Advisory Group, Member

17/06/20 Apologies for Absence and Chair's Announcements

The Chair welcomed everyone to the meeting. As TfL did not benefit from the temporary changes to local authority meetings included in the Coronavirus Act 2020 (the Act), this was not a formal meeting of the Committee but was run as if the Act applied, as far as possible. The papers had been published in advance and the meeting was recorded and released on TfL's YouTube channel. Where decisions were required, these were taken by the Chair, following consultation with Members, with a note of the discussion and decisions published on tfl.gov.uk.

There were no apologies for absence.

The Chair congratulated Tony King on his appointment as Statutory Chief Finance Officer and Group Finance Director.

The Chair reminded those present that safety was paramount at TfL and encouraged Members to raise any safety issues during discussions on a relevant item or with TfL staff after the meeting. There were no specific issues raised at the meeting.

The Chair thanked TfL staff for their efforts in keeping safe travel options open for essential workers.

18/06/20 Declarations of Interest

Members confirmed that their declarations of interests, as published on tfl.gov.uk, were up to date and there were no interests that related specifically to items on the agenda.

19/06/20 Minutes of the Meeting of the Committee held on 16 March 2020

The Chair, in consultation with Members, approved for signing the minutes of the meeting held on 16 March 2020.

20/06/20 Matters Arising and Actions List

Howard Carter introduced the paper which set out progress against actions agreed at previous meetings of the Committee. He and the Chair would review the actions list to see which were still relevant and practical to carry forward. Those actions relating to safety, governance and finance would remain as open actions. **[Action: Howard Carter]**

The Committee noted the Actions List.

21/06/20 TfL's Statement of Accounts for the Year Ended 31 March 2020

Tony King introduced the paper, which presented the draft TfL Group Statement of Accounts, together with the Remuneration Report, for the year ended 31 March 2020. Appendix 1 had been accepted as a late item by the Chair and had been published on 31 May 2020.

The Finance team had worked to the original timetable to ensure that the statutory accounts were properly prepared, and Tony King thanked TfL staff and EY for their work, particularly during the challenging circumstances.

Prior to Covid-19, TfL’s performance for 2019/20 had been strong and forecasting performance significantly better than budget. It was estimated that, in March 2020, the changes in travel patterns had had an impact on the 2019/20 results of £220m, the majority of which was due to reduced passenger income.

As at 31 March 2020, the Group had usable reserves of £1,604m, down from £1,627m at 31 March 2019, and below the forecast level of £1,789m set out in the December 2019 Business Plan. The £185m shortfall against the Business Plan forecast was attributable to lost revenues in the last two weeks of the year due to Covid-19 and the consequent travel restrictions that were imposed.

The General Fund balance at 31 March 2020 increased to £500m, from £150m at 31 March 2019, to ensure sufficient cash-backed reserves were maintained by the Group to cover risk that may arise.

The impact of Covid-19 on TfL's finances had continued and would increase in the financial year 2020/21. The significant loss of revenue had required TfL to prepare a revised budget and negotiate an emergency interim funding agreement with Government. The funding agreement had been signed on 15 May 2020 and approved on 2 June 2020, following a Board meeting and use of Chair's Action.

As the ramifications of Covid-19 continued into Q1 2020/21, TfL would review its carrying values in investment properties, the impairment of assets, and consideration of the audit opinion with EY.

Members commended staff's work in the earlier adoption of IFRS16 regulations.

The Committee thanked staff for their work in providing comprehensive up to date information in the paper. Members welcomed the steps that TfL had taken to ensure that Londoners were safe, including the introduction of middle door boarding on buses, rent holiday for small or medium-sized enterprises, and the cessation of work on construction projects. These measures were in the public interest, even though they had had a significant impact on TfL's finances.

TfL had only furloughed staff whose work could be deferred, and there was sufficient resource to help with budgeting and planning for the future and it would consider how and when to extend furlough and for how many people, which would form part of the revised budget discussions.

TfL was seeking advice on the future of the property market. Current guidance to surveyors was to qualify their valuations on material uncertainties of values. Uncertainty remained around what would be appropriate for stations that had vacant units, how buying habits would change and what the footfall would be. The Committee stated that it was important that best practice was adopted, that TfL was consistent with other organisations, and assumptions were prudent and qualified.

TfL had worked hard with the Government to ensure that letters of support and funding recognised its legal obligation to maintain a balanced budget. The language was explicit in the funding agreement and was relied upon by management to demonstrate TfL's financial position. Given the levels of uncertainty, an interim funding deal was essential as it was not possible to reach a prudent and realistic set of assumptions for the entire year.

Members sought further clarification on accounting standards which would have an impact on the business.

The Committee:

1 noted the draft Statement of Accounts and the Remuneration Report and the delegation to the Statutory Chief Finance Officer to make any 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;

2 **recommended 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.**

(a) Woolwich Arsenal Rail Enterprises Limited;
(b) City Airport Rail Enterprises Limited;
(c) London Underground Limited;
(d) LUL Nominee BCV Limited;
(e) LUL Nominee SSL Limited;
(f) Docklands Light Railway Limited;
(g) Tube Lines Limited;
(h) Rail for London Limited;
(i) Rail for London (Infrastructure) Limited
(j) Tramtrack Croydon Limited;
(k) London Buses Limited;
(l) London Bus Services Limited;
(m) London River Services Limited;
(n) Transport for London Finance Limited;
(o) Victoria Coach Station Limited;
(p) TTL Properties Limited;
(q) TTL Blackhorse Road Properties Limited;
(r) TTL Earls Court Properties Limited;
(s) TTL Landmark Court Properties Limited;
(t) TTL Kidbrooke Properties Limited;
(u) TTL Northwood Properties Limited;
(v) TTL South Kensington Properties Limited; and
(w) TTL Southwark Road Properties Limited;

3 **noted 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 2020:**

(a) TTL Build to Rent Properties Limited;
(b) TTL FCHB Properties Limited; and
(c) TTL Wembley Park Properties Limited;

4 **noted that:**

(a) as a result of the application of IFRS 9 Financial Instruments, TfL's auditors, Ernst & Young LLP, had requested 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

(b) Board approval for the issue of such letters was granted when the subsidiaries were first established or acquired.

22/06/20 Review of Governance and the Annual Governance Statement for Year Ended 31 March 2020

Howard Carter introduced the paper, which provided a review of compliance with the TfL Code of Governance. The report was represented in a more concise but more informative format and had considered benchmarking against similar organisations to determine where TfL's best practice could be strengthened. Members welcomed the new format as helpful and clear.

The overall assessment was similar to previous years. An improvement plan for 2020/21 had not been included as it would need to reflect the changing ways of working and the review of the governance and financing structure of the organisation. It was proposed to submit a governance improvement plan, including specific milestones, to the next meeting. **[Action: Howard Carter]**

Given the unplanned move to increased home working and furloughed staff, Members asked if consideration had been given to any impact on good governance. Only one meeting had been cancelled due to Covid-19 and additional briefings had been held for Members on Covid-19 and financial issues. As TfL did not benefit from the changes approved for local authorities, normal meetings of the Board, Committees and Panels were being replaced by briefings and the use of Chair's Action. To ensure transparency, these were being treated as meetings with papers published in advance and the meetings recorded for public viewing.

The Business Plan would contain targets that were in line with the Travel in London reports and the in-year scorecard would focus on measures that allowed in-year management of performance.

The Chair, in consultation with the Committee, approved the Annual Governance Statement, as set out in Appendix 1 of the paper, for signing by the Chair of TfL and the Commissioner for inclusion in the 2019/20 Annual Report and Accounts.

23/06/20 Independent Investment Programme Advisory Group Quarterly Report

Alison Munro introduced the paper, including the exempt supplementary information on Part 2 of the agenda, on the Independent Investment Programme Advisory Group (IIPAG) Quarterly Report and the work undertaken since the last meeting of the Committee on 16 March 2020. It was noted that the report covered the shorter period between February to mid-April 2020. The work that IIPAG had been able to undertake was affected by Covid-19.

Four reviews had been carried out with a strong focus on cross cutting work. IIPAG had produced an Annual Report on Benchmarking, which was appended to the paper and concluded that the breadth of TfL's benchmarking activities was substantial with a good level of external focus, achieving the right balance in providing good value in benchmarking.

IIPAG thanked TfL for the continued level of support it received, which was an indication of how important assurance work was regarded in TfL. No new recurring themes had been identified and the work programme for 2020/21 would be reviewed once the new TfL budget was approved.

Project Assurance was beginning to increase again, the number of overdue recommendations had decreased, and progress was being made on all recommendations.

Members welcomed the paper and particularly the Benchmarking Report. The Committee requested that comparisons be made between how TfL and other transport authorities, internationally and in the UK, worked to address the Covid-19 situation.

[Action: Michèle Dix/IIPAG]

The Committee noted the report and supplementary information on Part 2 of the agenda.

24/06/20 EY Report to Those Charged with Governance

Karl Havers introduced the paper, which set out the key risks that had been addressed and the status of audit work performed to date by EY during its audit of the Statement of Accounts for the year ended 2019/20. The report was accepted by the Chair as a late item and published on 3 June 2020.

The report contained several outstanding items, largely because of the lockdown. The main areas still to be worked through were property revaluations; funding arrangements, and the capital expenditure budget, as the budget currently assumed most projects could continue. The lockdown had also impacted Crossrail operations and EY considered that additional funding may be required, as several projects were time (rather than material) related.

In terms of value for money, there had been significant improvement in Crossrail governance during the year, however, owing to lockdown, the improvement plan on procurement had not been completed by the end of the financial year.

The post year-end period was especially dynamic and an updated report would need to be issued before sign-off.

The accounts had been published on 31 May 2020 for public inspection from 1 June and TfL was adhering as close as possible to the original timetable in line with good practice.

It was unlikely the capital expenditure budget would be confirmed by July 2020, which produced an element of uncertainty. Where the funding arrangements were at various points in time would need to be reflected in the disclosure.

Members sought an update on how TfL was ensuring issues related to governance and oversight of procurement were being addressed. It was recognised that the control environment for procurement needed improving and work was ongoing to implement the lessons learned from the finance end-to-end process and data work. An update report on procurement transformation, including the impact of Covid-19, would be submitted to the next meeting. **[Action: Simon Kilonback]**

The Committee noted the report.

25/06/20 EY Letter on Independence and Objectivity

Tony King introduced the paper which set out EY's independence and objectivity, which had been reviewed by TfL.

Karl Havers had been due to step down as lead partner for TfL, but in light of the disruption caused by Covid-19 had been asked to remain in this role for a further year. The Chair would be asked to send a letter in due course and the Committee endorsed the arrangement.

The Committee noted the paper.

26/06/20 EY Report on Non-Audit Fees for Six Months Ended 31 March 2020

Tony King introduced the paper, which set out the fees billed by EY for non-audit services. The report was a six-monthly report sent by EY and the appendix set out the work undertaken.

The Committee noted the report.

27/06/20 Risk and Assurance Quarter 4 Report 2019/20

Clive Walker introduced the update, including the exempt supplementary information on Part 2 of the agenda, on the work completed by the Risk and Assurance Directorate during Q4 2019/20. The work at the end of the quarter had been impacted by Covid-19 and the lockdown.

Work on enterprise risk management and Level 0 risks had been completed prior to the lockdown. Joint meetings had taken place between the TfL Enterprise Risk team, Crossrail and Network Rail to share risk information. Lockdown had provided new challenges to the Directorate, but it had been working with the business teams to support restart and recovery risk management and responses.

The Directorate had reviewed the Strategic Risk Register and a set of 10 new risks had been drawn up, which encompassed some of the current strategic risks viewed through the lens of the pandemic. To avoid confusion, the new set of risks would be referred to as Enterprise Risks.

Members had been provided with a document that outlined how the previous risks had been mapped to the 10 new Enterprise Risks. Once finalised, the list of Enterprise Risks would be shared with the Committee. **[Action: Clive Walker/Nico Lategan]**

The Committee welcomed the number of audits completed over the course of the year. A number of overdue management actions were outstanding due to the lockdown and furlough. Work to complete the overdue actions and the removal of no longer relevant actions would be shared in the report to the next meeting of the Committee.

[Action: Clive Walker]

The work on overdue actions would include reviewing the status of the management actions from the audits of occupational health and of bus safety processes, which would be shared with Members if available before the next meeting. **[Action: Clive Walker]**

As in other areas of TfL, the Integrated Assurance team would review its priorities to ensure they remained relevant and that that it could continue to provide the same level of assurance, given the new ways of working.

The Counter-Fraud and Corruption team had continued to operate with a full team and Clive Walker was now the Senior Authorising Officer. A fraud prevention action plan had been developed. The potential fraud risk in the current environment was discussed and mitigations would continue to be progressed by the team.

Members welcomed the high levels of satisfaction with Internal Audit. It was noted that the development of new commercial and financial control environment trend indicators had been delayed and an update would be provided to the Committee at its next meeting.
[Action: Tony King]

The Committee noted that the recruitment to the role of Chief Internal Auditor had been put on hold, owing to Covid-19. Mushtaq Ali had been appointed to the post on an interim basis.

The Committee noted the report and supplementary information on Part 2 of the agenda.

27/06/20 Risk and Assurance Annual Report 2019/20

Clive Walker introduced the Risk and Assurance Annual Report 2019/20, which provided an overview of the work carried out by the Risk and Assurance Directorate and other activities completed during the year.

The overall framework of TfL’s governance, risk management and internal control in the year ended 31 March 2020 was considered to be generally adequate for TfL’s business needs. It was noted that TfL had initiated a transformation to address issues highlighted in the 2018/19 Annual Report regarding procurement controls.

The proportion of audit reports that carried either ‘poorly controlled’ or ‘requires improvement’ conclusions had increased, and this would continue to be tracked to determine whether this reflected an overall weakening of controls or simply more effective selection of areas to audit.

Progress continued on the Risk and Assurance Strategy. The implementation of the new audit management system had been delayed but was scheduled to be functioning in summer 2020.

Cross-cutting issues that had been identified in the Annual Report, such as governance of contract management, would be addressed with the relevant teams.

The Committee approved the Annual Report.

28/06/20 Members' Suggestions for Future Discussion Items

Howard Carter presented the forward plan.

The Committee noted the paper.

29/06/20 Any Other Business the Chair Considers Urgent

There was no urgent business.

30/06/20 Date of Next Meeting

The next scheduled meeting was due to be held on Wednesday 16 September 2020 at 10.00am.

31/06/20 Exclusion of Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraphs 3 of Schedule 12A to the Local Government Act 1972 (as amended), in order to consider the following items of business: Independent Investment Programme Advisory Group Quarterly Report; and Risk and Assurance Quarter 4 Report 2019/20.

The meeting closed at 12.30pm.

Chair: ______________________________

Date: ______________________________

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Audit and Assurance Committee

Date: **11 September 2020**

Item: **Matters Arising and Actions List**

This paper will be considered in public

1 Summary

1.1 This paper informs the Committee of progress against actions agreed at previous meetings.

2 Recommendation

2.1 **The Committee is asked to note the Actions List.**

List of appendices to this report:

Appendix 1: Actions List

List of Background Papers:

Minutes of previous meetings of the Audit and Assurance Committee.

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Appendix 1

Audit and Assurance Committee Actions List (reported to 11 September 2020 meeting)

Actions from last meeting

Minute No.	Item/Description	Action By	Target Date	Status/Note
20/06/20	**Matters Arising and Actions List** Actions relating to safety, governance and finance would remain as open actions.	Secretariat	11 September 2020 meeting.	Actions List Updated. Complete.
22/06/20	**Review of Governance and the Annual Governance Statement for Year Ended 31 March 2020** An updated Governance Improvement Plan, including specific milestones, to be submitted to the next meeting.	Howard Carter	11 September 2020 meeting.	Report on agenda. Complete.
23/06/20	**Independent Investment Programme Advisory Group Quarterly Report** Comparisons be made between how TfL and other transport authorities, internationally and in the UK, worked to address COVID-19 situation.	Michèle Dix/IIPAG	11 September 2020 meeting.	Report on agenda. Complete.
24/06/20	**EY Report to Those Charged with Governance** An update report on procurement transformation including the impact of COVID-19, be reported to next meeting.	Simon Kilonback	11 September 2020 meeting.	Report on agenda. Complete.

Minute No.	Item/Description	Action By	Target Date	Status/Note
27/06/20	**Risk and Assurance Quarter 4 Report 2019/20** Once finalised, the list of Enterprise Risks to be shared with the Committee. Work to complete the overdue actions and the removal of no longer relevant actions would be shared in the report to the next meeting of the Committee. This would include reviewing the status of the management actions from the audits of occupational health and of bus safety processes, which would be shared with Members, if available before the next meeting.	Nico Lategan Clive Walker	11 September 2020 meeting. 11 September 2020 meeting.	Incorporated into report on agenda. Complete. Included in report on agenda. Complete.

Actions from previous meetings

Minute No.	Item/Description	Action By	Target Date	Status/Note
05/03/20	**Strategic Risk Update - Protective Security (SR17) – insider risk management** The insider risk management procedure would be shared with the Committee, once completed.	Siwan Hayward	When available.	Information circulated. Completed.
06/03/20	**Personal Data Disclosure to the Police and Other Agencies – normalisation of data** Future reports would contain more context around the numbers and have the data normalised.	Siwan Hayward	17 March 2021 meeting.	Item scheduled on Forward Plan.

Minute No.	Item/Description	Action By	Target Date	Status/Note
09/03/20	**Integrated Assurance Plan 2020/21 – context of Strategic Risk and medium-term planning** In future submissions of the IAP, further context to be given around those Strategic Risks where no work was planned in the IAP and consideration be given to developing a medium-term plan to assure the Committee that Strategic Risks that were not being picked up in a single year's IAP were included in future work plans.	Clive Walker	17 March 2021 meeting.	Item scheduled on Forward Plan.
10/03/20	**Lessons Learned from the First Full Year of the Enterprise Risk Framework – revised risks** The development of revised risks would begin in summer 2020, with an update provided to the next meeting ahead of firm proposals in September 2020.	Nico Lategan	11 September 2020 meeting.	Included in Q1 report on agenda. Complete.
69/12/19	**Cyber Security Update** An update report with a roadmap and clear timeline to be reported to a future meeting.	Siwan Hayward	2 December 2020 meeting.	This risk has now been replaced by the new Enterprise Risk Schedule. Scheduled on Forward Plan.

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Audit and Assurance Committee

Date: **11 September 2020**

Item: **TfL Statement of Accounts Year Ended 31 March 2020 - Changes Made Prior to Finalisation**

This paper will be considered in public

1 Summary

1.1 The draft TfL Group Statement of Accounts for the year ended 31 March 2020 was presented at the Audit and Assurance Committee meeting of 8 June, where the Statutory Chief Finance Officer was authorised to make any adjustments arising from the ongoing audit work prior to submission to the TfL Board.

1.2 This paper contains information on the material changes to the Statement of Accounts subsequent to their presentation at the Audit and Assurance Committee meeting.

2 Recommendation

2.1 **The Committee is asked to note this paper.**

3 Background

3.1 At the time that the Statement of Accounts was presented to the Audit and Assurance Committee at its meeting of 8 June 2020, the audit was ongoing and there were a number of adjustments processed in the intervening period.

4 Changes Made Prior to Finalisation

4.1 The following adjustments and disclosure amendments made to the accounts prior to their finalisation and approval by the TfL Board are set out below.

4.2 The inclusion of the Independent Auditor's Report. This was not incorporated into the draft that was presented to the 8 June 2020 Committee meeting as delays caused by the coronavirus lockdown meant the auditors had not completed their audit work at that time.

4.3 The Independent Auditor's Report for 2019/20 contains a paragraph on material uncertainty relating to the availability of funding to deliver current operational and capital plans. As described in more detail in a revised going concern note to the Accounting Policies section of the financial statements, this sets out that there is significant uncertainty as to the level of future funding to be received from the Government. 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. 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 impairment of carrying values at 31 March 2020, which is not reflected in the financial statements.

4.4 The Independent Auditor’s Report also contains a qualified conclusion in relation to the opinion on arrangements put in place to secure economy, efficiency and effectiveness of resources. This was in respect of two items, both also featuring in the 2018/19 Auditor’s Report:

(a) the first is in respect of sustainable resource deployment and weaknesses previously identified in the application of procurement rules throughout the organisation. Although an action plan was drawn up during 2018/19 to address the weaknesses, corrective actions were not fully complete by 31 March 2020, and those that were implemented were not in place during the entirety of 2019/20; and

(b) the second item relates to issues in decision making relating to increased costs on the Crossrail project, impacting the plan for completion of Crossrail as a whole.

4.5 In the remainder of the financial statements, the most significant change was the reclassification of £875m of valuation gains recognised on investment properties from financing and investment income (within the surplus on provision of services) and £136m of related deferred tax, to ‘other comprehensive income’. During 2019/20, 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 have been recorded within investment property at fair value at the date of creation of the lease structure. As these gains arose on assets that were created through the separation of new lease structures from larger items of transport infrastructure (included within property, plant and equipment) they have now been recognised directly within other comprehensive income.

4.6 Minor number changes were made to the movement categories in note 30 Provisions. An adjustment of £5m was also made to accrue additional IAS 19 current service costs in respect of Crossrail’s pension scheme. Finally, for the Corporation alone, an adjustment was posted to net certain intercompany debtor and creditor balances.

4.7 Disclosures have been included in the accounts in respect of new requirements in the updated 2019/20 CIPFA Code of Practice on Local Authority Accounting (approved by the Financial Reporting Advisory Board in July 2020) that amend the requirements of IFRS 16 Leases to include consideration of peppercorn leases. TfL has performed an exercise to assess the value of leases held at peppercorn rents and has concluded they have no material value. No amounts in respect of these leases have therefore been included in the financial statements.

4.8 Additional disclosures have also been included in the going concern section (note d) to the Accounting Policies, in the Narrative Report and in the post balance sheet event note in respect of the latest outlook on TfL's future funding position and the possible impact on the carrying values of assets held in the Balance Sheet as at 31 March 2020. The new wording highlights the material uncertainties surrounding future levels of operating and capital funding.

4.9 Further disclosures were added in the Accounting Policies note and to note 15 Investment Properties, note 13 Property, plant, and equipment and note 18 Investment in associated undertaking, in respect of the higher than usual level of uncertainty that may be attached to property valuations at 31 March 2020 as a result of the coronavirus pandemic.

4.10 Other minor cosmetic and wording changes have also been made throughout. Appendix 1 shows all changes made to the Statement of Accounts since the version presented to the Committee on 8 June 2020.

List of appendices to this report:

Appendix 1: Tracked changes version of the Statement of Accounts against the version presented to the Audit and Assurance Committee on 8 June 2020

List of Background Papers:

None

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APPENDIX 1: Changes made to the TfL Financial Statements between 31 May and final signing.

Transport for London

Financial Statements

For the year ended 31 March 2020

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

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

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

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

A. J. King

Antony King
Group Finance Director and Statutory Chief Finance Officer

31 May 2020

Contents

Narrative Report and Financial Review

Overview

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

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

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

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

Narrative Report and Financial Review (continued)

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

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

Summary of financial performance

In 2019/20, we continued our strong track record of delivering our financial strategy. We once again kept a tight control over our operating expenditure. Like-for-like operating costs at £5,644m for the year came in at £173m below the level experienced in 2015/16 when we first began our savings programme. Over 2019/20, we have worked in consultation with our trade unions to review 25 business areas and more than 3,000 roles. Overall, operating costs rose only slightly against the prior year, from £7,561m in 2018/19 to £7,~~746m~~739m – the increase reflecting the incremental costs of preparations for the opening of the Elizabeth line, the commencement of the new Ultra Low Emission Zone (ULEZ) in April 2019, and additional services on TfL Rail. We also recognised a further £19m of exceptional costs relating to the safe stop of certain capital investment projects as a result of the coronavirus outbreak.

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

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

The combined impact of the above has resulted in an increase in the net cost of services for the year to £1,~~984m, 4.1~~977m, 3.8 per cent worse than 2018/19's total of £1,905m.

Narrative Report and Financial Review (continued)

In 2019/20, our financing and investment income ~~increased significantly~~reduced from £149m to £~~984m~~109m, reflecting a ~~gain~~reduction in the level of ~~£934m~~profits realised on the sale of investment properties, only partially offset by higher gains recognised on the revaluation of investment properties~~. In order to create a consolidated commercial property portfolio, assets previously held as operational have been identified and transferred into a designated investment portfolio, alongside a range of existing investment properties. This is a vehicle to deliver homes under the Mayor's Transport Strategy, and a growing sustainable income stream, as well as to facilitate the ability to generate both debt and equity to fund capital requirements. A deferred tax charge of £243m was separately recognised in the year in respect of this fair value gain.~~ during the year.

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

Grant income, at £3,268m, was £~~252m~~253m above 2018/19 levels, reflecting additional Crossrail funding received from the Greater London Authority (GLA). The share of losses from our associated undertakings and joint ventures reduced from £95m in 2018/19 to £52m in 2019/20.

These items combined with a deferred tax charge of £107m, relating to the revaluation gains on investment properties, to give an overall surplus on the provision of services after tax for the year of £~~1,404m – significantly~~671m – slightly above the prior year surplus of £659m. ~~However, after~~After reserves transfers, this translated to a reduction in usable reserves from £1,627m as at 31 March 2019 to £1,604m at 31 March 2020, below the 2019/20 forecast published in our December 2019 Business Plan. This was primarily owing to the impact of the coronavirus in March 2020. As already highlighted, in the absence of the additional support agreed with government, the negative impact of coronavirus on our future reserves would be considerably greater than that seen in 2019/20.

The level of capital works undertaken fell during the year to £2,~~717m~~724m, 21.~~6~~4 per cent below the prior year total of £3,467m. In addition to £452m of capital spend on renewals works, this included investment of £1,026m on the Crossrail project. Other significant investment projects progressed in the year included the Four Lines Modernisation project, the Northern Line Extension, major station improvement works, and the design and planned construction of Piccadilly line rolling stock.

Narrative Report and Financial Review (continued)

Funding sources

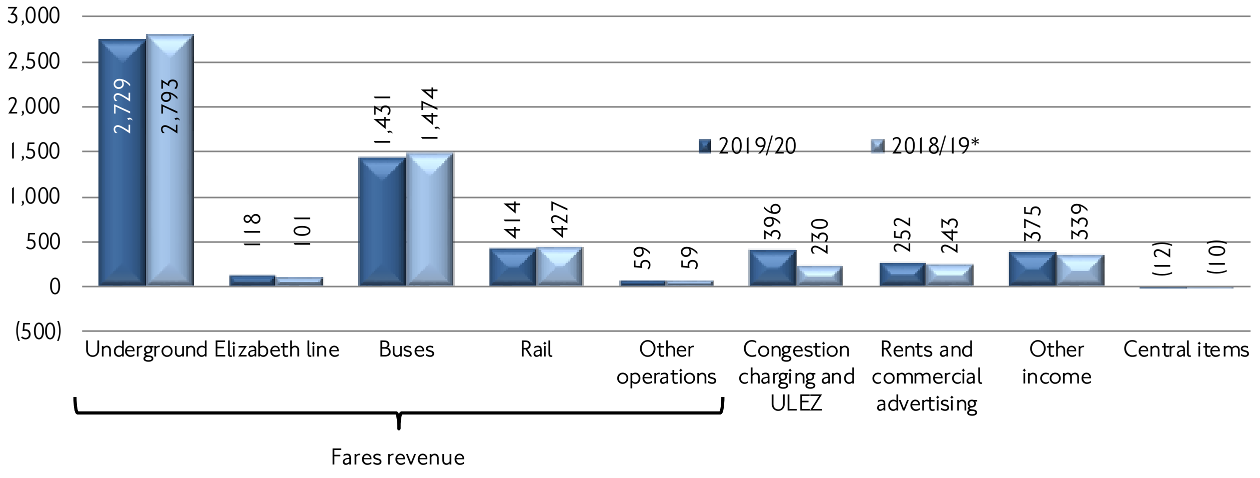
Our activities are funded from four main sources:

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

The annually published TfL Business Plan is financially balanced, with planned funding sources sufficient to meet planned expenditure. Short-term timing differences between expenditure and funding are managed through transfers to or from our cash reserves. Work is currently ongoing within TfL and through discussions with the DfT to examine how previous planned activity and funding plans will need to change to ensure that we are able to continue to balance our Business Plan in a post-coronavirus operating environment.

Gross income

Gross income breakdown by type (£m)



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

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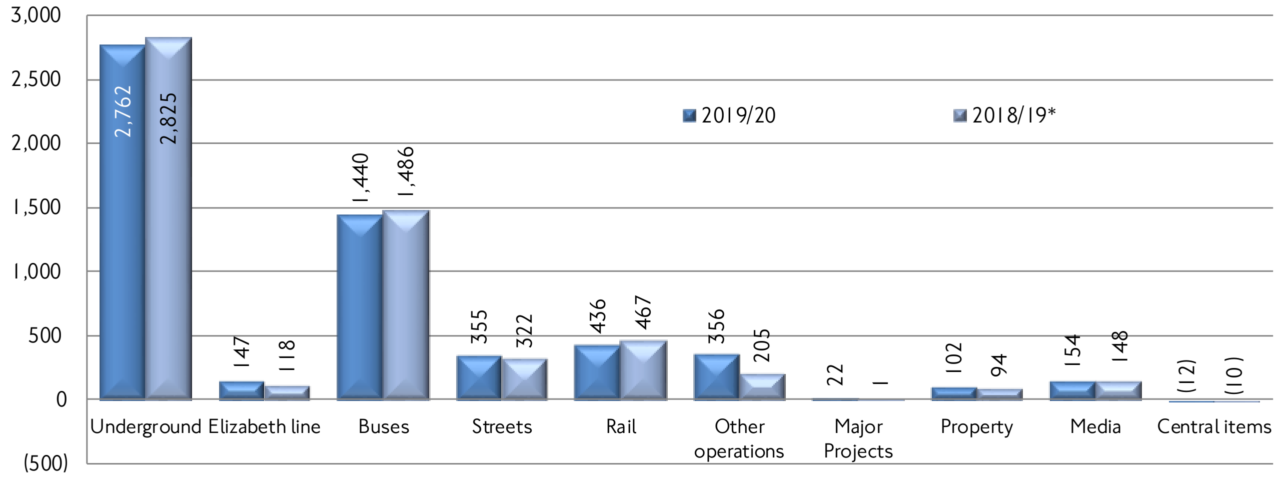
Narrative Report and Financial Review (continued)

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

Within this overall total, however, TfL's primary source of gross income came from passenger fares income, which represented 82.~~3~~4 per cent of all revenue generated. Fares income fell during the year from £4,854m in 2018/19 to £4,751m in 2019/20, reflecting the impact of coronavirus in March 2020, which compounded an underlying reduction in demand growth on the Underground and buses seen throughout the year. As well as falling demand, ~~prices~~price increases were also kept low. TfL fares decisions are taken annually by the Mayor whose decision for 2020 was to again freeze fares in line with his policy for his four-year term. As with previous years, Travelcard increases and associated caps are set in agreement with the train operating companies under fares regulations set by the Government. These increased on average by 2.8 per cent from 1 January 2020 – in line with the 2.8 per cent annual increase in the Retail Prices Index in the benchmark month of July 2019.

Total gross income by operating division (£m)



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

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

Narrative Report and Financial Review (continued)

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

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

Income from Buses fell 3.~~1~~2 per cent from £1,486m in 2018/19 to £1,440m in 2019/20. Passenger income at £1,431m was £43m adverse to the prior year, owing to the impact of coronavirus which reduced passenger demand in March by an estimated 68 million passenger journeys. Total passenger journeys for the year fell 4.9 per cent to 2,112 million in 2019/20 from 2,220 million in 2018/19. Underlying passenger journeys declined by 4.4 per cent. However, ~~due~~owing to an improvement in yield, and after adjusting for the impact of coronavirus, passenger income was broadly in line with 2018/19. The average yield increased from £0.66 per journey in 2018/19 to £0.68 in 2019/20.

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

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

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

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

Narrative Report and Financial Review (continued)

Government grants and other funding

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

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

Prudential borrowing

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

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

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

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

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

Narrative Report and Financial Review (continued)

Uses of funding

Gross expenditure

Gross expenditure, which includes day-to-day operating costs as reported to management (see note 2 to the financial statements) and Central statutory reporting items (including depreciation and amortisation) increased by 2.4 per cent from £7,561m in 2018/19 to £7,~~746m~~739m in 2019/20. Excluding these Central items, expenditure increased by 1.9 per cent from £6,295m to £6,415m.

The level of operating costs reflected our continued focus on cost savings while observing the need to maintain a safe and reliable network. Year-on-year increases were ~~due to inflation within the bus operators' contracts, train leasing costs, charges paid to Network Rail and concession costs~~driven by growth in Elizabeth line costs, the costs of the new ULEZ scheme and a one-off payment made to bus operators.

Year-on-year costs of operations (£m)

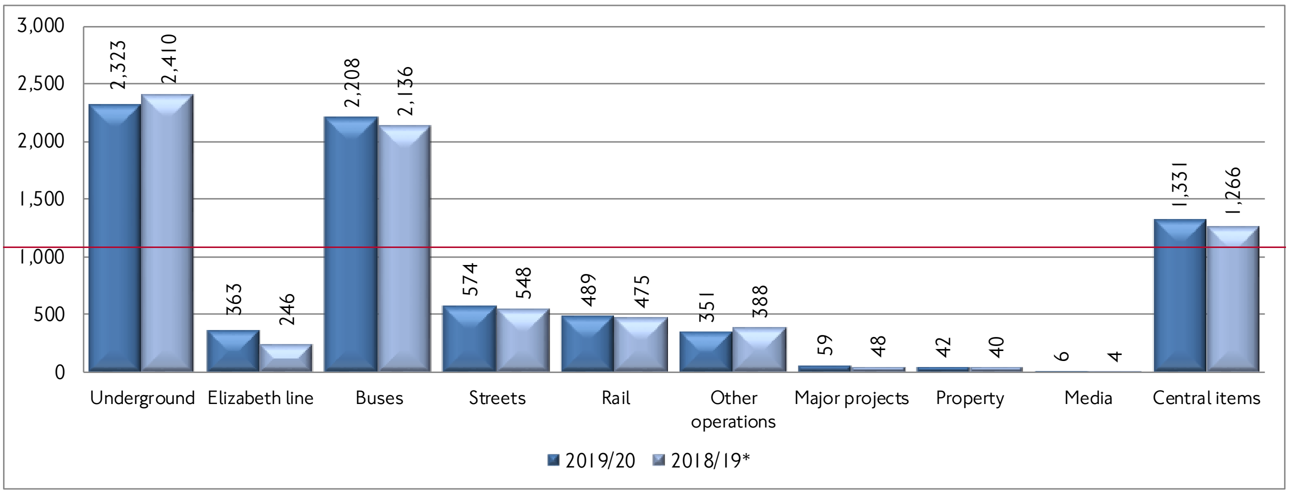
	2020	2019
Cost of operations per internal management reports	**(6,415)**	(6,295)
Adjust for one-off items incurred	**35**	135
Adjust for investment programme operating costs included in operating expenditure	**284**	~~335~~333
Adjust for Elizabeth line operating cost increases	**354**	237
Adjust for other new services (ULEZ and new London Overground trains)	**64**	-
Adjust for one-off bus operators' payment	**34**	-
Cost of operations (like-for-like basis)	**(5,644)**	(5,~~588~~590)
Year-on-year increase	**~~56~~54**	
Year-on-year percentage increase	**1.0%**	

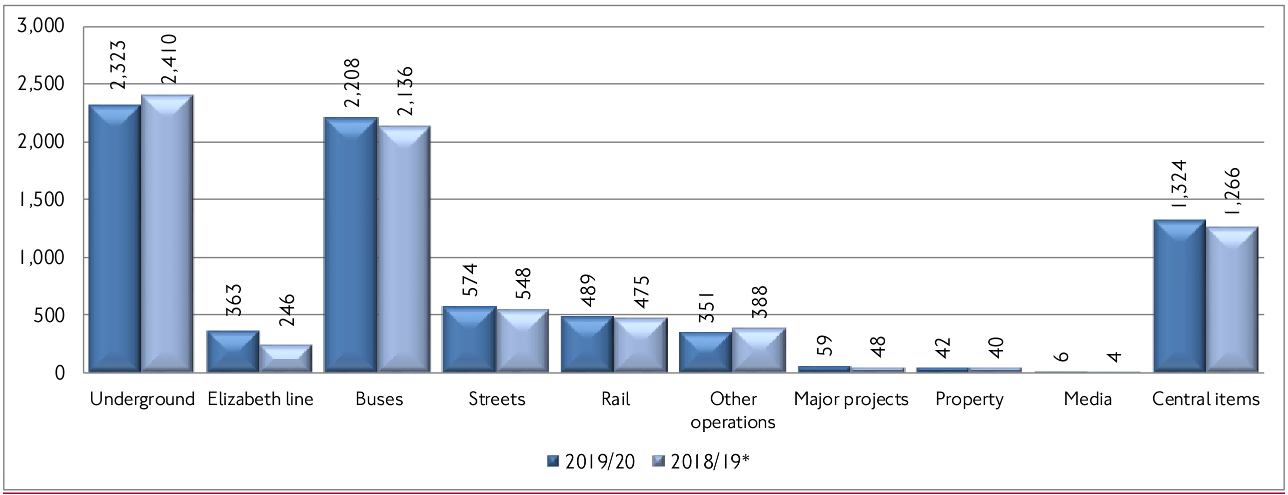
Cost control initiatives continued throughout the year as we worked towards our target of turning a deficit on the net cost of operations into a surplus by 2022/23. The ~~small~~one per cent year-on-year increase in like-for-like cost of operations was primarily a reflection of inflation within the bus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

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

Narrative Report and Financial Review (continued)

Gross expenditure by operating division (£m)





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

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

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

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

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

Narrative Report and Financial Review (continued)

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

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

Operating costs within Central items increased from £1,266m in 2018/19 to £1,~~331m~~324m in 2019/20. As set out in note 2, these costs represent items not included in internal management reporting. The most significant line item within this balance comprises depreciation, amortisation and impairment charges recognised in relation to property, plant and equipment and intangible assets. The total of these charges increased from £1,064m in 2018/19 to £1,069m in 2019/20. The Central items category also absorbs the difference between the accounting methodologies used in the statutory versus the management accounts. The most significant of these relate to the treatment of defined benefit pension schemes, and to the treatment of former operating lease payable arrangements. In our management accounts the costs of these items are recognised within operating expenditure based on cash flows, whereas in the statutory financial statements, as set out in the Accounting Policies notes to the accounts, IFRS 16 Leases and IAS 19 Employee Benefits are applied.

Net interest and finance income/charges

Gross financing and investment expenditure for the year was £520m, £~~28m below~~45m above the prior year.

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

Narrative Report and Financial Review (continued)

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

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

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

~~Other financing and investment income fell from £144m in 2018/19 to £50m in 2019/20. Within this total, gains from the disposal of investment properties~~109m, a reduction of £40m from 2018/19. The reduction resulted from lower levels of gains from the disposal of investment properties, which fell from £132m in 2018/19 to £32m in 2019/20, reflecting the disposal of fewer Crossrail over-station development sites during the year. Partially offsetting this was an increase in gains on the revaluation of our investment properties. During the year a consolidated commercial property portfolio was formed through the transfer of existing assets, and the creation of new lease structures which allowed the recognition of a large number of new investment property assets. This is a vehicle to deliver homes under the Mayor's Transport Strategy, and a growing sustainable income stream, as well as to facilitate the ability to generate both debt and equity to fund capital requirements. As a consequence, gains recognised within financing income, representing gains on existing investment properties, increased from £5m in 2018/19 to £59m in 2019/20. Further revaluation gains of £740m (net of deferred tax), arising from the first time recognition of the newly created investment property assets, were recognised in other comprehensive income.

Interest receivable on finance leases held in respect of advertising assets rose from £2m in 2018/19 to £3m in 2019/20 reflecting TfL's increased investment in new technology. Similarly, investment returns on cash and other investment balances rose during the year, from £10m in the prior year to £15m in 2019/20, reflecting higher average cash balances during the year.

Capital expenditure

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

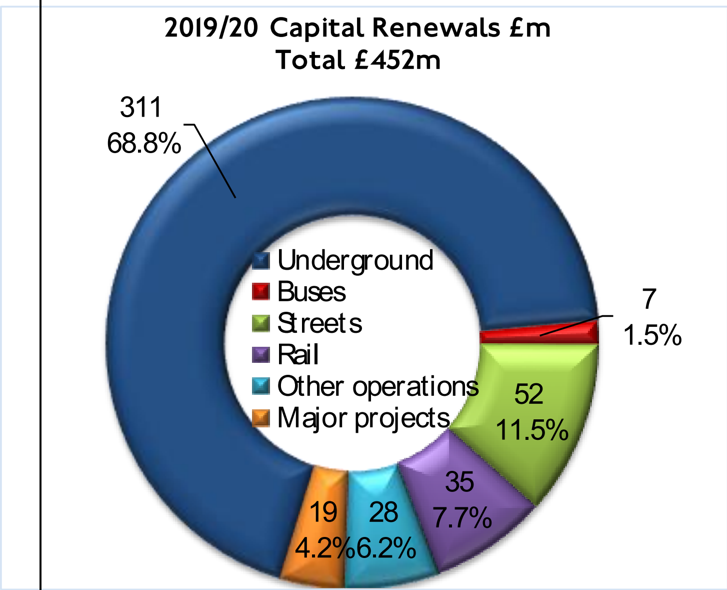
Group capital expenditure for the year, including Crossrail, totalled £2,~~717m~~724m (2018/19 £3,467m). Non-Crossrail related expenditure totalled £1,~~691m~~698m (2018/19 £2,078m). Within this total £452m was spent on capital renewals (2018/19 £388m) and £1,~~239m~~246m (2018/19 £~~1690m~~1,690m) was spent on new capital investment.

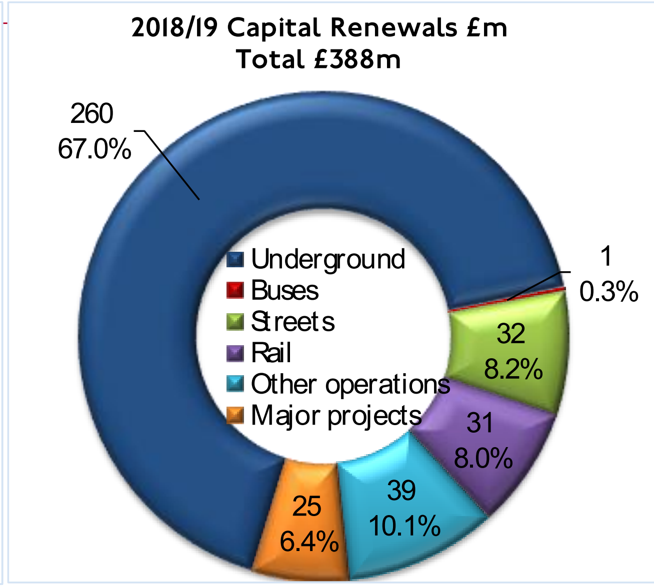
Narrative Report and Financial Review (continued)

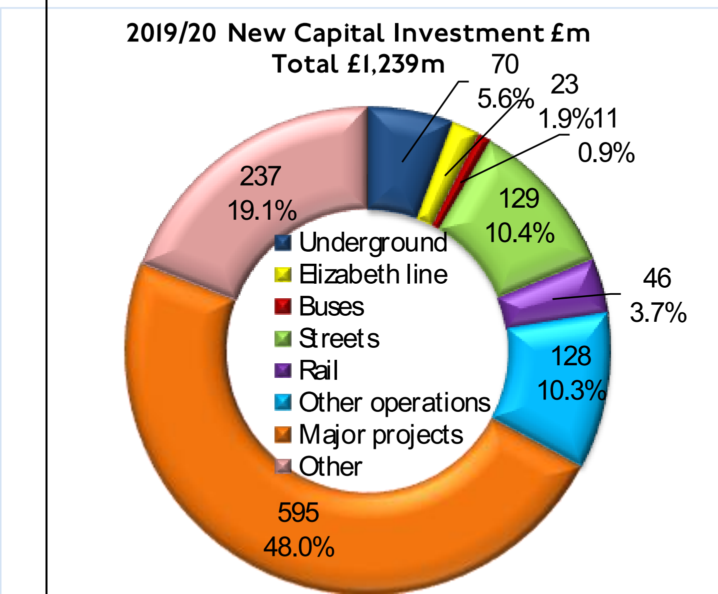
As part of the coordinated TfL response to coronavirus, capital programmes ceased non-essential site works at the end of March 2020. Non-site activity continues while we prepare for restarting site works as soon as it is safe to do so.

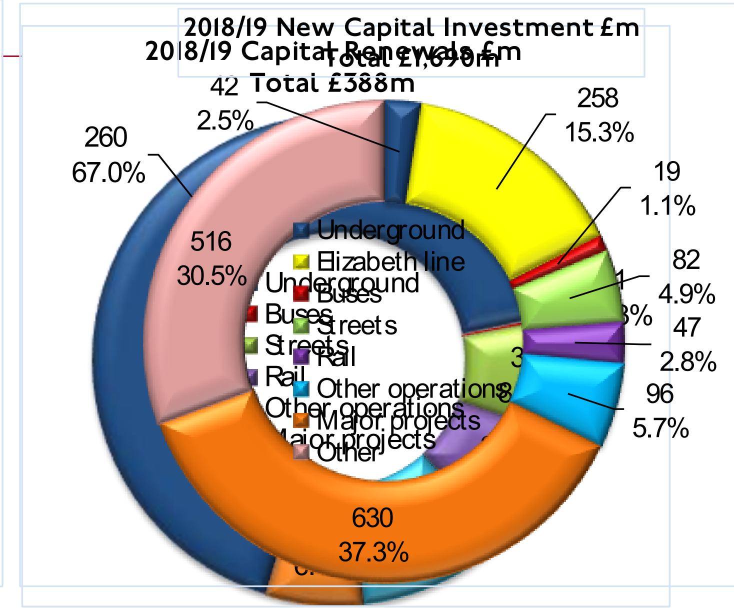
~~Narrative Report and Financial Review (continued)~~

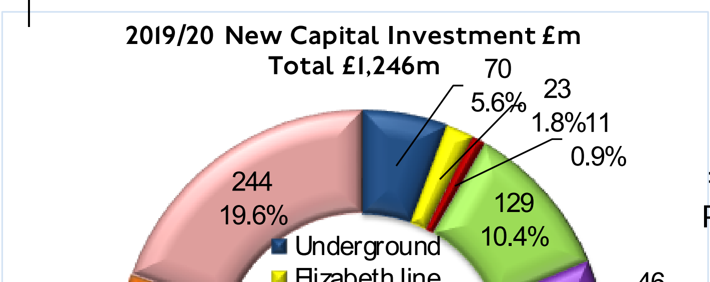
Capital expenditure by business area, excluding Crossrail (£m)

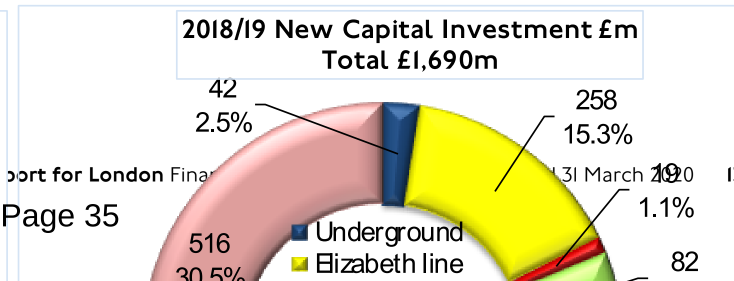












Figures for 2018/19 in the charts above have been restated to align with a revised internal management structure

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Narrative Report and Financial Review (continued)

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

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

~~Narrative Report and Financial Review (continued)~~

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

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

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

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

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

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

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

Narrative Report and Financial Review (continued)

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

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

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

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

£174m was spent during 2019/20 on the Northern Line Extension. Running from Battersea Power Station to ~~Kensington~~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. In June 2019, the final piece of track was installed which has allowed engineering trains to travel end to end through the 3.2km extension to Battersea for the first time. The UK Power Networks (UKPN) transformer rooms have been energised at Kennington Green and Kennington Park. Achieving UKPN power-on is a key step towards getting the Northern Line Extension operational.

Narrative Report and Financial Review (continued)

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

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

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

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

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

New capital investment in the "Other" category, totalling £~~237m~~244m, included expenditure of £79m within the Property division. During 2019/20 we submitted planning applications for 456 homes next to Wembley Park Tube station with our partner Barratt London. This site will provide train crew accommodation and office space for more than 200 people. Development of new buildings will create modern, sustainable office space alongside hundreds of net-zero carbon homes.

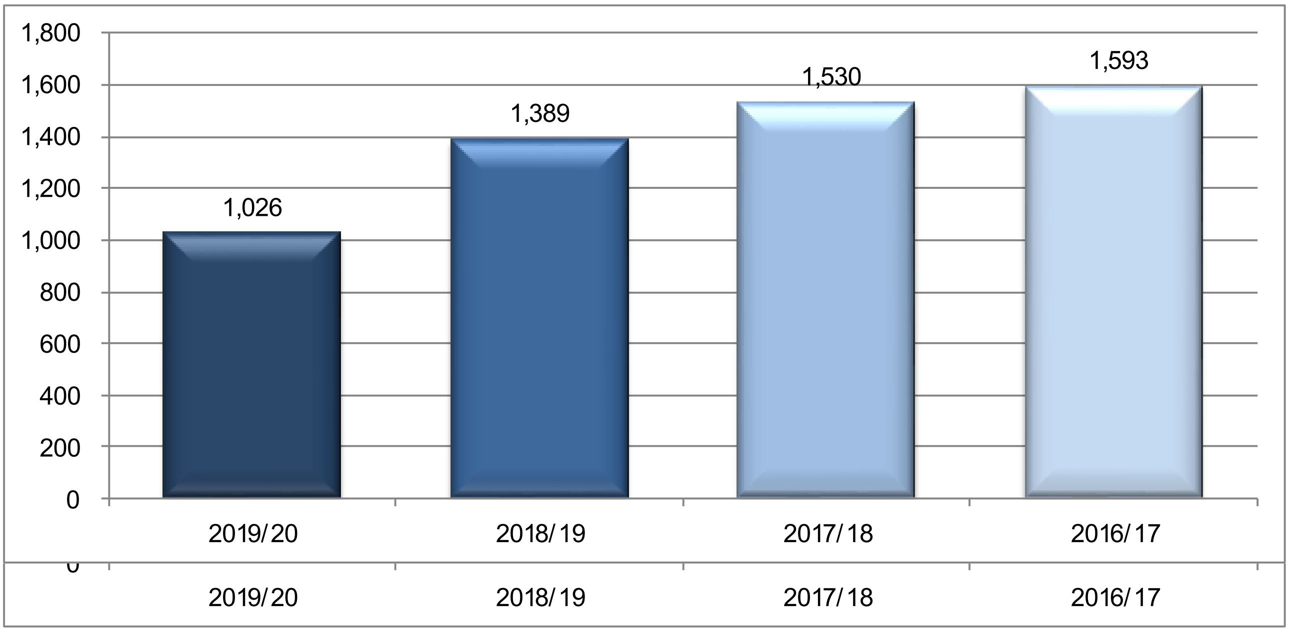
Narrative Report and Financial Review (continued)

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

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

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

Crossrail capital expenditure (£m)



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

Narrative Report and Financial Review (continued)

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

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

Much of the central section is now substantially complete. Fit-out is nearing completion at all stations, except Bond Street and Whitechapel, with all physical works in the tunnels already complete. Dynamic Testing of the signalling and train systems is advanced. The major programme focus is commencing intensive operational testing, known as Trial Running, at the earliest opportunity and completing assurance and safety certification for the railway. From the start of Trial Running~~,~~ it will take ~~between 7 to 12 months~~an extended period to fully test the Elizabeth line before it can open for passenger service. This includes a final phase known as Trial Operations involving people being invited onto trains and stations to test real-time scenarios.

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

Narrative Report and Financial Review (continued)

Cash and investments

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

Treasury risk management

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

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

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

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

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

Narrative Report and Financial Review (continued)

Counterparty credit

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

Funding and liquidity

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

Foreign exchange rates

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

Narrative Report and Financial Review (continued)

Interest rates

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

Pensions

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

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

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

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

Prospects, outlook, principal risks and uncertainties

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

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Narrative Report and Financial Review (continued)

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

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

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

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

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

Narrative Report and Financial Review (continued)

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

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

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

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

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

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

Narrative Report and Financial Review (continued)

- **Passenger demand**

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

- **Reduced non-fare income**

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

- **UK relationship with the European Union**

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

Narrative Report and Financial Review (continued)

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

(i) Operations

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

(ii) Commercial and finance

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

(iii) People

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

- **Security of long-term funding**

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

Narrative Report and Financial Review (continued)

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

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

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

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

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

Narrative Report and Financial Review (continued)

- **Crossrail project**

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

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

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

How we manage our risks

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

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

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

Narrative Report and Financial Review (continued)

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

External audit

Appointment, re-appointment and assessment of effectiveness

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

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

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

TfL's key audit partner at Ernst & Young, Karl Havers, has, with the audit of these financial statements, reached the end of his standard five-year term in the role. However, in order to maintain audit quality in this period of exceptional change and uncertainty, TfL's Audit and Assurance Committee have 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.

Narrative Report and Financial Review (continued)

Non-audit services

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

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

Accounting statements

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

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

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

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

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

Narrative Report and Financial Review (continued)

The financial statements for the TfL Group, which consolidate the accounts of the Corporation, its subsidiaries, and the Group's share of the results and net ~~asset~~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.

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.

Narrative Report and Financial Review (continued)

The Balance Sheet

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

~~Narrative Report and Financial Review (continued)~~

The Cash Flow Statement

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

Movement in Reserves Statement

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

Expenditure and Funding Analysis

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

Statement of Responsibilities for the Accounts

The Corporation is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers (the Statutory Chief Finance Officer) has responsibility for the administration of those affairs
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts

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

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

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code
- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities

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

Antony King

Group Finance Director and Statutory Chief Finance Officer

[X] July 2020

Independent Auditor's Report to Transport for London

Opinion

We have audited the financial statements of Transport for London for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Group Comprehensive Income and Expenditure Statement,
- Group Balance Sheet,
- Group Movement in Reserves Statement,
- Group Statement of Cash Flows,
- Corporation Comprehensive Income and Expenditure Statement,
- Corporation Balance Sheet,
- Corporation Movement in Reserves Statement,
- Corporation Statement of Cash Flows,
- Expenditure and Funding Analysis,
- Accounting Policies
- Related notes 1 to 46

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Transport for London Corporation and Group as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report to Transport for London (continued)

Material uncertainty relating to the availability of funding to deliver current operational and capital plans

We draw your attention to note d) of Accounting Policies, which indicates that 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 17 October 2020 .

As disclosed, 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 17 October 2020. The Agreement requires a review of activities, funding and governance to be completed prior to a further funding package being agreed.

Given the Government's undertaking it is expected that a funding package will be agreed to support a balanced budget beyond 17 October 2020 and that plans will be put in place to complete Crossrail as efficiently as possible. However, 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 17 October 2020.

At 31 March 2020, the Group had capital projects in the course of construction totalling £19.3bn, of this £14.0bn relates to Crossrail and £1.3bn relates to 4 Lines Modernisation. 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 non-essential, which could then lead to an impairment of some assets related to those services.

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:

1. any of the projects, included in assets in the course of construction at 31 March 2020, will receive funding 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.
2. the funding available will mean that the level of services able to be operated will change, resulting in some assets in use no longer having the useful economic life assumed in these financial statements.

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.

We describe below how our audit responded to the risk relating to future funding:

Independent Auditor's Report to Transport for London (continued)

- The audit engagement partner increased his time directing and supervising the audit procedures on going concern and understanding the latest position with respect to funding arrangements.
- We have assessed management's emergency budget, including key assumptions and concluded that there is a significant level of uncertainty within the forecasts, which depend on the speed at which people return to public transport, the choices on how people travel, as well as a number of other economic factors. We note that whilst TfL is required to run near to full services, there are limitations to the number of mitigation actions that can be undertaken.
- We compared scenario analysis re future fare income, to the independent forecast report of future trends on transport usage prepared by Imperial College and noted that of the scenarios provided by Imperial College the worst case fare income was used in the emergency budget.
- We considered the terms of TfL's other borrowings and whether commitments were appropriately reflected in the emergency budget and we confirmed current compliance with covenants and during the period covered by the emergency budget.
- We obtained the Extraordinary Funding and Financing Agreement of 14 May 2020 from the Department of Transport and considered the impact of the terms.
- We compared the liquidity requirements in the emergency budget to the funding set out in the Extraordinary Funding and Financing Agreement to assess whether the budget indicated that this funding would allow TfL to operate activities up to 17 October 2020
- We compared actual performance for the period to 12 June 2020 to the emergency budget for that period.
- We obtained a breakdown of capital projects in progress at 31 March 2020 and management's assessment of the likelihood of future funding, to ensure consistent with management's disclosure in Accounting Policies note 1 g).
- We assessed the adequacy of the disclosures of the material uncertainty relating to funding post 17 October 2020 in the financial statements.

Independent Auditor's Report to Transport for London (continued)

Overview of our audit approach

Key audit matters	• Revenue recognition • Capital projects • Property valuation • Crossrail delivery overruns and impact on funding

~~Year ended 31 March~~Materiality	~~Note~~	~~Gross income 2020 £m~~	~~Gross expenditure 2020~~ • ~~£m~~Overall group materiality of £104.4m which represents 1 per cent of group operating and capital expenditure.	~~Net income/ (expenditure) 2020 £m*~~	~~Gross income 2019 restated £m*~~	~~Gross expenditure 2019 restated £m*~~	~~Net income/ (expenditure) 2019 restated £m*~~

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. There is one integrated audit team led by the audit engagement partner performing the procedures across the Corporation and its components, all procedures performed in relation to key audit matters were performed by the one integrated audit team.

In addition to the matter described in the material uncertainty related to the availability of funding section, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report to Transport for London (continued)

<table>
<tr><th colspan="3">Revenue recognition relating to the allocation of fares received based on time periods, services provided by other parties and refunds</th></tr>
<tr><td>Risk</td><td>Our response to the risk</td><td>Key observations communicated to the Audit and Assurance Committee</td></tr>
<tr><td>Refer to note 1 in the consolidated financial statements.

Transport for London (TfL) generates over 80 per cent of its revenue from fares charged to customers. For the Group, given the reduction of other sources of income such as grant funding, there is an incentive to overstate fares revenue.

Fares revenue remains a focus of the financial statements audit due to the complexity and amount of judgement associated with it. This risk over revenue recognition specifically arises in the following judgemental areas, where there is opportunity to overstate revenue:

- Oyster Pay As You Go and Contactless Pay: Revenue is recognised on a real time basis which is apportioned between TfL and Train Operating Companies where necessary. TfL requires a robust control environment to ensure that Tfl's share of fares are accurately recognised as revenue. TfL retains an appropriate accrual for potential refunds over time.

- Travelcard and Through Ticket: Revenue from annual or periodic tickets and travel cards is recognised on a straight line</td><td>Our testing of revenue recognition included both tests of control and substantive testing.

Our test of controls focused on the effectiveness of the cash collection process and sales made at various sales outlets.

We utilised the conclusions from an ISAE3402 report on the controls operated by service organisations over contactless ticketing and Oyster pay as you go.

Our substantive testing of revenue relating to Oyster Pay as You Go, Contactless Pay, Travelcard and Through Ticket included:

- Re-performing calculations from the Oyster Click Model which calculates the apportionment of revenue between TfL and the Train Operating Companies.

- Testing the calculation of the proportion of revenue relating to future periods for annual or periodic tickets and travel cards purchased in the 2019/20 year and confirming the appropriate reflection of this amount as payments received in advance.

- Comparing the assessment of fares apportioned to the Train Operating Companies for reasonableness against latest agreements, settlements in year</td><td>We concluded that the basis on which fares revenue is recognised is reasonable. The judgements made related to fares revenue in the financial statements have been appropriately described.</td></tr>
</table>

basis over the period of validity of the ticket or travel card. Revenue received in advance is released over the validity period. Daily travelcards and Through Tickets are recognised on the day of purchase. All the above is apportioned between TfL and the Train Operating Companies based on agreed apportionment factors. The impact of Covid-19 and related lockdown, saw a significant reduction in passenger journeys during March. There have been claims for refunds of relating to pre-paid travelcards and tickets and therefore a risk that revenue is overstated and does not reflect refunds due for the period when passenger journeys could not be taken.	and correspondence with the Train Operating Companies. ***Additional procedures in response to the impact of Covid-19 on our significant risk were as follows***: • We tested the calculation of refund provision made for Covid-19 and comparing to actual refund payments made post year end; and • We searched journal entries for unusual postings for Covid-19 adjustments to revenue. We performed full scope audit procedures over this risk area for the whole Group, which covered 100% of the risk amount.	

Capital projects		
Risk	**Our response to the risk**	**Key observations communicated to the Audit and Assurance Committee**
Refer to note 13 in the consolidated financial statements. The TfL Group undertakes multiple capital projects at any point in time. These projects vary in size, complexity and length of time to complete, therefore an amount of judgement is needed when determining the amount of cost capitalised on each individual project. Further, there can be changes in TfL priorities driven by updated Mayoral priorities which can result in changes in individual	Testing of capital projects included both tests of controls and substantive testing. We have gained an understanding of key controls and governance surrounding capital project accounting and management. Our test of controls focused on the effectiveness of the approval process for expenditure and for capitalisation. The following procedures were performed as part of our substantive testing: - Testing of major projects during	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. As noted above, there is a material uncertainty relating to future funding of capital projects, including those in progress at 31 March 2020.

project scopes. This can give rise to a risk of impairment of expenditure previously capitalised. In particular, the impact of COVID-19 on TfL has created the need for emergency funding and re-assessment of priorities. An emergency funding agreement was put in place for operational expenditure up to 17 October 2020, however a capital funding plan has not yet been agreed and is expected to be further discussed over the period to September 2020. This will lead to further re-prioritisation of capital projects for future funding. As part of the coordinated TfL response to COVID-19, capital programmes ceased non-essential site works at the end of March 2020. Costs totalling £19.3m were incurred relating to the safe stop of capital projects during the lockdown phase of the pandemic.	the financial period to supporting project documentation has been performed. - We have also met with project management and visited a sample of projects to understand the scope and progress of the project. - We have compared the latest positions recorded in respect of pain or gain arrangements to contract terms and conditions and to latest project outturn forecasts to assess the appropriateness of related amounts recorded . - We have also performed detailed testing on a sample of capital accruals to source documentation to test completeness of costs recognised at 31 March 2020. - For material projects in progress at the year end, we tested whether the completion of the projects was included in the pre COVID-19 business plan. - Where management has assessed this is not the case, we have tested the completeness of removal of project costs from the balance sheet and write off in the income statement. - We reviewed claims, contracts and discussed with legal to test for the existence of additional obligations or expenditure that was inappropriate to capitalise. ***Additional procedures in response to the impact of Covid-19 on our significant risk were as follows:*** - We obtained an understanding of the COVID-19 impact on all capital projects selected for testing.	

Independent Auditor's Report to Transport for London (continued)

	Enquiries focused on delays in the project timeline, project teams being demobilised, expected changes to cost to complete and any contractors that have submitted a force majeure notification in terms of the contract to encompass impact up until signing date. - We have obtained details of costs incurred in respect of safe stop, incurred in the period to 31 March 2020 and tested to supporting evidence. - We have corroborated enquiries through detail testing where deemed appropriate. - Further, we obtained management's impairment analysis to assess if any projects required write-offs as result of COVID-19, in particular whether it was probable the projects in progress at 31 March were likely to receive funding to completion. We performed full scope audit procedures over this risk area for the whole Group, which covered 100% of the risk amount.	

Property valuation		
Risk	**Our response to the risk**	**Key observations communicated to the Audit and Assurance Committee**
Refer to notes 13 and 15 in the consolidated financial statements. The TfL Group has an extensive and diversified property portfolio across London. Any changes to the assumptions used to value	The following procedures were performed as part of our substantive testing: - We tested the valuations report prepared by TfL's external valuers, agreeing the entries in	We have concluded that property valuations were within an acceptable range. We concurred with the accounting for the revaluation of investment assets

Property valuation		
properties within the portfolio could have a significant impact on the financial statements due to the nature of the properties. External valuers perform a detailed valuation across the property portfolio during each financial year. Significant judgement is used during the valuation of the property portfolio due to the uniqueness thereof. ***Change in strategy*** In the current 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. The resulting recognition of a revaluation from cost, on transfer from operational to investment property has been recognised in other comprehensive income totalling £875m. ***Impact of COVID-19*** In the current year, as referred to in notes 13 and 15, due to the unprecedented impact of COVID-19 on the market, CBRE (TfL's external valuer) has highlighted that valuations at 31 March 2020 were subject to a '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. .	the report back to the financial statements to confirm the accuracy of the entries - We met with TfL's external valuers and discussed the methodology applied and key assumptions used - We used our internal valuation experts to assist in our review of whether TfL's key assumptions are within an acceptable range based on comparative market data for rental yields. - We tested property additions, disposals and the accounting treatment of leases to supporting documentation. ***Additional procedures in response to the impact of the change in strategy on our significant risk were as follows:*** - We obtained evidence that the assets, that had been newly identified as investment properties, met the criteria for recognition under IAS40. - We included testing of a sample of the valuation of a sample of the newly identified investment properties within our sample for procedures above to test the year end valuation of these assets. - We compared the presentation of the related revaluation gain to the requirements of IAS16 and IAS40 for the transfer from owner-occupied to investment property assets. In particular we challenged management as to whether this should be presented within the Comprehensive Income and Expenditure	transferred from owner-occupied assets and the final presentation of the revaluation gain, on transfer, within Other Comprehensive Income. We concluded that the disclosure set out in the notes to the financial statements provides users with an appropriate explanation of this matter. We have reviewed the disclosure in the financial statements relating to the material valuation uncertainty paragraph included by CBRE in the valuation report and consider the disclosure appropriate. The disclosures set out in the notes to the financial statements are fundamental to users' understanding of this matter. We conclude that the balances and disclosures in the financial statements and notes appropriately reflect the risk factors identified.

Property valuation		
	Statement or within Other Comprehensive Income. - We also considered whether the disclosures provided with respect to the new investment property assets were adequate to understand the nature of the transaction. ***Additional procedures in response to the impact of Covid-19 on our significant risk were as follows:*** - We reassessed and challenged judgements made by the valuer in light of the uncertainties highlighted. - We assessed the adequacy of additional disclosures made in notes 13 and 15 of the financial statements in respect of the 'material valuation uncertainty' noted by TfL's external valuer. We performed full scope audit procedures over this risk area for the whole Group, which covered 100% of the risk amount.	

Crossrail - delivery overruns and impact on funding		
Risk	**Our response to the risk**	**Key observations communicated to the Audit and Assurance Committee**
Refer to note 13 in the consolidated financial statements. The Crossrail project continues to be complex and as it reaches its conclusion, there will be the finalisation of related costs and contractual matters. These matters were not completed at	The following procedures were performed as part of our substantive testing: - We reviewed the latest forecast outcome for completion of the whole Crossrail project. - We have gained an understanding of the latest agreements on sources of funding for Crossrail,	We are satisfied that the capitalised costs in the year meet the criteria for capitalisation and are appropriate. We did not identify additional obligations requiring provision at 31 March 2020. We note that the funding

Independent Auditor's Report to Transport for London (continued)

Crossrail - delivery overruns and impact on funding		
the year end and therefore judgement is required in assessing the appropriate value of obligations, considering whether there are any obligations inappropriately omitted from the financial statements. Further there is a risk that costs may be incurred that do not meet the criteria for capitalisation. During the year, the Trial Running date was delayed from February 2020 to September 2020 and the impact of the COVID-19 pandemic is likely to cause further delays. Due to the COVID-19 pandemic, all physical works on all Crossrail sites were temporarily paused on 24 March. The physical works have recently recommenced on several Crossrail project sites and continues to be informed by the latest guidance from the Government and Public Health England.	including amounts included in the TfL Business Plan and agreed funding from the DfT. - We have tested whether there is any evidence to suggest that additional obligations exist within the various contractual arrangements that have been omitted from the financial statements. - We tested the nature of the expenditure incurred to determine if capitalisation was appropriate - We have tested the impact of any amounts to be funded by TfL on the overall position of TfL including whether there is any impact on other in progress projects. ***Additional procedures in response to the impact of Covid-19 on our significant risk were as follows:*** - We have gained an understanding of the impact of COVID-19 on Crossrail and its projects. - We assessed the adequacy of additional disclosures in the financial statements in respect of this matter. - We have discussed the status of the financial budget and restart plans for Crossrail which are not yet agreed by the Sponsors. We performed full scope audit procedures for Crossrail over this risk area which covered 100% of the risk amount.	agreement could lead to some non essential elements of the completion plan not being funded, resulting in expensing of abortive project costs. As noted above, there is a material uncertainty relating to 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 above risk areas are consistent with those in the prior year.

Independent Auditor's Report to Transport for London (continued)

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Corporation and Group. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Corporation and Group, and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the four reporting components, Transport for London Corporation, Transport Trading Limited (which consolidates Crossrail Limited), London Transport Insurance (Guernsey) Limited, and TfL Trustee Company Limited, only Transport Trading Limited and the Corporation are material to the Group, representing 99% of the Group's gross expenditure. The other two entities represent less than 1% of Group's gross expenditure and are considered immaterial to the Group.

We performed an audit of the complete financial information of Transport for London Corporation and Transport Trading Limited (which consolidates Crossrail Limited).

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £104.4million (2019 £103.3 million), which is 1% (2019 1%) of Group operational and capital expenditure. TfL Group's key responsibilities are to provide transportation services across London and to continue to develop the capital's transport infrastructure. TfL has two key purposes; operational responsibilities for transport services and the development of London's transport infrastructure. Both of these elements are of significant interest to the users of the financial statements identified above and therefore TfL expenditure in these areas is of most interest to the users of the financial statements.

We calculated materiality for the Transport for London Corporation to be £151.9 million (2019 £273.2 million), which is 05% of Total Assets. However, as this exceeded the materiality noted above for the Group, we restricted materiality or the Corporation to the same amount (£104.4 million).

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

Independent Auditor's Report to Transport for London (continued)

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75 per cent (2019 75 per cent) of our planning materiality, namely £78.3 million (2019 £82.6 million). In setting performance materiality at this percentage based on our assessment of the Group's internal control environment and the extent and nature of audit findings identified in the prior period. This basis is consistent with the prior year.

Audit work at Transport for London Corporation and Transport Trading Limited for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for Transport for London Corporation £35.2 million (2019 £37.2 million) and Transport Trading Limited £78.3 million (2019 £82.6 million) is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Assurance Committee that we would report to them all uncorrected audit differences in excess of £5.2 million (2019 £4.6 million), which is set at 5 per cent of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Statutory Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Independent Auditor's Report to Transport for London (continued)

Arrangements to secure economy, efficiency and effectiveness in the use of resources

Basis for Qualified Conclusion

- **Sustainable resource deployment**

During 2018/19 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.

In 2018/19 TfL's internal audit function also identified a number of high priority recommendations that required implementation across the organisation to rectify the weaknesses.

The issues above are evidence of weaknesses in proper arrangements for procuring supplies and services effectively to support the delivery of strategic priorities.

During 2018/19, an action plan was drawn up to address these matters. Implementation of this action plan commenced during 2019/20, but corrective actions were not fully complete by 31 March 2020 and those that were implemented were not in place during the entirety of 2019/20, therefore proper arrangements were not operating effectively during the year covered by this opinion.

- **Informed decision making**

The governance arrangements of Crossrail's delivery of the Elizabeth Line was an area of significant scrutiny in 2018/19. An independent report for TfL and the Department for Transport by KPMG on finance and commercial, and governance aspects of Crossrail, as well as an independent review by the National Audit Office, have both identified issues relating to decision making relating to increased costs and impacting the plan for completion of Crossrail as a whole. During 2018/19 a new management team were appointed and a revised completion schedule drawn up.

We note that significant effort has continued to be undertaken to reassess actual progress of the programme, forecast spending and opening dates for the line. During the year, the project continued to encounter technical issues and re-scheduled the Trial Running date on a number of occasions. The impact of COVID-19 will introduce further delays, likely additional cost and the need for a revised funding plan. The previous funding plan required TfL to fund any excess costs over and above the prior year current planned spend. As noted above, Government has stated in the Extraordinary Funding and Financing Agreement dated 14 May 2020, that Crossrail remains a vital project for both London and the UK and that in advance of 17 October 2020, an additional funding package will need to have been identified and presented to the project Sponsors, which will be considered alongside the review of TfL's future financial position and financial structure, which in particular has the risk of resulting in the deferral or cancellation of other Group capital projects. The issues above are evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

Qualified conclusion

Independent Auditor's Report to Transport for London (continued)

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Transport for London put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Statutory Chief Finance Officer

As explained more fully in the Statement of Responsibilities for the Accounts set out on page [X], the Statutory Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Statutory Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance,

Independent Auditor's Report to Transport for London (continued)

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

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

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether Transport for London had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Transport for London put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Transport for London had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Independent Auditor's Report to Transport for London (continued)

Use of our report

This report is made solely to Transport for London in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation, for our audit work, for this report, or for the opinions we have formed.

Karl Havers (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
London

X 2020

The maintenance and integrity of the Transport for London website is the responsibility of TfL management; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group Comprehensive Income and Expenditure Statement

Year ended 31 March	Note	Gross income 2020 £m*	Gross expenditure 2020 £m*	Net income/ (expenditure) 2020 £m*	Gross income 2019 restated £m	Gross expenditure 2019 restated £m	Net income/ (expenditure) 2019 restated £m
Operating segment							
Underground		**2,762.0**	**(2,323.0)**	**439.0**	2,825.0	(2,410.0)	415.0
Elizabeth line		**147.0**	**(363.0)**	**(216.0)**	118.0	(246.0)	(128.0)
Buses		**1,440.0**	**(2,208.0)**	**(768.0)**	1,486.0	(2,136.0)	(650.0)
Streets		**355.0**	**(574.0)**	**(219.0)**	322.0	(548.0)	(226.0)
Rail		**436.0**	**(489.0)**	**(53.0)**	467.0	(475.0)	(8.0)
Other operations		**356.0**	**(351.0)**	**5.0**	205.0	(388.0)	(183.0)
Major projects		**22.0**	**(59.0)**	**(37.0)**	1.0	(48.0)	(47.0)
Property		**102.0**	**(42.0)**	**60.0**	94.0	(40.0)	54.0
Media		**154.0**	**(6.0)**	**148.0**	148.0	(4.0)	144.0
Net cost of operations per internal management reports	2	**5,774.0**	**(6,415.0)**	**(641.0)**	5,666.0	(6,295.0)	(629.0)
Central items	2	**(11.8)**	**(1,~~330.7~~323.8)**	**(1,~~342.5~~335.6)**	(9.8)	(1,265.9)	(1,275.7)
Net cost of services before exceptional items **	2	**5,762.2**	**(7,~~745.7~~738.8)**	**(1,~~983.5~~976.6)**	5,656.2	(7,560.9)	(1,904.7)
Exceptional items	6			**(19.3)**			-
Net cost of services after exceptional items				**(~~2,002.8~~1,995.9)**			(1,904.7)
Other net operating expenditure	7			**(30.9)**			(32.5)
Financing and investment income	8			**~~983.9~~108.7**			148.8
Financing and investment expenditure	9			**(519.9)**			(475.3)
Grant income	10			**3,268.1**			3,015.5
Group share of loss after tax of joint ventures	17			**(0.1)**			-
Group share of loss after tax of associated undertakings	18			**(52.0)**			(94.5)
Surplus on the provision of services before tax				**~~1,646.3~~778.0**			657.3
Taxation	11			**(~~242.5~~106.8)**			2.0
Surplus on the provision of services after tax				**~~1,403.8~~671.2**			659.3

Group Comprehensive Income and Expenditure Statement (continued)

Year ended 31 March	Note	Gross income 2020 £m*	Gross expenditure 2020 £m*	Net income/ (expenditure) 2020 £m*	Gross income 2019 £m	Gross expenditure 2019 £m	Net income/ (expenditure) 2019 £m
Surplus on the provision of services after tax				**~~1,403.8~~671.2**			659.3
Other comprehensive income and expenditure							
Items that will not be subsequently reclassified to profit or loss							
Surplus on the revaluation of property, plant and equipment ***	13			**29.4**			59.9
Surplus on the valuation of newly created investment properties	15			**875.2**			-
Deferred tax on the surplus on valuation of newly created investment properties	11			**(135.7)**			-
Net remeasurement gain/(loss) on defined benefit pension schemes ***	36			**1,687.9**			(336.7)
				~~1,717.3~~2,456.8			(276.8)
Items that may be subsequently reclassified to profit or loss							
Movement in the fair value of derivative financial instruments ***	38			**(26.8)**			0.6
Derivative fair value loss recycled to the Balance Sheet ***	38			**0.2**			-
Derivative fair value loss recycled to income and expenditure ***	38			**9.0**			8.6
				(17.6)			9.2
				~~1,699.7~~2,439.2			(267.6)
Total comprehensive income and expenditure				**3,~~103.5~~110.4**			391.7

* IFRS 16 Leases has been adopted for the first time in ~~19~~2019/20. ~~18~~2018/19 comparatives have not been restated for this change. Further information on the impact of the implementation of this new standard is set out in note 45.

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

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

Group Balance Sheet

	Note	31 March 2020 £m*	31 March 2019 £m
Long-term assets			
Intangible assets	12	**118.7**	112.6
Property, plant and equipment	13	**42,~~085.7~~092.6**	40,815.2
Right-of-use assets	14	**2,309.6**	-
Investment property	15	**1,430.5**	492.0
Equity accounted investment in joint ventures	17	**7.2**	-
Equity accounted investment in associated undertakings	18	**194.6**	233.5
Long-term derivative financial instruments	31	**1.5**	6.8
Long-term finance lease receivables	19	**37.0**	39.4
Long-term debtors	21	**97.4**	112.6
		46,~~282.2~~289.1	41,812.1
Current assets			
Inventories	20	**58.9**	61.0
Short-term debtors	21	**512.8**	697.0
Assets held for sale	22	**113.4**	122.4
Short-term derivative financial instruments	31	**3.4**	11.8
Short-term finance lease receivables	19	**15.7**	12.8
Short-term investments	23	**642.4**	215.9
Cash and cash equivalents	24	**1,566.8**	1,665.8
		2,913.4	2,786.7
Current liabilities			
Short-term creditors	25	**(2,128.8)**	(2,167.2)
Short-term current tax liability		**-**	(0.1)
Short-term borrowings and overdrafts	26	**(936.5)**	(745.9)
Short-term right-of-use lease liabilities	14	**(318.2)**	-
Short-term other finance lease liabilities	27	**-**	(16.1)
Short-term PFI lease liabilities	28	**(13.9)**	(54.2)
Other short-term financing liabilities	29	**(3.5)**	-
Short-term derivative financial instruments	31	**(26.3)**	(3.0)
Short-term provisions	30	**(192.6)**	(345.9)
		(3,619.8)	(3,332.4)

Group Balance Sheet (continued)

	Note	31 March 2020 £m*	31 March 2019 £m
Long-term liabilities			
Long-term creditors	25	**(61.6)**	(61.5)
Long-term borrowings	26	**(10,752.5)**	(10,398.7)
Long-term right-of-use lease liabilities	14	**(2,098.8)**	-
Long-term other finance lease liabilities	27	**-**	(222.7)
Long-term PFI lease liabilities	28	**(111.6)**	(125.5)
Other long-term financing liabilities	29	**(132.5)**	(132.7)
Long-term derivative financial instruments	31	**(63.1)**	(46.5)
Long-term deferred tax liabilities	11	**(242.5)**	-
Long-term provisions	30	**(58.0)**	(54.6)
Retirement benefit obligation	36	**(4,100.6)**	(5,370.6)
		(17,621.2)	(16,412.8)
Net assets		**27,~~954.6~~961.5**	24,853.6
Reserves			
Usable reserves		**1,604.2**	1,627.0
Unusable reserves	38	**26,~~350.4~~357.3**	23,226.6
Total reserves		**27,~~954.6~~961.5**	24,853.6

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

The Expenditure and Funding Analysis on page ~~46~~62 and the notes on pages ~~50~~66 to ~~202~~222 form part of these financial statements. These financial statements were approved by the Board on [ ] July 2020 and signed on its behalf by:

Sadiq Khan
Chair of TfL

Group Movement in Reserves Statement

	Note	General fund £m	Earmarked reserves £m	**General fund and earmarked reserves £m**	Street works reserve £m	Capital grants unapplied account £m	**Usable reserves £m**	Unusable reserves £m	**Total reserves £m**
At 1 April 2018		150.0	948.6	**1,098.6**	19.4	671.5	**1,789.5**	22,672.4	**24,461.9**
Movement in reserves during 2018/19									
Surplus on the provision of services after tax		946.0	-	**946.0**	-	-	**946.0**	(286.7)	**659.3**
Other comprehensive income and expenditure		-	-	**-**	-	-	**-**	(267.6)	**(267.6)**
Total comprehensive income and expenditure		946.0	-	**946.0**	-	-	**946.0**	(554.3)	**391.7**
Adjustments between accounting basis and funding basis under regulations	39	(438.1)	-	**(438.1)**	1.1	(671.5)	**(1,108.5)**	1,108.5	**-**
Net increase/(decrease) before transfer to/from earmarked reserves		507.9	-	**507.9**	1.1	(671.5)	**(162.5)**	554.2	**391.7**
Transfer to/from earmarked reserves		(507.9)	507.9	**-**	-	-	**-**	-	**-**
Increase/(decrease) in 2018/19		-	507.9	**507.9**	1.1	(671.5)	**(162.5)**	554.2	**391.7**
Balance at 31 March 2019		**150.0**	**1,456.5**	**1,606.5**	**20.5**	**-**	**1,627.0**	**23,226.6**	**24,853.6**
Movement in reserves during 2019/20									
Surplus on the provision of services after tax		1,~~064.6~~047.8	-	**1,~~064.6~~047.8**	-	-	**1,~~064.6~~047.8**	~~339.2~~(376.6)	**~~1,403.8~~671.2**
Other comprehensive income and expenditure		-	-	**-**	-	-	**-**	~~1,699.7~~2,439.2	**~~1,699.7~~2,439.2**
Total comprehensive income and expenditure		1,~~064.6~~047.8	-	**1,~~064.6~~047.8**	-	-	**1,~~064.6~~047.8**	2,~~038.9~~062.6	**3,~~103.5~~110.4**
Impact of the implementation of IFRS 16 Leases at 1 April 2019*		-	-	**-**	-	-	**-**	(2.5)	**(2.5)**
Adjustments between accounting basis and funding basis under regulations	39	(1,~~090.4~~073.6)	-	**(1,~~090.4~~073.6)**	3.0	-	**(1,~~087.4~~070.6)**	1,~~087.4~~070.6	**-**
Net increase/(decrease) before transfer to/from earmarked reserves		(25.8)	-	**(25.8)**	3.0	-	**(22.8)**	3,~~123.8~~130.7	**3,~~101.0~~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,~~123.8~~130.7	**3,~~101.0~~107.9**
Balance at 31 March 2020		**500.0**	**1,080.7**	**1,580.7**	**23.5**	**-**	**1,604.2**	**26,~~350.4~~357.3**	**27,~~954.6~~961.5**

* IFRS 16 Leases has been adopted for the first time in ~~19~~2019/20. ~~18~~2018/19 comparatives have not been restated for this change. Further information on the impact of the implementation of this new standard in set out in note 45.

Group Movement in Reserves Statement

Earmarked reserves have been established to finance future projects and form part of the overall funding available for the Investment Programme and revenue projects. 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 ~~Movement in Reserves~~ Statement of Cash Flows

Year ended 31 March	Note	2020 £m*	2019 £m
Surplus on the provision of services after tax		~~1,403.8~~671.2	659.3
Adjustments to surplus after tax for non-cash movements	37 a	~~(632.1)~~103.3	412.1
Net cash flows from operating activities		~~771.7~~774.5	1,071.4
Investing activities	37 b	(~~645.0~~647.8)	(943.7)
Financing activities	37 c	**(225.7)**	298.6
(Decrease)/increase in net cash and cash equivalents in the year		**(99.0)**	426.3
Net cash and cash equivalents at the start of the year		**1,665.8**	1,239.5
Net cash and cash equivalents at the end of the year	24	**1,566.8**	1,665.8

* IFRS 16 Leases has been adopted for the first time in ~~19~~2019/20. ~~18~~2018/19 comparatives have not been restated for this change. Further information on the impact of the implementation of this new standard is set out in note 45.

~~Group~~Corporation Comprehensive Income and Expenditure Statement ~~of Cash Flows~~

Year ended 31 March	Note	2020 £m*	2019 £m*
Highways and Transport Services			
Gross income		**588.0**	377.4
Gross expenditure	3	**(1,495.0)**	(1,361.2)
Net cost of services before exceptional items **		**(907.0)**	(983.8)
Exceptional items	6	**(7.8)**	-
Net cost of services after exceptional items		**(914.8)**	(983.8)
Other net operating expenditure	7	**(0.3)**	(7.2)
Financing and investment income	8	**~~426.8~~413.6**	470.0
Financing and investment expenditure	9	**(~~552.6~~556.2)**	(522.8)
Grant income	10	**3,181.9**	2,907.6
Grant funding of subsidiaries		**(1,076.4)**	(917.8)
Surplus on the provision of services		**1,~~064.6~~047.8**	946.0
Other comprehensive income and expenditure			
Items that will not be subsequently reclassified to profit or loss			
Surplus on the revaluation of property, plant and equipment	13	**11.1**	19.8
Surplus on the valuation of newly created investment properties	15	**16.8**	-
Net remeasurement gain/(loss) on defined benefit pension schemes	36	**1,673.7**	(335.7)
		1,~~684.8~~701.6	(315.9)
Total comprehensive income and expenditure		**2,749.4**	630.1

* IFRS 16 Leases has been adopted for the first time in ~~19~~2019/20. ~~18~~2018/19 comparatives have not been restated for this change. Further information on the impact of the implementation of this new standard is set out in note 45.

** 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 ~~Comprehensive Income~~Balance Sheet

~~and Expenditure Statement~~

	Note	31 March 2020 £m*	31 March 2019 £m
Long-term assets			
Intangible assets	12	**77.7**	78.3
Property, plant and equipment	13	**4,151.5**	4,047.6
Right-of-use assets	14	**421.1**	-
Investment property	15	**14.1**	6.8
Investments in subsidiaries	16	**11,562.5**	10,322.5
Long-term debtors	21	**11,155.0**	10,517.6
		27,381.9	24,972.8
Current assets			
Short-term debtors	21	**~~938.8~~553.3**	616.7
Assets held for sale	22	**19.1**	23.4
Short-term investments	23	**623.5**	203.0
Cash and cash equivalents	24	**1,410.7**	1,504.6
		2,~~992.1~~606.6	2,347.7
Current liabilities			
Short-term creditors	25	**(~~1,125.9~~740.4)**	(535.7)
Short-term borrowings	26	**(936.5)**	(745.9)
Short-term right-of-use lease liabilities	14	**(25.7)**	-
Short-term PFI lease liabilities	27	**(9.0)**	(11.0)
Short-term provisions	30	**(124.6)**	(127.8)
		(1,836.2~~,221.7~~)	(1,420.4)

Corporation Balance Sheet (continued)

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

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

The notes on pages ~~50~~66 to ~~202~~222 form part of these financial statements.

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

Sadiq Khan,
Chair of TfL

Corporation Movement in Reserves Statement

	Note	General fund £m	Earmarked reserves £m	**General fund and earmarked reserves £m**	Street works reserve £m	Capital grants unapplied account £m	**Usable reserves £m**	Unusable reserves £m	**Total reserves £m**
At 1 April 2018		150.0	948.6	**1,098.6**	19.4	671.5	**1,789.5**	7,574.9	**9,364.4**
Movement in reserves during 2018/19									
Surplus on the provision of services		946.0	-	**946.0**	-	-	**946.0**	-	**946.0**
Other comprehensive income and expenditure		-	-	**-**	-	-	**-**	(315.9)	**(315.9)**
Total comprehensive income and expenditure		946.0	-	**946.0**	-	-	**946.0**	(315.9)	**630.1**
Adjustments between accounting basis and funding basis under regulations	39	(438.1)	-	**(438.1)**	1.1	(671.5)	**(1,108.5)**	1,108.5	**-**
Net increase/(decrease) before transfer to/from earmarked reserves		507.9	-	**507.9**	1.1	(671.5)	**(162.5)**	792.6	**630.1**
Transfer to/from earmarked reserves		(507.9)	507.9	**-**	-	-	**-**	-	**-**
Increase/(decrease) in 2018/19		-	507.9	**507.9**	1.1	(671.5)	**(162.5)**	792.6	**630.1**
Balance at 31 March 2019		**150.0**	**1,456.5**	**1,606.5**	**20.5**	**-**	**1,627.0**	**8,367.5**	**9,994.5**
Movement in reserves during 2019/20									
Impact of the implementation of IFRS 16 Leases at 1 April 2019 *		-	-	**-**	-	-	**-**	-	**-**
Surplus on the provision of services		1,~~064.6~~047.8	-	**1,~~064.6~~047.8**	-	-	**1,~~064.6~~047.8**	-	**1,~~064.6~~047.8**
Other comprehensive income and expenditure		-	-	**-**	-	-	**-**	1,~~684.8~~701.6	**1,~~684.8~~701.6**
Total comprehensive income and expenditure		1,~~064.6~~047.8	-	**1,~~064.6~~047.8**	-	-	**1,~~064.6~~047.8**	1,~~684.8~~701.6	**2,749.4**
Adjustments between accounting basis and funding basis under regulations	39	(1,~~090.4~~073.6)	-	**(1,~~090.4~~073.6)**	3.0	-	**(1,~~087.4~~070.6)**	1,~~087.4~~070.6	**-**
Net increase/(decrease) before transfers to/from earmarked reserves		(25.8)	-	**(25.8)**	3.0	-	**(22.8)**	2,772.2	**2,749.4**
Transfer to/from earmarked reserves		375.8	(375.8)	**-**	-	-	**-**	-	**-**
Increase/(decrease) in 2019/20		350.0	(375.8)	**(25.8)**	3.0	-	**(22.8)**	2,772.2	**2,749.4**
Balance at 31 March 2020		**500.0**	**1,080.7**	**1,580.7**	**23.5**	**-**	**1,604.2**	**11,139.7**	**12,743.9**

* IFRS 16 Leases has been adopted for the first time in ~~19~~2019/20. ~~18~~2018/19 comparatives have not been restated for this change. Further information on the impact of the implementation of this new standard is set out in note 45.

Corporation Movement in Reserves Statement

Earmarked reserves have been established to finance future projects and form part of the overall funding available for the Investment Programme and revenue projects. 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 ~~Balance Sheet (continued)~~Statement of Cash Flows

Year ended 31 March	Note	2020 £m*	2019 £m
Surplus on the provision of services		1,~~064.6~~047.8	946.0
Adjustments to surplus after tax for non-cash movements	37 a	(~~682.3~~665.5)	(197.6)
Net cash flows from operating activities		382.3	748.4
Investing activities	37 b	(470.5)	(660.1)
Financing activities	37 c	(5.7)	313.9
~~Increase~~(Decrease)/increase in net cash and cash equivalents in the year		(93.9)	402.2
Net cash and cash equivalents at the start of the year		1,504.6	1,102.4
Net cash and cash equivalents at the end of the year	24	1,410.7	1,504.6

* IFRS 16 Leases has been adopted for the first time in ~~19~~2019/20. ~~18~~2018/19 comparatives have not been restated for this change. Further information on the impact of the implementation of this new standard is set out in note 45.

~~Corporation Movement in Reserves Statement~~

Expenditure and Funding Analysis

For the year ended 31 March 2020	Net expenditure chargeable to the General Fund £m	Adjustments between accounting basis and funding basis under regulations (note 39) £m	Total per the Corporation Comprehensive Income and Expenditure Statement £m	Surplus on the provision of services after tax in subsidiaries (note 38) £m	Total per the Group Comprehensive Income and Expenditure Statement £m
Net cost of services					
Underground	(310.0)	-	(310.0)	749.0	439.0
Elizabeth line	(70.0)	-	(70.0)	(146.0)	(216.0)
Buses	(19.0)	-	(19.0)	(749.0)	(768.0)
Streets	(181.3)	3.3	(178.0)	(41.0)	(219.0)
Rail	(24.0)	-	(24.0)	(29.0)	(53.0)
Other operations	(3.0)	-	(3.0)	8.0	5.0
Major projects	(12.0)	-	(12.0)	(25.0)	(37.0)
Property	(4.0)	-	(4.0)	64.0	60.0
Media	(1.0)	-	(1.0)	149.0	148.0
Central items	273.6	(559.6)	(286.0)	(1,~~056.5~~049.6)	(1,~~342.5~~335.6)
Net cost of services before exceptional items	(350.7)	(556.3)	(907.0)	(1,~~076.5~~069.6)	(1,~~983.5~~976.6)
Exceptional items	(7.8)	-	(7.8)	(11.5)	(19.3)
Net cost of services after exceptional items	(358.5)	(556.3)	(914.8)	(1,~~088.0~~081.1)	(~~2,002.8~~1,995.9)
Other net operating expenditure	-	(0.3)	(0.3)	(30.6)	(30.9)
Financing and investment income	~~390.7~~394.3	~~36.1~~19.3	~~426.8~~413.6	~~557.1~~(304.9)	~~983.9~~108.7
Financing and investment expenditure	(~~430.6~~434.2)	(122.0)	(~~552.6~~556.2)	~~32.7~~36.3	(519.9)
Grant income	526.6	1,578.9	2,105.5	1,162.6	3,268.1
Group share of loss after tax of joint ventures	-	-	-	(0.1)	(0.1)
Group share of loss after tax of associated undertakings	-	-	-	(52.0)	(52.0)
Surplus on the provision of services before tax	128.2	~~936.4~~919.6	1,~~064.6~~047.8	~~581.7~~(269.8)	~~1,646.3~~778.0
Taxation	-	-	-	(~~242.5~~106.8)	(~~242.5~~106.8)

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~~Corporation Statement of Cash Flows~~

Expenditure and Funding Analysis (continued)

For the year ended 31 March 2020	Net expenditure chargeable to the General Fund £m	Adjustments between accounting basis and funding basis under regulations (note 39) £m	Total per the Corporation Comprehensive Income and Expenditure Statement £m	Surplus on the provision of services after tax in subsidiaries (note 38) £m	Total per the Group Comprehensive Income and Expenditure Statement £m
Surplus on the provision of services after tax	128.2	~~936.4~~919.6	1,~~064.6~~047.8	~~339.2~~(376.6)	~~1,403.8~~671.2
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	(25.8)	1,~~090.4~~073.6	1,~~064.6~~047.8		
Balance of General Fund and Earmarked Reserves at 31 March 2019	1,606.5				
Balance of General Fund and Earmarked Reserves at 31 March 2020	1,580.7				

~~Corporation Statement of Cash Flows~~

Expenditure and Funding Analysis (continued)

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

~~Corporation Statement of Cash Flows~~

Expenditure and Funding Analysis (continued)

Net increase in 2018/19	507.9	438.1	946.0
Balance of General Fund and Earmarked Reserves at 1 April 2018	1,098.6		
Balance of General Fund and Earmarked Reserves at 31 March 2019	1,606.5		

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

~~Expenditure and Funding Analysis~~

Accounting Policies

a) Code of practice

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

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

CIPFA/LASAAC announced its plans to delay implementation of IFRS 16 in the Code until 1 April ~~2020~~2021. IFRS 16 Leases (mandatory for years beginning on or after 1 January 2019 under Adopted IFRS) replaces the previous guidance in IAS 17 on leases. However, as a significant proportion of the Group's activities are conducted through subsidiary companies, which are obliged, under EU Adopted IFRS, to apply IFRS 16 from 1 April 2019, CIPFA has ~~granted TfL permission to also~~included a provision in the 2019/20 Code that allows TfL to adopt IFRS 16 from the same date. The Group has therefore adopted IFRS 16 in these financial statements from 1 April 2019. ~~18~~2018/19 comparatives have not been restated for the impact of the change. Further details may be found in the Accounting Policies note on leases, and in note 45.

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

Capital grants and contributions

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

FRS 102 The Financial Reporting Standard: Heritage assets

The Code has adopted the requirements of FRS 102 in respect of its rules on accounting for ~~Heritage~~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.

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

IAS 36 Impairment of Assets

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

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 2019/20 in respect of these leases.

b) Basis of preparation

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

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

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

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

~~Expenditure and Funding Analysis~~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 it is considered by the Board that TfL will continue in operational existence for the foreseeable future and meet its liabilities as they fall due for payment.

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

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

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

~~Under the Greater London Authority (GLA) Act 1999, TfL has a legal requirement to produce a financially balanced Budget each year.~~ Material uncertainties remain as to the level of support that will be agreed, and what this means for the shape of TfL's planned future activities. These uncertainties cast significant doubt over TfL's ability both to continue operating the level of services currently provided and to continue with all projects included currently in the capital investment plan. As part of the wider Government review of the Group, a review is underway of the capital programme to identify which projects can and will be funded to completion. Management have undertaken an exercise to categorise TfL's current and planned future capital investment projects 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.

As at 31 March 2020, TfL had capital projects in the course of construction totalling £19.3bn, of which £14.0bn related to Crossrail and £1.3bn to the 4 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 2020 should continue to be funded. However, until the review is complete and a longer-term financing package formally agreed, a material level of uncertainty remains as to whether all projects in the course of construction at 31 March 2020 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 impairment of carrying values at 31 March 2020, which is not reflected in these financial statements.

As at 31 March 2020, the Group had usable reserves totalling £1,604.2m.

e) The application of new and revised standards

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

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

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

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

  The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

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

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

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

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

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

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

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

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

- IFRS 17 Insurance Contracts (mandatory for years commencing on or after 1 January ~~2021~~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 applicable to the TfL Group.

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

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

g) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative Comprehensive Income and Expenditure Statement is re-presented as if the operation had been discontinued from the start of the comparative period.

h) Uses of estimates and judgements

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

Use of judgement

Determining whether an arrangement contains a lease

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

For arrangements where TfL is a lessor there is significant judgement involved in respect of whether the arrangement is 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 ~~a~~are derecognised from the ~~balance sheet~~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

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

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.

Capitalisation of assets with third party interest

In assessing situations where TfL assets are constructed on, or have significant involvement with, external third parties, ~~judgment~~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 36.

Financial derivative instruments

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

Provisions

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

Expected credit loss allowance

The expected credit loss allowance recognised in respect of financial assets is based on a forward-looking probability-weighted measure considering reasonable and supportable information on past events, current conditions and the time value of money. As at 31 March

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

2020, management were required to make estimates regarding future losses based on the impact of the coronavirus outbreak on credit risk. Given the unprecedented nature of the pandemic, a greater than usual level of judgement was involved in reaching this estimate.

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

Investment property

Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value (open market value), as estimated by external, professionally qualified surveyors in accordance with Royal Institution of Chartered Surveyors (RICS) guidelines. Gains and losses from changes in the fair value of investment property are included in the Comprehensive Income and Expenditure Statement for the period in which they arise. ~~Due to generally increased levels of market uncertainty due to the coronavirus pandemic, a greater than usual level of judgement was involved in reaching the valuation estimates at 31 March 2020~~Market activity has been impacted in many sectors by the coronavirus pandemic. As at 31 March 2020, our valuers were able to attach less weight to previous market evidence for comparison purposes in informing their opinions of value. 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.

Office buildings

~~Office~~Owner-occupied office buildings held within property, plant and equipment are held at ~~fair~~their existing use value~~ (open market value),~~, as estimated by external, professionally qualified surveyors in accordance with RICS guidelines. Movements in the ~~fair ~~value of the property are taken to the revaluation reserve. ~~Due to generally increased levels of market uncertainty due to ~~Market activity has been impacted in many sectors by the coronavirus pandemic~~, a greater than usual level of judgement was involved in reaching the valuation estimates ~~. As at 31 March 2020, our valuers were able to attach less weight to previous market evidence for comparison purposes in informing their opinions of value. 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.

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.

~~Expenditure and Funding Analysis~~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 2019/20 in respect of these leases.

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~~Balance Sheet and held within current liabilities – contract liabilities representing creditors' receipts in advance for Travelcards, bus passes and Oyster cards.

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

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

Congestion charging

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

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

Road network compliance

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

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

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 ~~19~~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.

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

Rental income

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

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

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

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.

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

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

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

k) Exceptional items

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

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

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

l) Grants and other funding

The main source of grant funding ~~is~~during 2018/19 and 2019/20 was 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.

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.

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

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.

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

r) Intangible assets

Goodwill

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

Other intangible assets

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

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

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

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

Software costs	Straight-line	~~3-5~~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.

~~Office~~Owner-occupied office buildings are valued at ~~fair~~existing use value by external, professionally qualified surveyors in accordance with RICS Guidelines. ~~Fair~~Existing use value is the ~~price that would be received to sell an asset or paid to transfer~~estimated amount for which a ~~liability~~property should exchange on the valuation date between a willing buyer and a willing seller in an ~~orderly~~arm's length transaction ~~between~~ disregarding potential alternative uses and any other characteristics of the asset that would cause its market ~~participants~~value to differ from that needed to replace the remaining service potential at the measurement date. ~~The measurement methodology assumes the valuation is based on the highest and best use of the asset. Office buildings are measured using~~In determining the ~~income approach, by means of~~ existing use value, the ~~discounted cash flow~~ capitalisation of

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

net income method~~, where~~ and the ~~expected~~discounting of future cash flows ~~from~~ to their present value has been used. This is based upon various assumptions including the ~~properties are discounted (using a market-derived~~anticipated future rental income, maintenance costs and the appropriate discount rate~~) to establish the present value of the net income stream.~~, 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 on a rolling basis, with approximately 75 per cent of the portfolio by value being valued each year. Between formal valuations ~~fair~~ values are adjusted by the application of annual indexation. Movements in the ~~fair~~ value of the property are taken to the Revaluation Reserve, with the exception of permanent diminutions in value which are recognised in profit or loss.

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

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

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

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

Depreciation

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

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

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

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

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

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

Tunnels and embankments	up to 120 years
Bridges and viaducts	up to 120 years
Track	up to ~~100~~120 years
Road pavement	up to 40 years
Road foundations	up to 50 years
Signalling	~~15~~up to 40 years
Stations	up to 120 years
Other property	~~20~~up to 120 years
Rolling stock	~~30~~up to 50 years
Lifts and escalators	~~25~~up to 40 years
Plant and equipment	~~3~~up to ~~40~~75 years
Computer equipment	~~3~~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.

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

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. During 2019/20, 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 have been recorded within investment property at fair value at the date of creation of the lease structure. Due to the fact that these assets have been created through the separation of new lease structures from larger items of transport infrastructure (included within property, plant and equipment) these valuation gains have been recognised directly within other comprehensive income.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting. Investment properties held at fair value are not subject to depreciation.

Investment properties are valued at fair value by external, professionally qualified surveyors in accordance with RICS Guidelines. Fair value is the ~~price that would be received to sell~~estimated amount for which an asset or ~~paid to transfer a~~ liability ~~in an orderly~~should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction ~~between market participants at the measurement date. The measurement~~, 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. ~~Properties are measured using the income approach, by means~~In determining the fair value, the capitalisation of ~~the discounted cash flow~~net income method~~,~~ ~~where~~ and the ~~expected~~discounting of future cash flows ~~from the properties are discounted (using a market-derived discount rate) to establish the~~ to their present value ~~of~~ has been used. This is based upon various assumptions including the anticipated future rental income, maintenance costs and the ~~net income stream~~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.

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

~~u~~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.

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

The Group's investment in its joint venture is accounted for using the equity method. Under the equity method, the investment is initially recognised on the ~~Statement of Financial Position~~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.

~~v~~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~~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).

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

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

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)

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

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

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

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

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

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~~, and~~
- restoration costs~~.~~

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

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

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

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:

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. 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 2019/20 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. The respective leased assets are included in the Balance Sheet within property, plant and equipment based on their nature.

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

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

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

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

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

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

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.

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

af) Impairment of non-financial assets

Goodwill recognised separately as an intangible asset is tested for impairment annually and whenever there is indication that the goodwill may be impaired. Other intangible assets, property, plant and equipment and investments in subsidiaries, joint ventures and ~~associated companies~~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.

~~Expenditure and Funding Analysis~~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 (~~IFRS9~~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 principle value and interest thereon.

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

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

Financial assets are measured at FVTOCI if:

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

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

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

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.

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

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

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

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.

~~Expenditure and Funding Analysis~~Accounting Policies (continued)

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

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

Embedded derivatives

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

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

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

1. Gross income

a) Group gross income

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

1. Gross income (continued)

b) Corporation gross income

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

c) Congestion Charging

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

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

1. Gross income (continued)

d) Low Emission Zone (LEZ) Charging

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

e) Ultra Low Emission Zone (ULEZ) Charging

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

f) Street works

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

~~Accounting Policies~~

Notes to the Financial Statements

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.

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2. Segmental analysis

2a) Segmental analysis

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

Year ended 31 March 2020

	Underground £m	Elizabeth line £m	Buses £m	Streets £m	Rail £m	Other operations £m	Major projects £m	Property £m	Media £m	Total net operating deficit excluding grant income per internal management reports £m	Central items (note 2c(i)) £m	Total £m
Passenger income	2,729.0	118.0	1,431.0	-	414.0	59.0	-	-	-	4,751.0	(0.2)	4,750.8
Other operating income	33.0	29.0	9.0	355.0	22.0	297.0	22.0	102.0	154.0	1,023.0	(11.6)	1,011.4
Gross income	2,762.0	147.0	1,440.0	355.0	436.0	356.0	22.0	102.0	154.0	5,774.0	(11.8)	5,762.2
Direct operating cost	(1,979.0)	(354.0)	(2,183.0)	(496.0)	(469.0)	(297.0)	(21.0)	(33.0)	(4.0)	(5,836.0)	(1,~~330.7~~323.8)	(7,~~166.7~~159.8)
Indirect operating cost	(344.0)	(9.0)	(25.0)	(78.0)	(20.0)	(54.0)	(38.0)	(9.0)	(2.0)	(579.0)	-	(579.0)
Gross expenditure	(2,323.0)	(363.0)	(2,208.0)	(574.0)	(489.0)	(351.0)	(59.0)	(42.0)	(6.0)	(6,415.0)	(1,~~330.7~~323.8)	(7,~~745.7~~738.8)
Net surplus from/(cost of) services before exceptional items	439.0	(216.0)	(768.0)	(219.0)	(53.0)	5.0	(37.0)	60.0	148.0	(641.0)	(1,~~342.5~~335.6)	(1,~~983.5~~976.6)

2. Segmental analysis (continued)

Year ended 31 March 2019 (restated *)

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

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

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

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

2. Segmental analysis (continued)

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

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

2. Segmental analysis (continued)

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

Year ended 31 March 2020	Note	Operating Account as reported to management £m	Items included in the CI&E but excluded from the Operating Account £m	Items included in the Operating Account but excluded from the CI&E £m	Reclassifications between line items £m	Items with different accounting treatment (see notes below) £m	Group Comprehensive Income and Expenditure Statement £m
Gross income/(total operating income)	2c(i)	5,774.0	-	-	-	(11.8)	5,762.2
Gross expenditure/(operating cost)	2c(i)	(6,415.0)	(1,404.1)	-	~~-~~19.3	~~73.4~~61.0	(7,~~745.7~~738.8)
Net cost of services before exceptional items/(divisional net operating surplus/(deficit))		(641.0)	(1,404.1)	-	~~-~~19.3	~~61.6~~49.2	(1,~~983.5~~976.6)
Exceptional items	6	-	~~(19.3)~~	-	~~-~~(19.3)	-	(19.3)
Net cost of services after exceptional items		(641.0)	(1,~~423.4~~404.1)	-	-	~~61.6~~49.2	(~~2,002.8~~1,995.9)
Other net operating expenditure	7	-	(30.9)	-	-	-	(30.9)
Grant income	2c(vi)	1,105.0	-	-	-	2,163.1	3,268.1
Group share of loss after tax of joint ventures	17	-	(0.1)	-	-	-	(0.1)
Group share of loss after tax of associated undertakings	18	-	(52.0)	-	-	-	(52.0)
(Capital renewals)	2c(ii)	(452.0)	-	452.0	-	-	-
(Net cost of operations before financing)		12.0	(1,~~506.4~~487.1)	452.0	-	2,~~224.7~~212.3	1,~~182.3~~189.2
Financing and investment income	2c(iii)	-	~~965.9~~90.7	-	21.3	(3.3)	~~983.9~~108.7
Financing and investment expenditure	2c(iv), 2c(v)	-	(14.2)	-	(456.3)	(49.4)	(519.9)
(Net financing costs)		(435.0)	-	-	435.0	-	-
Surplus on the provision of services before tax/(net cost of operations)		(423.0)	(~~554.7~~1,410.6)	452.0	-	2,~~172.0~~159.6	~~1,646.3~~778.0
Taxation expense	11	-	(~~242.5~~106.8)	-	-	-	(~~242.5~~106.8)
Surplus on the provision of services after tax		(423.0)	(~~797.2~~1,517.4)	452.0	-	2,~~172.0~~159.6	~~1,403.8~~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 table.

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

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

2. Segmental analysis (continued)

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

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

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

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

2. Segmental analysis (continued)

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

	Note	Gross income £m	Gross expenditure £m	Net cost of services £m
Net operating deficit excluding grant income per internal management reports		**5,774.0**	**(6,415.0)**	**(641.0)**
Central items:				
Amounts included in the Comprehensive Income and Expenditure Statement not reported in management reports				
Depreciation	3	**-**	**(1,032.9)**	**(1,032.9)**
Amortisation of right-of-use assets	3	**-**	**(334.8)**	**(334.8)**
Amortisation of software intangibles	3	**-**	**(36.4)**	**(36.4)**
		-	**(1,404.1)**	**(1,404.1)**
Reclassifications between line items		**-**	**19.3**	**19.3**
Amounts subject to differing accounting treatment between the Operating Account and the Comprehensive Income and Expenditure Statement				
Total lease expense recorded under previous accounting standard IAS 17		**-**	**350.1**	**350.1**
Pension costs		**-**	**(295.2)**	**(295.2)**
Other Central items		**(11.8)**	**~~18.5~~6.1**	**~~6~~(5.7)**
		(11.8)	**~~73.4~~61.0**	**~~61.6~~49.2**
Net cost of services before exceptional items per the Comprehensive Income and Expenditure Statement		**5,762.2**	**(7,~~745.7~~738.8)**	**(1,~~983.5~~976.6)**

2. Segmental analysis (continued)

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

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

2. Segmental analysis (continued)

2c(ii) Capital renewals

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

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

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

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

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

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

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

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

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

2. Segmental analysis (continued)

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

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

3. Gross expenditure

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

Year ended 31 March	Note	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
Staff costs:					
Wages and salaries *		**1,427.7**	1,402.0	**390.4**	377.4
Social security costs		**164.1**	161.8	**45.0**	45.4
Pension costs	36	**~~587.6~~581.1**	613.0	**368.6**	366.6
		2,~~179.4~~172.9	2,176.8	**804.0**	789.4
Other service expenditure **		**4,~~162.2~~161.8**	4,319.7	**514.9**	415.2
Depreciation	13	**1,032.9**	1,020.8	**125.5**	126.1
Amortisation right-of-use assets	14	**334.8**	-	**28.6**	-
Amortisation of software intangibles	12	**36.4**	43.6	**22.0**	30.5
		7,~~745.7~~738.8	7,560.9	**1,495.0**	1,361.2

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

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

The average number of persons employed in the year was:

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

4. External audit fees

External audit fees are made up as follows:

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

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

5. Remuneration

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

6. Exceptional items

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

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

7. Other operating expenditure

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

8. Financing and investment income

Year ended 31 March	Note	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
Interest income on bank deposits and other investments		**14.5**	9.8	**14.1**	9.4
Interest income on loans to subsidiaries		**-**	-	**376.6**	362.6
Change in fair value of investment properties (including those classified as held for sale)	15, 22	**~~934.2~~59.0**	4.9	**~~13.2~~-**	1.5
Net gain on disposal of investment properties		**31.7**	131.5	**22.9**	96.5
Interest receivable on finance lease receivables		**3.2**	2.3	**-**	-
Other investment income		**0.3**	0.3	**-**	-
		~~983.9~~108.7	148.8	**~~426.8~~413.6**	470.0

9. Financing and investment expenditure

Year ended 31 March	Note	**Group 2020 £m**	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Interest payable on loans and derivatives		**422.2**	414.4	**401.5**	393.0
Interest payable on finance, PFI and right-of-use lease liabilities *		**67.8**	30.7	**17.8**	6.2
Contingent rentals on PFI contracts		**14.1**	15.5	**10.4**	9.9
Change in fair value of investment properties (including those classified as held for sale)	15, 22	**-**	-	**3.6**	-
Net interest on defined benefit obligation	36	**122.7**	113.4	**122.0**	112.8
Other financing and investment expenditure		**1.6**	5.0	**0.9**	0.9
		628.4	579.0	**~~552.6~~556.2**	522.8
Less: amounts capitalised into qualifying assets	13	**(108.5)**	(103.7)	**-**	-
		519.9	475.3	**~~552.6~~556.2**	522.8

* IFRS 16 Leases has been adopted for the first time in ~~19~~2019/20. ~~18~~2018/19 comparatives have not been restated for this change. Further information on the impact of the implementation of this new standard is set out in note 45.

10. Grant income

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

Allocation of capital grants

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

11. Taxation

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

a) Corporation Tax

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

Year ended 31 March	Group 2020 £m	Group 2019 £m
UK Corporation Tax - current year charge	-	0.1
UK Corporation Tax - adjustments in respect of prior years	-	(2.1)
Total current tax income	-	(2.0)
Deferred tax - current year	~~242.5~~106.8	-
Total tax charge/(income) for the year	~~242.5~~106.8	(2.0)

Reconciliation of tax expense/(income)

Year ended 31 March	Group 2020 £m	Group 2019 £m
Surplus on the provision of services before tax	~~1,646.3~~778.0	657.3
Surplus~~/deficit~~ on the provision of services before tax multiplied by standard rate of Corporation Tax in the UK of 19% (2018/19 19%)	~~312~~147.8	124.9
Effects of:		
Non-taxable income/non-deductible expenses	**92.7**	118.9
Permanent difference in TfL Corporation	(~~280.3~~277.0)	(179.7)
Amount charged to current tax for which no deferred tax was recognised	~~111~~137.9	(62.5)
Tax losses carried forward for which no deferred tax was recognised	**6.9**	-
Utilisation of tax losses carried forward for which no deferred tax was recognised	**(0.9)**	(1.0)
Overseas earnings	**(0.6)**	(0.5)
Adjustments in respect of prior years	-	(2.1)
Total tax expense/(income) for the year	~~242.5~~106.8	(2.0)

11. Taxation (continued)

b) Unrecognised deferred tax assets

The Group has a potential net deferred tax asset of £1,~~761~~751.4m (2019 £1,613.6m) in respect of the following items:

	Group 2020 £m	Group 2019 £m
Deductible temporary differences	**~~758.7~~749.5**	722.6
Tax losses	**1,~~002.7~~001.9**	891.0
Unrecognised deferred tax asset	**1,~~761~~751.4**	1,613.6

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

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

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

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

For the year ended 31 March 2020	Balance at 1 April 2019 £m	Movement in 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)	(~~186.0~~50.3)	(135.7)	**(263.9)**
Assets held for sale	(16.6)	(1.3)	-	**(17.9)**
Total	(94.5)	(~~187.3~~51.6)	(135.7)	**(281.8)**
Net deferred tax asset/(liability)	-	(~~242.5~~106.8)	(135.7)	**(242.5)**

11. Taxation (continued)

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

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

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

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

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

Notes to the Financial Statements

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

12. Intangible assets

a) Group intangible assets

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

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

12. Intangible assets (continued)

b) Corporation intangible assets

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

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

13. Property, plant and equipment

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

	Note	Infrastructure and office buildings £m	Rolling stock £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost or valuation						
At 1 April 2019		**33,608.2**	**5,411.0**	**2,034.5**	**17,443.9**	**58,497.6**
Additions		**389.7**	**9.6**	**27.6**	**2,~~246.3~~253.2**	**2,~~673.2~~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,~~245.8~~252.7**	**60,~~534.5~~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 investment properties	15	**(18.9)**	**-**	**-**	**-**	**(18.9)**
Transfers to right-of-use assets		**-**	**(180.8)**	**(0.1)**	**-**	**(180.9)**
Transfers between asset classes		**102.2**	**(25.4)**	**(76.8)**	**-**	**-**
Disposals		**(1.3)**	**(0.5)**	**(28.9)**	**-**	**(30.7)**
Revaluation		**(36.0)**	**-**	**-**	**-**	**(36.0)**
At 31 March 2020		**14,754.8**	**2,266.1**	**1,427.9**	**-**	**18,448.8**
Net book value at 31 March 2020		**19,427.6**	**2,710.5**	**701.8**	**19,~~245.8~~252.7**	**42,~~085.7~~092.6**
Net book value at 31 March 2019		19,703.5	3,052.4	615.4	17,443.9	40,815.2

13. Property, plant and equipment (continued)

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

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

The Group holds its office buildings at ~~fair value~~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, management believe that all capital projects in progress at 31 March 2020 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 2020 will be fully funded to completion.

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

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

On 21 November 2019, the Corporation entered into an agreement with RiverLinx Limited for the Design, Build, Financing, Operations and Maintenance ("DBFOM") of Silvertown Tunnel, connecting the Greenwich Peninsula and the Royal Docks in London. Our financial obligations to make payments to RiverLinx Limited will start once the tunnel is open, currently planned in early 2025 (the 'Permit to Use Date'). From the Permit to Use Date, the

Corporation will make performance-based availability payments, initially at £65m annually and indexed until the expiry date of the agreement in January 2050.

13. Property, plant and equipment (continued)

c) Group PFI assets and other leased assets

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

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

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

d) Depreciation charge

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

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

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

13. Property, plant and equipment (continued)

e) Group office buildings

The ~~fair~~existing use value of owner-occupied office buildings at 31 March 2020 has been arrived at on the basis of a valuation carried out at that date by ~~CRBE~~CBRE, a ~~property valuation company~~real estate advisory business not connected with the Group, and by chartered surveyors working for TfL. ~~Values are calculated under level 3 of the fair value hierarchy using a discounted cash flow approach and are based on current rental income plus anticipated uplifts at~~ In determining the existing use value, the ~~next rent review, lease expiry or break option, taking into consideration lease incentives. Uplifts~~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 ~~are derived from rates implied by recent~~, making reference to market ~~transactions on~~evidence of transaction prices for similar properties. ~~In estimating fair value, the highest and best use of the properties is assumed to be their current use.~~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 (2018/19 none).

Market activity has been impacted in many sectors by the coronavirus pandemic. As at 31 March 2020, our valuers were able to attach less weight to previous market evidence for comparison purposes in informing their opinions of value. 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 2017 published by the Royal Institution of Chartered Surveyors.

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

f) Group and Corporation heritage assets

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

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

13 Property, plant and equipment (continued)

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

	Note	Infrastructure and office buildings £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2019		**5,289.1**	**228.7**	**1,136.9**	**6,654.7**
Additions		**42.8**	**1.7**	**181.9**	**226.4**
Net transfers to intangible assets	12	**~~(8.4)~~-**	**~~9.7~~-**	**(~~5.9~~4.6)**	**(4.6)**
Transfers to investment properties	15	**(3.2)**	**-**	**-**	**(3.2)**
Transfers between asset classes		**~~25.8~~17.4**	**~~13.0~~22.7**	**(~~38.8~~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**
Net book value at 31 March 2020		**2,807.7**	**69.7**	**1,274.1**	**4,151.5**
Net book value at 31 March 2019		2,849.9	60.8	1,136.9	4,047.6

13 Property, plant and equipment (continued)

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

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

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

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

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

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

13. Property, plant and equipment (continued)

i) Corporation PFI assets, and other leased assets

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

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

j) Depreciation charge

The total depreciation charge for the Corporation comprised:

Year ended 31 March	Note	2020 £m	2019 £m
Depreciation of owned assets		~~123.4~~122.8	123.4
Depreciation of assets held under PFI		**2.7**	2.7
Total depreciation	3	**125.5**	126.1

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Variable lease payments

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

Extension and termination options

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

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

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

~~Two of the Group's~~As at 31 March 2020 two rolling stock contracts ~~has~~had commenced. ~~Whilst~~However, while a certain number of units of rolling stock ~~have~~had been accepted and leased under these contracts as at 31 March, the entire quota in ~~the~~each contract had not ~~has~~ yet been received or recognised ~~as at 31 March 2020.~~ . The right-of-use asset and the related lease liability in relation to the rolling stock accepted at 31 March 2020 ~~is £927.8m and the related lease liability is~~were £848.8m ~~out of a total commitment of~~ and £914.~~0m~~3m respectively, out of a total commitment of £1,~~207.0m~~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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Variable lease payments

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

Extension and termination options

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

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

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

o) 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 the financial statements in 2019/20 in respect of these leases.

15. Investment properties

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

The fair value of the Group's investment properties at 31 March 2020 has been arrived at on the basis of valuations at that date by CBRE, a ~~property valuation company~~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 ~~using a discounted cash flow approach and are based on current rental income plus anticipated uplifts at the next rent review, lease expiry or break option, taking into consideration lease incentives. Uplifts and the discount rate are derived from rates implied by recent market transactions on similar properties.~~. In estimating fair value, the highest and best use of the properties is assumed to be their current use. There were no transfers of properties in or out of level 3 of the fair value hierarchy during the year (2018/19 none).

Market activity has been impacted in many sectors by the coronavirus pandemic. As at 31 March 2020, our valuers were able to attach less weight to previous market evidence for comparison purposes in informing their opinions of value. 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 2017 published by the Royal Institution of Chartered Surveyors. Properties with a carrying value in excess of £5,000,000 are valued annually. Properties with a value in excess of £250,000 but less than £5,000,000 are revalued at least every three

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

During the year, in order to create a consolidated commercial property portfolio, assets previously held ~~as operational~~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~~, This is~~. 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~~As a result, in the year to 31 March 2020, ~~therefore,~~ a ~~net~~total revaluation uplift of £938.5m was recognised for the Group (2018/19 £4.2m). Of this a gain of £875.2m in relation to the initial valuation of newly created assets has been recognised within other comprehensive income. The remaining £63.3m net gain relating to movements in the valuation of assets already held at valuation has been reflected within financing income.

No sensitivity analysis is presented in relation to these values due to the complex nature of the portfolio and the unusual nature of many of the properties. As previously highlighted there is a material degree of uncertainty in respect of the valuations prepared at 31 March 2020.

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

16. Investments in subsidiaries

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

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

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

16. Investments in subsidiaries (continued)

The Group's subsidiaries are:

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

*Incorporated during the year

17. Investment in joint ventures

~~a)~~ Connected Living London (BTR) Limited

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

As the Group has joint control over the net assets and operations of its investment 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 from the date of incorporation of 25 April 2019 up to 31 March 2020 have been employed.

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

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

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

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

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

17. Investment in joint ventures (continued)

Group share of comprehensive income and expenditure of CCL

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

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

18. Investment in associated undertakings

a) Earls Court Partnership Limited

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

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

The financial year end of ECP is 31 December. For the purposes of applying the equity method of accounting, the financial statements of ECP for the year ended 31 December ~~2019~~ have been used, and appropriate adjustments made for the effects of significant transactions between that date and 31 March. There were no material movements in net income/expenditure or in the net assets of ECP between 31 December 2019 and 31 March 2020. An independent valuation of the development site held by ECP was not sought as at 31 March 2020. Management are satisfied that, after taking into account the long-term nature of the investment and evidence provided by recent market transactions, the value of the investment reflected in these financial statements is reflective of the fair value at 31 March, albeit subject to the material uncertainty inherent in real estate valuations more generally at the year end date resulting from the coronavirus situation.

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

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

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

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

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

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

Carrying amount of the Group's equity interest in Earls Court Partnership Limited at 31 March	**166.5**	220.6

18. Investment in associated undertakings (continued)

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

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

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

b) Kidbrooke Partnership LLP

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

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

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

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

At 31 March	Group 2020 £m	Group 2019 £m
Current assets	**30.8**	0.6
Long-term assets	**-**	25.9
Current liabilities	**(0.~~2~~6)**	(0.2)
Long-term liabilities	**~~(0.6)~~-**	-

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

18. Investment in associated undertakings (continued)

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

At 31 March	**Group 2020 £m**	Group 2019 £m
Net assets at 100%	**30.2**	26.3
Percentage held by the TfL Group	**49%**	49%
Carrying amount of the Group's equity interest in KP LLP	**14.~~8~~7**	12.9

KP LLP has recognised neither a profit nor loss in the year to 31 March 2020 (2018/19 £nil). There is therefore no impact on Group consolidated profits relating to the associate. The increase in the carrying amount of the Group's equity interest during the year represents an investment of £1.~~9m~~8m in additional equity share capital of KP LLP. The Group's percentage shareholding has remained unchanged.

c) Blackhorse Road Properties LLP

In 2019/20 the Group acquired a 49 per cent holding in the members' interest of Blackhorse Road Properties LLP (BRP LLP), a newly created property development partnership, for a cash consideration of £11.~~4m~~3m. The investment was purchased through a newly incorporated subsidiary of the Group, TTL Blackhorse Road Properties Limited. Through its voting rights and representation on the Board of Members, the Group has significant influence but not control over the relevant activities of BRP LLP. The Group's investment is therefore accounted for as an associate, using the equity method in these consolidated accounts.

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

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

18. Investment in associated undertakings (continued)

Balance sheet of BRP LLP at the 100 per cent level

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

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

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

At 31 March	Group 2020 £m	Group 2019 £m
Net assets at 100%	**27.5**	-
Percentage held by the TfL Group	**49%**	n/a
Carrying amount of the Group's equity interest in BRP LLP	**13.~~5~~4**	-

Group share of comprehensive income and expenditure of BRP LLP

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

19. Finance lease receivables

Group finance lease receivables

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

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

	2020 £m	2019 £m
At 31 March 2020		
Minimum cash receipts in:		
Not later than one year	~~205.5~~18.4	15.5
Later than one year but not later than five years	**39.8**	43.2
	~~245.3~~58.2	58.7
Less unearned finance income	(~~192.6~~5.5)	(6.5)
	52.7	52.2

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

20. Inventories

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

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

The movement on inventories was as follows:

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

21. Debtors

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

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

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

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

21. Debtors (continued)

At 31 March	**Corporation 2020 £m**	Corporation 2019 £m
Short-term		
Trade debtors	**31.8**	28.4
Amounts due from subsidiary companies	~~798.6~~412.4	407.6
Capital debtors	**6.4**	10.0
Other debtors	**5.7**	3.9
Other tax and social security	~~(0.7)~~-	9.7
Grant debtors	**64.8**	77.5
Interest debtors	**1.5**	0.2
Contract assets: accrued income	**5.6**	56.0
Prepayments for goods and services	**25.1**	23.4
	~~938.8~~553.3	616.7
Long-term		
Loans made to subsidiary companies	**11,106.2**	10,451.3
Other debtors	**42.8**	63.5
Prepayments for goods and services	**6.0**	2.8
	11,155.0	10,517.6

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

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

Long-term loans made to subsidiary companies 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 2020 was 3.6 per cent (2019 3.8 per cent).

22. Assets held for sale

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

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

23. Other investments

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

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

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

24. Cash and cash equivalents

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

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

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

25. Creditors

a) Group creditors at 31 March comprised:

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

25. Creditors (continued)

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

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

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

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

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

25. Creditors (continued)

b) Corporation creditors at 31 March comprised:

At 31 March	**Corporation 2020 £m**	Corporation 2019 £m
Short-term		
Trade creditors	**50.2**	54.0
Accrued interest	**107.8**	190.8
Capital works	**118.9**	61.4
Capital grants received in advance	**11.7**	9.5
Amounts due to subsidiary companies	~~594.4~~**208.2**	10.9
Wages and salaries	**28.3**	24.3
Other taxation and social security creditors	~~1.8~~**2.5**	1.9
Contract liabilities representing other deferred income	**18.3**	14.1
Accruals and other payables	**194.5**	168.8
	~~1,125.9~~**740.4**	535.7
Long-term		
Capital grants received in advance	**2.4**	2.5
Contract liabilities representing other deferred income	**18.4**	16.2
	20.8	18.7

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

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

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

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

26. Borrowings and overdrafts

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

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

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

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

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

26. Borrowings and overdrafts (continued)

Changes in liabilities arising from financing activities

	Group 2020 £m	Group 2019 £m
Balance at 1 April		
Short-term	**816.2**	916.1
Long-term	**10,879.6**	9,987.6
	11,695.8	10,903.7
Right-of-use lease liabilities recognised on the implementation of IFRS 16 *	**~~2,006.9~~1,768.1**	-
Borrowings drawn down	**640.9**	924.2
Net additions to right-of-use lease liabilities	**410.1**	-
Additions to other financing liabilities	**3.3**	141.5
Repayment of borrowings	**(96.0)**	(196.7)
Repayment of PFI lease liabilities	**(54.2)**	(55.2)
Repayment of other finance lease liabilities	**-**	(14.4)
Repayment of other financing liabilities	**-**	(8.8)
Repayment of overdraft	**-**	(0.1)
Other movements **	**(0.5)**	1.6
At 31 March	**14,~~606.3~~367.5**	11,695.8
Short-term	**1,272.1**	816.2
Long-term	**13,095.4**	10,879.6
	14,367.5	11,695.8

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

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

26. Borrowings and overdrafts (continued)

Changes in liabilities arising from financing activities

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

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

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

27. Other finance lease liabilities

Other finance lease liabilities

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

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

Group other finance lease liabilities

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

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

28. Private finance initiative contracts

Private Finance Initiative contracts

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

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

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

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

28. Private finance initiative contracts (continued)

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

28. Private finance initiative contracts (continued)

PFI finance lease liabilities

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

Group

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

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

28. Private finance initiative contracts (continued)

Corporation

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

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

29. Other financing liabilities

Group other financing liabilities at 31 March comprised:

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

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

30. Provisions

a) Group provisions

	At 1 April 2019 £m	Payments in the year £m	Charge for the year £m	Releases in the year £m	**At 31 March 2020 £m**
Compensation and contractual	253.0	(~~107.0~~111.6)	~~29.8~~39.1	(~~78.7~~80.1)	**~~97.1~~100.4**
Capital investment activities	89.9	(17.6)	5.1	(0.5)	**76.9**
Environmental harm	1.4	-	-	-	**1.4**
Severance and other	56.2	(~~29.3~~27.4)	~~68.3~~56.4	(~~20.0~~13.3)	**~~75.2~~71.9**
	400.5	(~~153.9~~156.6)	~~103.2~~100.6	(~~99.2~~93.9)	**250.6**

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

b) Corporation provisions

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

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

30. Provisions (continued)

c) Nature of provisions

Compensation and contractual

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

Capital investment activities

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

Environmental harm

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

Severance and other

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

31. Derivative financial instruments

Group cash flow hedges

At 31 March	Fair value 2020 £m	Notional amount 2020 £m	Fair value 2019 £m	Notional amount 2019 £m
Long-term assets				
Interest rate swaps	-	-	2.7	96.0
Foreign currency forward contracts	1.5	20.1	4.1	49.6
	1.5	20.1	6.8	145.6
Current assets				
Foreign currency forward contracts	3.4	40.5	7.8	272.4
Foreign currency options	-	-	4.0	299.0
	3.4	40.5	11.8	571.4
Current liabilities				
Interest rate swaps	(0.3)	25.0	(1.2)	150.0
Foreign currency forward contracts	(26.0)	688.~~4~~5	(1.8)	220.9
	(26.3)	713.~~4~~5	(3.0)	370.9
Long-term liabilities				
Interest rate swaps	(50.9)	408.6	(43.0)	334.9
Foreign currency forward contracts	(12.2)	316.6	(3.5)	74.4
	(63.1)	725.2	(46.5)	409.3

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

32. Contingencies

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

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

33. Guarantees

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

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

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

	Estimated maximum debt drawn by counterparty at start of contract £m
Agreement with 345 Rail Leasing Limited	886
Agreement with CityLink Telecommunications Ltd	502
Agreements with QW Rail Leasing Ltd	380
Agreement with London Rail Leasing Ltd	350
Agreement with Lloyds Bank PLC	~~107~~109
Agreement with Pittville Leasing Ltd	51
Agreement with Lombard North Central Plc	7
Agreement with APSLL	4

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

33. Guarantees (continued)

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

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

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

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

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

34. Financial commitments

a) Operating leases – The Group as lessee

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

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

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

34. Financial commitments (continued)

b) Operating leases – The Group as lessor

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

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

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

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

34. Financial commitments (continued)

c) Operating leases – The Corporation as lessee

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

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

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

34. Financial commitments (continued)

d) Operating leases – The Corporation as lessor

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

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

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

35. Funding and financial risk management

Introduction

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

Treasury Management

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

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

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

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

35. Funding and financial risk management (continued)

The Prudential Borrowing Regime

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

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

Financial Risks and Risk Management

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

- Credit risk
- Market risk
- Liquidity risk

Each of these risks is managed in accordance with the Group's comprehensive risk management process. The TfL Board, through its Finance Committee, ~~has approved~~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.

35. Funding and financial risk management (continued)

(i) Trade receivables and contract assets

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

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

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

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

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

Age of trade and other debtors: Group

	Not overdue £m	Overdue by less than 3 months £m	Overdue by between 3 and 6 months £m	Overdue by between 6 months and 1 year £m	Overdue by more than 1 year £m	Total £m
At 31 March 2020						
Expected credit loss rate	**0.3%**	**48.1%**	**93.8%**	**99.9%**	**100.0%**	**48.~~8~~9%**
Estimated total gross carrying amount at default	**~~422~~421.7**	**40.1**	**42.2**	**71.8**	**293.2**	**~~870~~869.0**
Expected credit loss allowance	**(1.1)**	**(19.3)**	**(39.6)**	**(71.7)**	**(293.2)**	**(424.9)**
At 31 March 2019						
Expected credit loss rate	0.2%	27.1%	77.2%	92.9%	100.0%	31.1%
Estimated total gross carrying amount at default	621.5	31.0	19.7	36.5	234.7	943.4
Expected credit loss allowance	(1.0)	(8.4)	(15.2)	(33.9)	(234.7)	(293.2)

35. Funding and financial risk management (continued)

Age of trade and other debtors: Corporation

	Not overdue £m	Overdue by less than 3 months £m	Overdue by between 3 and 6 months £m	Overdue by between 6 months and 1 year £m	Overdue by more than 1 year £m	Total £m
At 31 March 2020						
Expected credit loss rate	**-**	**64.0%**	**97.4%**	**100.0%**	**100.0%**	**3.~~3~~4%**
Estimated total gross carrying amount at default	**~~12,051.1~~11,665.5**	**29.7**	**37.9**	**68.3**	**291.1**	**12,~~478.1~~092.5**
Expected credit loss allowance	**-**	**(19.0)**	**(36.9)**	**(68.3)**	**(291.1)**	**(415.3)**
At 31 March 2019						
Expected credit loss rate	-	45.7%	79.5%	93.7%	100.0%	2.5%
Estimated total gross carrying amount at default	11,092.8	17.5	17.6	34.9	231.0	11,393.8
Expected credit loss allowance	-	(8.0)	(14.0)	(32.7)	(231.0)	(285.7)

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

(ii) Investments

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

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

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

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

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

35. Funding and financial risk management (continued)

As at 31 March, 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 2020			
UK Debt Management Office	**742**	**P-1/A-1+**	**28**
Other Government Agencies	**480.6**	**P-1/A-1+/F1+**	**47**
Banks (including Gilt backed repos)	**377**	**P-1/A-1+/F1+**	**34**
Corporates	**349.5**	**P-2/A-2/F2**	**37**
Total	**1,949.1**		**35**
At 31 March 2019			
UK Debt Management Office	336.3	P-1/A-1+	49
Other Government Agencies	278.1	P-1/A-1+/F1+	55
Money Market Funds	280.0	AAA/AAA/AAA	1
Banks (including Gilt backed repos)	604.0	P-2/A-2/F1	28
Corporates	160.6	P-2/A-2/F2	42
Total	1,659.0		33

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

35. Funding and financial risk management (continued)

(iii) Derivative financial instruments

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

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

(iv) Guarantees

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

Market risk

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

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

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

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

35. Funding and financial risk management (continued)

(i) Foreign exchange risk

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

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

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

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

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

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

35. Funding and financial risk management (continued)

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

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

Sensitivity analysis on foreign exchange risk at 31 March

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

35. Funding and financial risk management (continued)

(ii) Interest rate risk

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

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

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

Effects of IBOR reform

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

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

In assessing whether the hedge is expected to be highly effective on a forward ~~-~~looking basis, the Group has ~~assumed~~ early adopted IFRS 9 Phase I 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. ~~In effect, no changes to the terms of the hedging instrument or hedged item are anticipated.~~

Effects of hedge accounting - Interest rate swaps

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

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

35. Funding and financial risk management (continued)

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

Sensitivity analysis on interest rate risk

(a) Fair value sensitivity analysis for fixed interest instruments

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

(b) Fair value sensitivity analysis for derivative instruments

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

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

(iii) Inflation risk

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

Liquidity risk

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

35. Funding and financial risk management (continued)

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

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

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

In response to the funding pressures we have experienced post 31 March 2020 as a result of the coronavirus pandemic, we have secured an extraordinary funding and financing package from the Secretary of State for Transport that gives TfL secure access to £1.6bn of funding in the form of a mixture of Government grant and borrowing from the PWLB for an initial Support Period until 17 October 2020. At that point in time, as the longer-term impact of the coronavirus outbreak becomes clearer, a further, medium-term funding package will be put in place.

Due to the active liquidity management and mitigations outlined, there is no significant risk that TfL will be unable to fund its planned financial commitments.

35. Funding and financial risk management (continued)

Maturity profile of derivatives

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

At 31 March	**2020 Average exchange rate**	**2020 Fair value £m**	**2020 Notional amount £m**	2019 Average exchange rate	2019 Fair value £m	2019 Notional amount £m
Foreign currency forward contracts						
Buy euro						
Less than one year	**0.~~925~~898**	**(~~3.1~~0.7)**	**~~128~~54.3**	0.862	0.1	102.1
Between one and two years	**0.~~935~~916**	**(2.~~8~~2)**	**~~93.7~~97.6**	0.893	(0.3)	20.2
Between two and five years	**0.~~945~~950**	**(5.4~~.3~~)**	**~~127.6~~154.1**	0.912	(0.7)	37.4
After five years	**0.970**	**(1.9)**	**43.6**	-	-	-
Sell euro						
Less than one year	**0.853**	**(23.1)**	**614.2**	0.870	2.8	340.0
Total euro	**0.883**	**(33.3)**	**963.8**	0.880	1.9	499.7
Buy Canadian Dollars						
Less than one year	**0.542**	**1.8**	**38.4**	0.518	3.3	31.6
Between one and two years	**0.550**	**0.7**	**23.6**	0.515	2.5	24.4
Between two and five years	**0.590**	**-**	**0.3**	0.513	1.2	12.5
Total Canadian Dollars	**0.545**	**2.5**	**62.3**	0.516	7.0	68.5

35. Funding and financial risk management (continued)

Maturity profile of derivatives (continued)

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

At 31 March	2020 Average exchange rate	2020 Fair value £m	2020 Notional amount £m	2019 Average exchange rate	2019 Fair value £m	2019 Notional amount £m
Foreign currency forward contracts						
Buy Swiss Francs						
Less than one year	0.864	-	0.9	0.851	-	0.5
Between one and two years	0.878	(0.1)	1.0	0.864	(0.1)	0.9
Between two and five years	0.899	-	0.4	0.885	(0.1)	1.4
Total Swiss Francs	0.877	(0.1)	2.3	0.872	(0.2)	2.8
Buy Swedish Krona						
Less than one year	0.093	(1.0)	7.6	0.093	(0.4)	3.6
Between one and two years	0.093	(1.1)	8.7	0.093	(0.7)	7.6
Between two and five years	0.094	(0.8)	6.2	0.093	(1.4)	14.9
Total Swedish Krona	0.093	(2.9)	22.5	0.093	(2.5)	26.1
Buy Chinese Yuan Renminbi						
Less than one year	0.104	0.8	9.8	0.106	0.6	9.1
Between one and two years	0.100	0.1	0.8	0.104	0.3	3.8
Between two and five years	-	-	-	0.100	-	0.4
Sell Chinese Yuan Renminbi						
Less than one year	0.104	(0.4)	3.8	0.106	(0.5)	6.5
Between one and two years	0.100	-	0.4	0.101	-	0.4
Total Chinese Yuan Renminbi	0.104	0.5	14.8	0.105	0.4	20.2
Grand total	n/a	(33.3)	1,065.7	n/a	6.6	617.3

At 31 March 2019 the Group held foreign currency call options which were out of the money and as such would not be exercised. The fair value of the foreign currency call options was a net asset of £4.0m. However, as no future cashflows were expected to arise these derivatives were excluded from the maturity table.

35. Funding and financial risk management (continued)

Maturity profile of derivatives (continued)

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

At 31 March	**2020 Average contracted fixed interest rate (%)**	**2020 Fair value £m**	**2020 Notional amount £m**	2019 Average contracted fixed interest rate (%)	2019 Fair value £m	2019 Notional amount £m
Interest rate hedges						
Less than one year	**3.548**	**(0.2)**	**25.0**	3.849	(1.1)	150.0
Between one and two years	**3.837**	**(3.6)**	**75.0**	3.548	(0.9)	25.0
Between two and five years	**4.325**	**(13.1)**	**125.0**	4.142	(20.7)	200.0
After five years	**2.306**	**(34.3)**	**208.6**	2.293	(18.8)	205.9
Total	**3.224**	**(51.2)**	**433.6**	3.385	(41.5)	580.9

TfL was conferred the legal powers to enter into derivatives for the purpose of risk mitigation via qualifying subsidiaries. The Corporation does not itself have the legal powers to enter into derivative transactions. TfL has entered into these contracts for the purpose of risk management and intends to hold these contracts to maturity as hedges against the underlying transactions.

35. Funding and financial risk management (continued)

Maturity profile of derivatives (continued)

The following tables detail the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

	Less than one year £m	Between one and two years £m	Between two and five years £m	More than five years £m	Total £m
Group – at 31 March 2020					
Derivatives settled gross					
Foreign exchange forward contracts:					
Amounts receivable	**721.8**	**128.7**	**154.8**	**41.7**	**1,047.0**
Amounts payable	**(744.4)**	**(131.3)**	**(161.0)**	**(43.6)**	**(1,080.3)**
Derivatives settled net					
Interest rate swaps	**(11.4)**	**(10.6)**	**(16.4)**	**(15.8)**	**(54.2)**
	(34.0)	**(13.2)**	**(22.6)**	**(17.7)**	**(87.5)**
Group – at 31 March 2019					
Derivatives settled gross					
Foreign exchange forward contracts:					
Amounts receivable	302.8	58.0	65.7	-	426.5
Amounts payable	(296.8)	(56.5)	(66.6)	-	(419.9)
Derivatives settled net					
Interest rate swaps	(11.7)	(9.1)	(15.1)	(4.7)	(40.6)
	(5.7)	(7.6)	(16.0)	(4.7)	(34.0)

The total asset or liability due to the Group as recognised on the Balance Sheet is the fair value of the derivatives, as this represents the cost to terminate. As such it differs from the total net contractual payments shown in the table above. At 31 March 2020, the fair value of the interest rate derivatives was a net liability of £51.2m (2019 a net liability of £41.5m). The fair value of forward exchange derivatives was a net ~~asset~~liability of £33.3m (2019 a net asset of £6.6m). At 31 March 2019, the Group also held foreign currency call options. These were out of the money and, as such, were not expected to be exercised. The fair value of these call options at 31 March 2019 was a net asset of £4.0m; however as no future cashflows were expected to arise these derivatives were excluded from the maturity table. The Group had no outstanding foreign currency call options as at 31 March 2020.

35. Funding and financial risk management (continued)

Contractual maturity of financial liabilities

The following table details the Group and the Corporation's remaining contractual maturity for their non derivative financial liabilities. The table has been drawn up on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group or Corporation can be required to pay and, therefore differs from the carrying value and the fair value. The table includes both interest and principal cash flows.

	Less than one year £m	Between one and two years £m	Between two and five years £m	More than five years £m	Total £m
Group - as at 31 March 2020					
Trade and other creditors	**1,695.1**	**12.6**	**-**	**-**	**1,707.7**
Borrowings - principal	**938.5**	**360.2**	**964.6**	**9456.2**	**11,719.5**
Borrowings - interest	**401.7**	**390.7**	**1103.5**	**5675.9**	**7,571.8**
Right-of-use lease liabilities	**352.0**	**322.2**	**583.4**	**1,880.9**	**3,138.5**
PFI lease liabilities	**19.4**	**14.8**	**52.2**	**67.8**	**154.2**
Other financing liabilities	**6.9**	**12.7**	**38.2**	**101.9**	**159.7**
	3,413.6	**1,113.2**	**2,741.9**	**17,182.7**	**24,451.4**
Group - as at 31 March 2019					
Trade and other creditors	1,698.2	11.0	-	-	1,709.2
Borrowings - principal	746.9	113.5	952.1	9,362.8	11,175.3
Borrowings - interest	478.6	389.9	1,043.0	6,024.8	7,936.3
PFI lease liabilities	62.9	19.3	48.2	86.7	217.1
Other finance lease liabilities	33.6	33.8	101.5	177.4	346.3
Other financing liabilities	-	6.9	38.2	114.6	159.7
	3,020.2	574.4	2,183.0	15,766.3	21,543.9
Corporation - as at 31 March 2020					
Trade and other payables	**~~1,095.9~~710.4**	**-**	**-**	**-**	**~~1,095.9~~710.4**
Borrowings - principal	**938.5**	**360.2**	**964.6**	**9,456.2**	**11,719.5**
Borrowings - interest	**401.7**	**390.7**	**1,103.50**	**5,675.9**	**7,571.8**
Right-of-use lease liabilities	**37.3**	**37.2**	**104.5**	**373.5**	**552.5**
PFI lease liabilities	**14.2**	**14.4**	**52.1**	**67.8**	**148.5**
	2,~~487.6~~102.1	**802.5**	**2,224.7**	**15,573.4**	**~~21,088.2~~20,702.7**
Corporation - as at 31 March 2019					
Trade and other payables	512.1	-	-	-	512.1
Borrowings - principal	746.9	113.5	952.1	9,362.8	11,175.3
Borrowings - interest	478.6	389.9	1,043.0	6,024.8	7,936.3
PFI lease liabilities	16.7	14.2	47.7	86.8	165.4
	1,754.3	517.6	2,042.8	15,474.4	19,789.1

35. Funding and financial risk management (continued)

Fair values

In accordance with IFRS 13, the fair values of the financial assets and liabilities are calculated as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents – approximates to the carrying amount
- Short-term investments – approximates to the carrying amount because of the short maturity of these instruments
- Long-term investments – by reference to bid prices at the close of business on the balance sheet date, within Level 1 of the fair value hierarchy as defined within IFRS 13
- Trade and other debtors - approximates to the carrying amount
- Derivative financial instruments – In the absence of quoted market prices, derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date). Hence, derivatives are within Level 2 of the fair value hierarchy as defined within IFRS 13:
    - Forward exchange contracts – based on market data and exchange rates at the balance sheet date
    - Interest rate swaps and forward starting interest rate swaps – based on the net present value of discounted cash flows
- Trade and other creditors - approximates to the carrying amount
- Long-term borrowings – determined by calculating the discounted value of the future cash flows (redemption and interest) using appropriate discount rates, based on observable market data, in effect at the balance sheet date at Level 2 of the fair value hierarchy. Fair value approximates to the carrying amount in the case of short-term commercial paper
- Finance lease liabilities – approximates to the carrying amount
- Other financing liabilities – approximates to the carrying amount

35. Funding and financial risk management (continued)

Fair values (continued)

The fair values of the Group's financial assets and liabilities together with the carrying amounts recorded in the ~~balance sheets~~Balance Sheets are illustrated below:

At 31 March	2020 Carrying value £m	2020 Fair value £m	2019 Carrying value £m	2019 Fair value £m
Cash and cash equivalents	**1,566.8**	**1,566.8**	1,665.8	1,665.8
Short-term investments	**642.4**	**642.4**	215.9	215.9
Trade and other debtors	**444.1**	**444.1**	650.2	650.2
Finance lease receivables	**52.7**	**52.7**	52.2	52.2
Derivative financial instruments	**4.9**	**4.9**	18.6	18.6
Total financial assets	**2,710.9**	**2,710.9**	2,602.7	2,602.7
Trade and other creditors	**(1,707.7)**	**(1,707.7)**	(1,709.2)	(1,709.2)
Borrowings	**(11,689.0)**	**(15,669.7)**	(11,144.6)	(15,367.7)
Right-of-use lease liabilities	**(2,417.0)**	**(2,417.0)**	-	-
PFI lease liabilities	**(125.5)**	**(125.5)**	(179.7)	(179.7)
Other finance lease liabilities	**-**	**-**	(238.8)	(238.8)
Other financing liabilities	**(136.0)**	**(136.0)**	(132.7)	(132.7)
Derivative financial instruments	**(89.4)**	**(89.4)**	(49.5)	(49.5)
Total financial liabilities	**(16,164.6)**	**(20,145.3)**	(13,454.5)	(17,677.6)
Net financial liabilities	**(13,453.7)**	**(17,434.4)**	(10,851.8)	(15,074.9)

35. Funding and financial risk management (continued)

The fair values of financial assets and liabilities of the Corporation determined in accordance with IFRS 13, together with the carrying amounts recorded in the balance sheet are:

At 31 March	**2020 Carrying value £m**	**2020 Fair value £m**	2019 Carrying value £m	2019 Fair value £m
Cash and cash equivalents	**1,410.7**	**1,410.7**	1,504.6	1,504.6
Short-term investments	**623.5**	**623.5**	203.0	203.0
Trade and other debtors	**~~12,062.7~~11,677.2**	**~~12,062.7~~11,677.2**	11,108.1	11,108.1
Total financial assets	**~~14,096.9~~13,711.4**	**~~14,096.9~~13,711.4**	12,815.7	12,815.7
Trade and other creditors	**(~~1,095.9~~710.4)**	**(~~1,095.9~~710.4)**	(512.1)	(512.1)
Borrowings	**(11,694.0)**	**(15,669.7)**	(11,150.4)	(15,367.7)
Right-of-use lease liabilities	**(439.3)**	**(439.3)**	-	-
PFI lease liabilities	**(120.2)**	**(120.2)**	(131.3)	(131.3)
Total financial liabilities	**(~~13,349.4~~12,963.9)**	**(~~17,325.1~~16,939.6)**	(11,793.8)	(16,011.1)
Net financial assets/(liabilities)	**747.5**	**(3,228.2)**	1,021.9	(3,195.4)

36. Pensions

The majority of the Group's staff were members of the Public Sector Section of the TfL Pension Fund. The majority of the Group's remaining staff were members of London Pension Fund Authority Pension Fund, the Principal Civil Service Pension Scheme, the Crossrail Shared Cost Section of the Railways Pension Scheme (Crossrail Section) or the Tube Lines defined contribution scheme.

a) Amount included in net cost of services

For the year ended 31 March	Note	**Group 2020 £m**	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
TfL Pension Fund		**581.3**	605.4	**371.9**	369.1
Local Government Pension Fund		**2.3**	2.0	**2.3**	2.0
Crossrail Section of the Railways Pension Scheme		**3.5**	4.2	**-**	-
Unfunded schemes provision		**6.5**	9.6	**5.2**	6.2
Total for schemes accounted for as defined benefit		**593.6**	621.2	**379.4**	377.3
Principal Civil Service Pension Scheme		**0.6**	0.5	**0.6**	0.5
Other schemes		**~~6~~3.8**	3.4	**1.8**	0.8
Amounts included in net cost of services		**~~601~~598.0**	625.1	**381.8**	378.6
Less: scheme expenses		**(13.4)**	(12.1)	**(13.2)**	(12.0)
Less: Crossrail pension costs capitalised		**(3.5)**	-	-	-
Amount included in staff costs	3	**~~587.6~~581.1**	613.0	**368.6**	366.6

36. Pensions (continued)

b) Defined benefit schemes

This section deals with those pension funds to which the Group contributes that are accounted for under IAS 19 as defined benefit schemes.

Public Sector Section of the TfL Pension Fund (TfL Pension Fund)

The TfL Pension Fund is a final salary scheme established under trust. The Fund's Trustee is the TfL Trustee Company Limited, a wholly owned subsidiary of TfL. Under the rules of the Fund, its 18 Trustee Directors are nominated in equal numbers by TfL and on behalf of the Fund's membership.

Every three years, the TfL Pension Fund actuary makes valuations and recommends the level of contributions to be made by the participating employers to ensure the long-term solvency of the Fund. The latest available valuation of the Fund was carried out as at 31 March 2018 by the Actuary, a partner of consulting actuaries Willis Towers Watson, using the projected unit method. A revised Schedule of Contributions was agreed between the Trustee and the employers following the formal funding valuation of the Public Sector Section.

Under the valuation report, the deficit of the Fund was £603m as at 31 March 2018. Assets totalled £10,321m and the defined benefit obligation totalled £10,924m. Employer's contributions for the period from 1 April 2019 until 31 March 2020 represented future service contributions at the rate of 26.9 per cent. From 1 April 2020 until 31 March 2026, employer contributions will rise to 33.3 per cent, comprising the future service contributions of 26.9 per cent, plus additional deficit recovery repayments at 6.4 per cent of pensionable pay. Additional contingent payments may be made from 1 April 2020 if the funding position deteriorates. The recovery plan states that the expectation is that the funding shortfall will be eliminated by March 2026.

The underlying assets and defined benefit obligation of the TfL Pension Fund cover a number of Group entities and cannot be readily split between each undertaking. No contractual agreement is in place to allocate the total net obligation between the member entities. Thus, in accordance with IAS 19, the Corporation, as the Scheme sponsor, has recognised the total net defined benefit obligation in its own individual accounts.

A separate valuation of the TfL Pension Fund has been prepared, by actuaries at the XPS Pensions Group, for accounting purposes on an IAS 19 basis as at 31 March 2020. The assumptions used by the actuaries are the best estimates chosen from a range of possible actuarial assumptions, while the present value of the schemes' defined benefit obligation is derived from cash flow projections. Due to the timescale covered, neither the assumptions nor the cash flow projections may necessarily be borne out in practice.

The defined benefit obligation for the TfL Pension Fund has been calculated using the mortality assumptions adopted for the latest available funding valuation as at 31 March 2018. Standard mortality tables were used, adjusted to reflect the recent mortality experience of the Fund's pensioners at that date. An allowance was made for future mortality improvements based on the CMI 2019 projections with a long term improvement rate of 1.25 per cent per annum.

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

36. Pensions (continued)

b) Defined benefit schemes (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 ~~Pensions~~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 15.9 per cent for 2019/20 (2018/19 15.9 per cent) of pensionable pay, plus a lump sum deficit reduction payment of £1.2m (2018/19 £1.2m). The Corporation's share of the underlying assets and defined benefit obligation resulted in an IAS 19 deficit as at 31 March 2020 of £~~41.9m~~40.7m (2019 £45.6m). The discounted scheme liabilities have an average duration of 21 years.

The last full actuarial valuation available was carried out at 31 March 2016. The annual report and financial statements for the whole scheme can be found on the London ~~Pensions~~Pension Fund ~~Authority~~Authority's website (www.lpfa.org.uk). A separate valuation as at 31 March 2020 has been prepared for accounting purposes on an IAS 19 basis by Barnett Waddington LLP.

Crossrail Shared Cost Section of the Railways Pension Scheme (Crossrail Section)

Crossrail Limited (CRL) participates in the Crossrail Section of the Railways Pension Scheme which is accounted for in these financial statements as a defined benefit pension scheme under IAS 19.

A full actuarial valuation of the Scheme was carried out at 31 December 2016. The report showed a funding surplus of £5.9m. This was translated into a continuing current employer contribution level of 20.9 per cent. A separate valuation has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2020 by actuaries at the XPS Pensions Group. The Group's share of the underlying assets and defined benefit obligation resulted in a deficit, as at 31 March 2020, of £18.3m (2019 £29.9m). The discounted Crossrail Section liabilities have a duration of approximately 21 years.

The defined benefit obligation for the Crossrail Section has been calculated using the mortality assumptions adopted for the latest available funding valuation as at 31 December 2016. Standard mortality tables were used, adjusted to reflect the recent mortality experience of the Scheme's pensioners at that date. An allowance was made for future mortality improvements based on the CMI 2019 projections with a long ~~-~~term improvement rate of 1.25 per cent per annum.

36. Pensions (continued)

Unfunded pension costs

The Corporation bears the cost of the augmentation of the pensions of certain employees, who retire early under voluntary severance arrangements.

In addition, the Corporation also bears the cost of:

- Ex-gratia payments which are made to certain former employees on retirement in respect of service prior to the establishment of pension funds for those employees
- Supplementary pensions, which are made to certain former employees who retired prior to index linking of pensions
- Pensions of London Regional Transport (LRT) former board members who did not qualify to join the TfL Pension Fund
- Other unfunded defined benefit pensions accruing to certain employees

XPS Pensions Group, consulting actuaries, were instructed to report on the financial position of the unfunded pension defined benefit obligation as at 31 March 2020 for the purpose of IAS 19 only. The report does not constitute a formal actuarial valuation of the unfunded pension defined benefit obligation. The valuation as at 31 March 2020 was £99.9m (2019 £105.7m), and is fully provided for in these financial statements.

36. Pensions (continued)

(b) Defined benefit schemes (continued)

Assumptions for defined benefit sections

The main actuarial assumptions used for the TfL Pension Fund, the Crossrail Shared Cost Section of the Railways Pension Scheme, the Local Government Pension Scheme (together 'the Schemes') and unfunded schemes were:

	IAS 19 valuation at 31 March 2020 %	IAS 19 valuation at 31 March 2019 %
RPI Inflation	**2.35-2.70**	3.15-3.40
CPI Inflation	**1.45-~~2.40~~1.90**	2.15-2.40
Rate of increase in salaries	**2.35-2.90**	3.15-3.90
Rate of increase in pensions in payment and deferred pensions	**1.45-2.40**	2.03-3.15
Discount rate	**2.30-2.35**	2.35-2.40

The Group's retirement benefit plans typically expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk. Sensitivity analyses for the most significant actuarial assumptions made in relation to these risks are as set out below. The analyses have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate were 0.1 per cent higher/(lower), the defined benefit obligation would decrease by £279.6m/(increase by £288.1m)
- If the expected salary growth were increased/(decreased) by 0.1 per cent, the defined benefit obligation would increase by £77.0m/(decrease by £75.9m)
- If life expectancy were increased/(decreased) by one year, the defined benefit obligation would increase by £467.2m/(decrease by £467.2m)
- If the inflation rate were 0.1 per cent higher/(lower), the defined benefit obligation would increase by £276.6m/(decrease by £269.1m)

The sensitivity analyses presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

36. Pensions (continued)

c) Accounting for defined benefit schemes

The total assets in the schemes were:

At 31 March	Value 2020 £m	Value 2019 £m
Equities and alternatives	**7,949.0**	8,098.4
Bonds	**2,527.5**	2,435.7
Cash and other	**163.3**	467.2
Total fair value of assets	**10,639.8**	11,001.3

The TfL Pension Fund, the Crossrail Shared Cost Section of the Railways Pension Scheme and the Local Government Pension Scheme assets consist of the following categories, by proportion of the total assets held:

At 31 March	2020 %	2019 %
Equities	**75**	74
Bonds	**24**	22
Cash and other assets	**1**	4
	100	100

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

36. Pensions (continued)

Total pension deficit at 31 March

Group	2020 £m	2019 £m
Fair value of scheme assets	**10,639.8**	11,001.3
Actuarial valuation of defined benefit obligation	**(14,740.4)**	(16,371.9)
Deficit recognised as a liability in the balance sheet	**(4,100.6)**	(5,370.6)

Group	2020 £m	2019 £m
TfL Pension Fund	**(3,941.7)**	(5,189.4)
Local Government Pension Fund	**(40.7)**	(45.6)
Crossrail Section of the Railways Pension Scheme	**(18.3)**	(29.9)
Unfunded schemes provision	**(99.9)**	(105.7)
Deficit recognised as a liability in the balance sheet	**(4,100.6)**	(5,370.6)

Corporation	2020 £m	2019 £m
Fair value of scheme assets	**10,563.3**	10,927.0
Actuarial valuation of defined benefit obligation	**(14,645.6)**	(16,267.7)
Deficit recognised as a liability in the balance sheet	**(4,082.3)**	(5,340.7)

Corporation	2020 £m	2019 £m
TfL Pension Fund	**(3,941.7)**	(5,189.4)
Local Government Pension Fund	**(40.7)**	(45.6)
Unfunded schemes provision	**(99.9)**	(105.7)
Deficit recognised as a liability in the balance sheet	**(4,082.3)**	(5,340.7)

36. Pensions (continued)

Analysis of amounts included in the Comprehensive Income and Expenditure Statement

Analysis of amounts charged to net cost of services

Year ended 31 March	**Group 2020 £m**	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Current service cost	**573.6**	551.6	**570.3**	547.5
Less contributions paid by subsidiaries	**-**	-	**(210.7)**	(239.7)
Past service cost	**6.6**	57.5	**6.6**	57.5
Total included in staff costs	**580.2**	609.1	**366.2**	365.3
Scheme expenses	**13.4**	12.1	**13.2**	12.0
Total amount charged to net cost of services	**593.6**	621.2	**379.4**	377.3

Amounts charged to financing and investment expenditure

Year ended 31 March	**Group 2020 £m**	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Net interest expense on scheme defined benefit obligation	**122.7**	113.4	**122.0**	112.8

Amount recognised in other comprehensive income and expenditure

Year ended 31 March	**Group 2020 £m**	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Net remeasurement (gains)/losses recognised in the year	**(1,687.9)**	336.7	**(1,673.7)**	335.7

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

At 31 March	**Group 2020 £m**	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Wholly unfunded schemes	**99.9**	105.7	**99.9**	105.7
Wholly or partly funded schemes	**14,640.5**	16,266.2	**14,545.7**	16,162.0
Total scheme defined benefit obligation	**14,740.4**	16,371.9	**14,645.6**	16,267.7

36. Pensions (continued)

Reconciliation of defined benefit obligation

	Group 2020 £m	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Actuarial value of defined benefit obligation at 1 April	**16,371.9**	15,087.0	**16,267.7**	14,991.3
Current service cost	**573.6**	551.6	**570.3**	547.5
Interest cost	**380.9**	373.3	**378.4**	371.1
Employee contributions	**54.2**	53.8	**53.8**	53.3
Remeasurement losses/(gains) on scheme liabilities:				
Net remeasurement - financial	**(2,082.0)**	733.9	**(2,066.5)**	729.1
Net remeasurement - experience	**(202.4)**	266.5	**(202.4)**	266.5
Net remeasurement - demographic	**29.8**	(366.8)	**29.6**	(365.0)
Actual benefit payments	**(392.2)**	(384.9)	**(391.9)**	(383.6)
Past service cost	**6.6**	57.5	**6.6**	57.5
Actuarial value of defined benefit obligation at 31 March	**14,740.4**	16,371.9	**14,645.6**	16,267.7

Reconciliation of fair value of the scheme assets

	Group 2020 £m	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Fair value of assets at 1 April	**11,001.3**	10,379.7	**10,927.0**	10,310.1
Expected return on assets net of expenses	**258.2**	259.9	**256.4**	258.3
Scheme expenses	**(13.4)**	(12.1)	**(13.2)**	(12.0)
Return on assets excluding interest income	**(566.7)**	296.9	**(565.6)**	294.9
Actual employer contributions	**293.0**	402.8	**80.7**	161.1
Contributions paid by subsidiaries	**-**	-	**210.7**	239.7
Employee contributions	**54.2**	53.8	**53.8**	53.3
Actual benefits paid	**(386.8)**	(379.7)	**(386.5)**	(378.4)
Fair value of assets at 31 March	**10,639.8**	11,001.3	**10,563.3**	10,927.0

36. Pensions (continued)

The expected return on scheme assets is set equal to the discount rate. The actual return on scheme assets in the year was a loss of £308.5m (2018/19 a gain of £556.8m).

Total contributions of £368.1m are expected to be made to the schemes in the year ending 31 March ~~2020~~2021.

d) Other pension arrangements

Principal Civil Service Pension Scheme and Alpha – Civil Servants and Others Pension Scheme

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. From 1 April 2015 most PCSPS members switched to the new Civil Servants and Others Pension Scheme, (also known as Alpha). The Group is unable to identify its share of the underlying assets and defined benefit obligations of these schemes on a consistent and reasonable basis and, as permitted by the multi-employer exemption in IAS 19, the Group treats contributions to the PCSPS and Alpha as if they were contributions to a defined contribution plan. A full actuarial valuation was last carried out at 31 March 2016. Details can be found in the Civil Service Superannuation Resource Accounts (www.civilservicepensionscheme.org.uk/).

During 2019/20 employers' contributions represented an average of 27.3 per cent of pensionable pay (2018/19 21.1 per cent). Employer contributions are reviewed every four years. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Docklands Light Railway Pension Scheme

The Docklands Light Railway Pension Scheme (DLR 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 annum of Pensionable Salaries into the Scheme, the PPF levy and additional contributions if actual pensionable salary increases exceed RPI + 1.5% per annum.

36. Pensions (continued)

DLR, as the Principal Employer of the DLR Scheme, is responsible for meeting any further costs towards the cost of accruing benefits and removing the deficit, over and above the contributions payable by KAD, if necessary. Following the completion of the 2018 valuation, it was agreed that DLR would pay 22.6% per annum of Pensionable Salaries towards future benefit accrual from 1 April 2018, plus additional contributions towards the deficit of £0.8m per annum, with the first instalment paid on or before 31 July 2019 and the remaining instalments due on or before each 10 April from 2020 to 2024 inclusive. In addition, it was agreed that DLR would pay additional contributions if actual Pensionable Salary growth exceeds RPI inflation + 0.5% per annum (up to RPI inflation + 1.5% per annum).

Over the year beginning 1 April 2020 the contributions payable to the DLR Scheme are expected to be around £5.5m from KAD and £4.3m from DLR, based on the schedule of contributions currently in force. This makes no allowance for additional contributions that may arise if Pensionable Salary growth exceeds RPI inflation + 0.5% per annum.

A valuation of the DLR Scheme has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2020. The assumptions used by the actuary are best estimates chosen from a range of possible actuarial assumptions, whilst the present value of the DLR Scheme's defined benefit obligation is based on future cash flow projections. Neither the assumptions nor the cash flow projections may necessarily be borne out in practice.

The discounted DLR Scheme liabilities have a duration of approximately 20 years.

The scheme’s funding arrangements outlined above mean that DLR is currently unable to identify its share of this obligation on a consistent and reasonable basis. The Group has therefore taken the exemption permitted under IAS 19 for multi-employer schemes and treats contributions to the DLR Scheme as if they were contributions to a defined contribution plan. No defined benefit obligation has been recognised in the balance sheet in respect of this scheme.

Contributions totalling £2.2m were paid by DLR in 2019/20, with an additional £5.9m being paid by KAD (2018/19 £3.0m paid by DLR and £6.6m by KAD).

Defined contribution schemes

The Group contributes to a number of defined contribution schemes, with total contributions, including contributions to the DLR, PCSPS and Alpha schemes as outlined in the paragraphs above, amounting to £~~7~~4.4m (2018/19 £3.9m).

37. Cash flow notes

a) Adjustments to net surplus for non-cash movements

	Group 2020 £m	Group 2019 £m	Corporation 2020 £m	Corporation 2019 £m
Depreciation of property, plant and equipment and amortisation of intangibles	**1,404.1**	1,064.4	**176.1**	156.6
Loss on disposal of property, plant and equipment and intangibles	**30.9**	32.5	**0.3**	7.2
Net gain on sale of investment properties	**(31.7)**	(131.5)	**(22.9)**	(96.5)
Movements in the value of investment properties	**(~~934.2~~59.0)**	(4.9)	**~~(13.2)~~3.6**	(1.5)
Reversal of unrealised net losses on retranslation of foreign currency investments	**-**	0.1	**-**	0.1
Reversal of fair value movements on derivatives not in hedging relationships for accounting purposes	**-**	0.3	**-**	-
Financing income	**(18.0)**	(12.4)	**(390.7)**	(372.0)
Financing expense	**519.9**	475.3	**552.6**	522.8
Capital grants received	**(2,231.6)**	(1,184.6)	**(2,145.4)**	(1,076.7)
Capital grants paid to subsidiaries	**-**	-	**566.5**	277.8
Reversal of share of net losses from joint ventures and associated undertakings	**52.1**	94.5	**-**	-
Reversal of defined benefit pension service costs	**593.6**	621.2	**~~590.1~~379.4**	377.3
Reversal of ~~taxation~~ tax charge/(credit)	**~~242.5~~106.8**	(2.0)	**-**	-
Adjustments to net surplus for non-cash movements before movements in working capital	**~~(372.4)~~367.1**	952.9	**(~~686.6~~880.5)**	(204.9)
(Decrease)/increase in creditors	**(47.7)**	84.1	**~~637.2~~251.7**	(97.1)
Decrease/(increase) in debtors	**~~221.3~~217.2**	(195.3)	**~~(347.5)~~38.0**	279.9
Decrease in inventories	**2.1**	3.2	**-**	-
(Decrease)/increase in provisions	**(136.9)**	(26.8)	**11.4**	(9.2)
Adjustments to net surplus for non-cash movements after movements in working capital	**~~(333.6)~~401.8**	818.1	**(~~385.5~~579.4)**	(31.3)
Net cash payments for employers' contributions to defined benefit pension funds and direct payments to pensioners	**(298.4)**	(408.0)	**(~~296.8~~86.1)**	(166.3)
~~Taxation~~ Tax (paid)/received	**(0.1)**	2.0	**-**	-
Total adjustments to net surplus for non-cash movements	**~~(632.1)~~103.3**	412.1	**(~~682.3~~665.5)**	(197.6)

37. Cash flow notes (continued)

b) Investing activities

Year ended 31 March	**Group 2020 £m**	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Interest and other investment income received	**16.8**	12.6	**389.4**	372.4
Capital grants received	**2,216.9**	1,139.2	**2,160.2**	1,036.9
Capital grants paid to subsidiaries	**-**	-	**(566.5)**	(277.8)
Purchase of property, plant and equipment and investment property	**(2,~~589~~602.2)**	(3,525.9)	**(~~184.6~~181.0)**	(293.1)
Purchase of intangible assets	**(21.0)**	(38.0)	**(16.8)**	(29.6)
Proceeds from the sale of property, plant and equipment and intangible assets	**106.2**	796.3	**~~3.6~~-**	-
Net (purchases)/sales of other investments	**(400.3)**	476.4	**(420.5)**	466.8
Issue of loans to subsidiaries	**-**	-	**(654.9)**	(917.4)
Repayments of loans to subsidiaries	**-**	-	**-**	454.1
Finance leases granted in year	**(17.9)**	(35.6)	**-**	-
Finance leases repaid in year	**17.5**	9.0	**-**	-
Proceeds from sale of investment property	**~~46.4~~56.6**	231.3	**59.6**	87.6
Investment in equity ~~loan notes~~ of joint ventures and associated undertakings	**~~-~~(20.4)**	(9.0)	**-**	-
~~Investment in share capital of associated undertakings~~	**~~(20.4)~~**	~~-~~	**~~-~~**	~~-~~
Investment in share capital of subsidiaries	**-**	-	**(1,240.0)**	(1,560.0)
Net cash flows from investing activities	**(~~645.0~~647.8)**	(943.7)	**(470.5)**	(660.1)

c) Financing activities

Year ended 31 March	**Group 2020 £m**	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Cash payments for reduction of the outstanding liabilities relating to lease and PFI arrangements	**(302.6)**	(69.6)	**(35.7)**	(10.8)
Cash payments for reduction of other financing liabilities	**-**	(8.8)	**-**	-
Net proceeds from new borrowing	**640.9**	924.2	**640.9**	924.2
Repayments of borrowings	**(96.0)**	(196.7)	**(96.0)**	(196.7)
~~Purchase~~Amounts received/(paid) in respect of derivative ~~option~~options	**0.7**	(4.7)	**-**	-
Interest paid	**(468.7)**	(345.8)	**(514.9)**	(402.8)
Net cash flows from financing activities	**(225.7)**	298.6	**(5.7)**	313.9

38. Unusable reserves

At 31 March	2020 £m	2019 £m
Group		
Capital adjustment account	**27,913.6**	26,481.8
Pension reserve	**(4,082.3)**	(5,340.7)
Accumulated absences reserve	**(14.3)**	(10.2)
Retained earnings reserve in subsidiaries	**2,~~005.0~~011.9**	1,550.0
Revaluation reserve	**333.6**	345.1
Hedging reserve	**(119.4)**	(105.5)
Cost of hedging reserve	**(4.4)**	(0.7)
Financial instruments adjustment account	**(147.5)**	(159.3)
Merger reserve	**466.1**	466.1
	26,~~350.4~~357.3	23,226.6

At 31 March	2020 £m	2019 £m
Corporation		
Capital adjustment account	**15,356.1**	13,857.9
Pension reserve	**(4,082.3)**	(5,340.7)
Accumulated absences reserve	**(14.3)**	(10.2)
Revaluation reserve	**27.7**	19.8
Financial instruments adjustment account	**(147.5)**	(159.3)
	11,139.7	8,367.5

38. Unusable reserves (continued)

Capital adjustment account

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

	Note	**Group 2020 £m**	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Balance at 1 April		**26,481.8**	25,812.6	**13,857.9**	12,434.6
Charges for depreciation and impairment of non-current assets		**(176.1)**	(156.6)	**(176.1)**	(156.6)
Gain on disposal of investment properties		**22.9**	96.5	**22.9**	96.5
Transfer from revaluation reserve of historic revaluation gains on office properties transferred to investment properties during the year		**3.2**	-	**3.2**	-
Movements in the market value of investment properties recognised in the surplus on the provision of services after tax		**~~13.2~~(3.6)**	1.5	**~~13.2~~(3.6)**	1.5
Movements in the market value of investment properties recognised directly in other comprehensive income		**16.8**	-	**16.8**	-
Capital grants and contributions	10	**2,231.6**	1,856.1	**1,578.9**	1,470.4
Transfer from street works reserve		**0.3**	-	**0.3**	-
Transfer of capital grant funding from retained earnings reserve in subsidiaries		**1.0**	-	**-**	-
Minimum revenue provision		**56.1**	18.7	**56.1**	18.7
Loss on disposal of property, plant and equipment		**(0.3)**	(7.2)	**(0.3)**	(7.2)
Adjustments between Group and Corporation financial statements	*	**(720.1)**	(1,139.8)	**-**	-
Balance at 31 March		**27,913.6**	26,481.8	**15,356.1**	13,857.9

* The adjustment between the Group financial statements and the Corporation financial statements arises due to an alignment of the accounting policies between the Group and its subsidiaries. Under the Code, capital grants are recognised in the Comprehensive Income and Expenditure Statement and are then transferred to the Capital Adjustment Account (CAA) when utilised. No amortisation of grants or disposal of grants is recognised in the Comprehensive Income and Expenditure Statement. TfL's subsidiary companies account under full EU-adopted IFRS (rather than the Code) and are required to recognise deferred capital grants on the balance sheet and recognise grant amortisation in arriving at their retained earnings. An accounting policy alignment is performed on consolidation to recognise the grant receipts in the Comprehensive Income and Expenditure Statement (from where they are then transferred to the CAA). Equally, the amortisation and grant disposals are

removed from the Comprehensive Income and Expenditure Statement and are shown in the CAA so that the total CAA adjustment is equal to the deferred capital grant carried in the subsidiaries' books.

Notes to the Financial Statements

38. Unusable reserves (continued)

Pension reserve

The pension reserve represents pension and other post-retirement defined benefit obligations shown on the balance sheet, excluding those reflected on the balance sheets of the subsidiary companies. The pension reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Group and Corporation account for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the defined benefit obligations recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Group and Corporation make employer’s contributions to pension funds or eventually pay any pensions for which they are directly responsible. The debit balance on the pension reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources that have been set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	Group 2020 £m	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Balance at 1 April	**(5,340.7)**	(4,681.2)	**(5,340.7)**	(4,681.2)
Net remeasurement gains/(losses) on pension assets and defined benefit obligations	**1,673.7**	(335.7)	**1,673.7**	(335.7)
Reversal of charges relating to retirement benefits	**(712.1)**	(729.8)	**(501.4)**	(490.1)
Employer's pension contributions, contributions from subsidiaries and direct payments to pensioners payable in the year	**296.8**	406.0	**86.1**	166.3
Balance at 31 March	**(4,082.3)**	(5,340.7)	**(4,082.3)**	(5,340.7)

38. Unusable reserves (continued)

Accumulated absences reserve

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

	Group 2020 £m	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Balance at 1 April	**(10.2)**	(7.5)	**(10.2)**	(7.5)
Settlement or cancellation of accrual made at the end of the preceding year	**10.2**	7.5	**10.2**	7.5
Amounts accrued at the end of the current year	**(14.3)**	(10.2)	**(14.3)**	(10.2)
Balance at 31 March	**(14.3)**	(10.2)	**(14.3)**	(10.2)

Retained earnings reserve in subsidiaries

The retained earnings reserve in subsidiaries represents the retained earnings in the Group's subsidiary companies. These are disclosed as unusable reserves as unless and until they are paid up in dividends to the Corporation, they are not available to fund the expenditure of the Corporation.

	Group 2020 £m	Group 2019 £m
Balance at 1 April	**1,550.0**	1,066.1
~~Surplus/(deficit)~~Deficit on the provision of services after tax in subsidiaries	**~~339.2~~(376.6)**	(286.7)
Surplus on valuation of newly created investment properties (net of tax)	**722.7**	-
Transfer of current year capital grants and contributions to the Capital Adjustment Account	**(652.7)**	(385.7)
Transfer of capital grants brought forward to the Capital Adjustment Account	**(1.0)**	-
Transfer of adjustments between Group and Corporation financial statements to the Capital Adjustment Account	**720.1**	1,139.8
Adjustment to reserves for the implementation of IFRS 16 (see note 45)	**(2.5)**	-
Remeasurement gains/(losses) on defined benefit pension plan assets and liabilities	**14.2**	(1.0)
Release of revaluation reserve relating to the difference between fair value depreciation and historic cost depreciation, and to historic revaluation gains recognised in respect of properties disposed during the year	**37.7**	17.5
Balance at 31 March	**2,~~005.0~~011.9**	1,550.0

38. Unusable reserves (continued)

Revaluation reserve

The revaluation reserve contains the accumulated gains made arising from increases in the value of property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation
- Disposed of and the gains are transferred to retained earnings

	Note	**Group 2020 £m**	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Balance at 1 April		**345.1**	302.7	**19.8**	-
Revaluation of assets	~~12~~13	**29.4**	59.9	**11.1**	19.8
Transfer to capital adjustment account of historic revaluation gains on office properties transferred to investment properties during the year		**(3.2)**	-	**(3.2)**	-
Release of revaluation reserve ~~to the retained earnings reserve in subsidiaries~~ relating to the difference between fair value depreciation and historic cost depreciation, and to historic revaluation gains recognised in respect of properties disposed during the year		**(37.7)**	(17.5)	**-**	-
Balance at 31 March		**333.6**	345.1	**27.7**	19.8

Hedging reserve

The hedging reserve holds the gain or loss on a hedging instrument that is determined to be an effective hedge. The ineffective portion, if any, is recognised immediately through the Comprehensive Income and Expenditure Statement. The gain or loss deferred in reserves is recognised in the Comprehensive Income and Expenditure Statement in the period(s) during which the hedged forecast transaction affects profit or loss.

	Group 2020 £m	Group 2019 £m
Balance at 1 April	**(105.5)**	(115.4)
Net change in fair value of cash flow interest rate hedges	**(9.6)**	2.6
Net change in fair value of cash flow foreign exchange hedges	**(13.3)**	(1.3)
Recycling of interest rate fair value losses to profit and loss	**9.0**	8.6
Balance at 31 March	**(119.4)**	(105.5)

The Corporation does not have a hedging reserve as it has not entered into any derivative transactions, nor does it have legal powers to do so.

38. Unusable reserves (continued)

Cost of hedging reserve

The cost of hedging reserve holds the gain or loss on a hedging instrument arising from changes in the fair value of the time value of an option when the intrinsic value of the option has been designated in an effective hedging relationship. The gain or loss deferred in reserves is recognised in the Comprehensive Income and Expenditure Statement in the period(s) during ~~the period when~~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 2020 £m	Group 2019 £m
Balance at 1 April	**(0.7)**	-
Net change in fair value of cash flow foreign exchange hedges	**(3.9)**	(0.7)
Recycling of cashflow foreign exchange hedge ~~(gains)/~~losses to the Balance Sheet	**0.2**	-
Balance at 31 March	**(4.4)**	(0.7)

The Corporation does not have a cost of hedging reserve as it has not entered into any derivative transactions, nor does it have legal powers to do so.

Financial instruments adjustment account

The financial instruments adjustment account provides a balancing mechanism between the different rates at which gains and losses (such as premium on the early repayment of debt) are recognised under the Code and are required by statute to be met from the General Fund.

	Group 2020 £m	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Balance at 1 April	**(159.3)**	(171.0)	**(159.3)**	(171.0)
Release of premium	**11.8**	11.7	**11.8**	11.7
Balance at 31 March	**(147.5)**	(159.3)	**(147.5)**	(159.3)

38. Unusable reserves (continued)

Merger reserve

The merger reserve of £466.1m arose as a result of the transfer of the net assets of London Regional Transport, including the share capital of London Underground Limited (LU), to TfL in 2003. It represents the share capital of LU and was taken as a credit to the merger reserve. The Group has taken advantage of the exemption in IFRS 1 not to restate business combinations occurring prior to the transition date of 1 April 2009.

	Group 2020 £m	Group 2019 £m	**Corporation 2020 £m**	Corporation 2019 £m
Balance at 1 April and 31 March	**466.1**	466.1	**-**	-

39. Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Corporation in the year in accordance with proper accounting practice in order to determine the resources that are specified by statutory provisions as being available to the Corporation to meet future capital and revenue expenditure. The General Fund reserve represents monies available to finance the day to day activities of TfL.

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

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Corporation

Year ended 31 March 2020	Note	General fund £m	Capital adjustment account £m	Pension reserve £m	Street works reserve £m	Financial instruments adjustment account £m	Accumulated absences reserve £m
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement							
Charges for depreciation, amortisation and impairment of non-current assets	3	176.1	(176.1)	-	-	-	-
Net gain on disposal of investment properties	8	(22.9)	22.9	-	-	-	-
Movements in the market value of investment properties	8	~~(13.2)~~3.6	~~13.2~~(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)	~~(300.~~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	41	(56.1)	56.1	-	-	-	-
Amortisation of premium on financing		(11.8)	-	-	-	11.8	-
		(1,~~090.4~~073.6)	1,~~194.7~~478.2	(415.3)	~~(~~3.0~~)~~	11.8	(4.1)

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

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Corporation

Year ended 31 March 2019	Note	General fund £m	Capital adjustment account £m	Pension reserve £m	Street works reserve £m	Financial instruments adjustment account £m	Accumulated absences reserve £m
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement							
Charges for depreciation, amortisation and impairment of non-current assets	3	156.6	(156.6)	-	-	-	-
Net gain on disposal of investment properties	8	(96.5)	96.5	-	-	-	-
Movements in the market value of investment properties	8	(1.5)	1.5	-	-	-	-
Capital grants and contributions	10	(1,470.4)	1,470.4	-	-	-	-
Unapplied capital grants	10	671.5	-	-	-	-	-
Loss on disposal of non-current assets	7	7.2	(7.2)	-	-	-	-
Reversal of items relating to retirement benefits		490.1	-	(490.1)	-	-	-
Transfers to/from street works reserve		(1.1)	-	-	1.1	-	-
Difference between the remuneration charged on an accruals basis and the remuneration chargeable in accordance with statutory requirements		2.7	-	-	-	-	(2.7)
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement which are required to be charged in accordance with statutory requirements							
Employer's pension contributions and direct payments to pensioners payable in the year		(166.3)	-	166.3	-	-	-
Minimum Revenue provision	41	(18.7)	18.7	-	-	-	-
Amortisation of premium on financing		(11.7)	-	-	-	11.7	-
		(438.1)	1,423.3	(323.8)	1.1	11.7	(2.7)

40. Sources of finance

Capital expenditure analysed by source of finance:

Year ended 31 March	Note	Corporation 2020 £m	Corporation 2019 £m
Capital expenditure			
Intangible asset additions	12	**16.8**	29.6
Property, plant and equipment additions	13	**226.4**	239.6
Investment property	15	~~-~~2.7	52.3
Investments in year	16	**1,240.0**	1,560.0
Loans made to subsidiaries in year for capital purposes		**654.9**	917.4
Capital grants allocated to subsidiaries in year	10	**566.5**	277.8
Total capital expenditure		**2,~~704.6~~707.3**	3,076.7
Sources of finance			
Business Rates Retention used to fund capital	10	**967.8**	219.1
Community infrastructure levy and other third ~~-~~party contributions	10	**188.6**	342.6
Crossrail specific grant	10	**989.0**	515.0
Adjusted by amounts transferred from/(to) Capital Grants Unapplied Account	10	**-**	671.5
Prudential borrowing		**544.9**	727.5
Repayment of loans to subsidiaries		**-**	454.1
Capital receipts		**29.0**	150.9
Transfer from street works reserve		**0.3**	1.1
Net repayment of finance leases		**-**	(10.8)
Working capital		**(~~15.0~~12.3)**	5.7
Total sources of finance		**2,~~704.6~~707.3**	3,076.7

41. Minimum revenue provision

The Local Government and Housing Act 1989 requires a Minimum Revenue Provision (MRP) to be set aside for the redemption of external debt. As a statutory corporation regulated as if it were a local authority, TfL is required to comply with the Local Authorities Capital Finance Regulations. New regulations were approved by the Secretary of State in February 2008. TfL is required to approve an Annual MRP Statement determining the amount of MRP which it considers to be prudent.

The Ministry of Housing, Communities and Local Government issued guidance setting out four possible methods which are deemed automatically prudent, but also states that 'approaches differing from those exemplified should not be ruled out… the broad aim of prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.'

While statutory guidance suggests four potential methods for calculating MRP it also allows for other methods and approaches to be used. Since 2016/17 TfL has applied the principles inherent in the statutory guidance on MRP, to make an annual provision in TfL (the Corporation), that aims to build up a reserve on the Balance Sheet over the average useful economic life of the assets funded by borrowings in the Corporation, such that, at the end of that useful economic life, that reserve may be employed to either repay borrowings or to finance replacement capex for those assets that have reached the end of their lives. An MRP is effectively already made for borrowings passed down to the subsidiaries through TfL's existing processes for funding those entities. The MRP provision for 2019/20, shown as a transfer from the General Fund to the Capital Adjustment Account in the Group and Corporation Movement in Reserves Statements, was a total of £56.1m (2018/19 £18.7m).

42. Financial assistance

TfL may give financial assistance to any body or person in respect of expenditure incurred or to be incurred by that body or person in doing anything which, in the opinion of TfL, is conducive to the provision of safe, integrated, efficient and economic transport facilities or services to, from or within Greater London, and also to London Transport Museum Limited.

Financial assistance given under section 159 of the GLA Act 1999 is outlined below:

Year ended 31 March	**Corporation 2020 £m**	Corporation 2019 £m
Financial assistance to subsidiaries		
Transport Trading Limited	**56.6**	291.6
London Underground Limited	**906.4**	499.0
London Bus Services Limited	~~413.6~~**420.5**	596.1
London River Services Limited	**5.0**	20.5
Victoria Coach Station	**0.5**	-
London Buses Limited	**8.2**	5.9
London Transport Museum Limited	**3.1**	3.1
Docklands Light Railway Limited	**42.9**	43.1
Rail for London Limited	**200.3**	327.8
Crossrail Limited	~~26.5~~**19.6**	5.5
Tramtrack Croydon Limited	**39.1**	29.7
Rail for London (Infrastructure) Limited	**29.1**	12.9
	1,731.3	1,835.2

Year ended 31 March	Note	**Corporation 2020 £m**	Corporation 2019 £m
Financial assistance to London Boroughs and other third parties			
Local Implementation Plan		**98.1**	102.6
Crossrail Complementary Measures		**4.3**	3.4
Taxicard		**8.5**	10.1
Cycling		**35.0**	33.2
Bus priority		**10.0**	6.4
Other		**8.3**	6.2
Total financial assistance to London Boroughs and other third parties	3	**164.2**	161.9

43. Related parties

TfL is required by the Code and IAS 24 Related Party Disclosures (IAS 24) to disclose material transactions with related parties. Related parties are entities or individuals who have the potential to control, indirectly control or significantly influence TfL or to be controlled, indirectly controlled or significantly influenced by TfL.

TfL is a statutory corporation established by section 154 of the GLA Act 1999. It is a functional body of the Greater London Authority and is controlled by the Mayor of London. TfL is classified as a government entity in accordance with IAS 24, as it is controlled by the GLA, through the Mayor. The GLA and its other functional bodies are considered to be related parties of TfL and its subsidiaries, as they are all under the control of the Mayor. Other related parties include TfL's Board Members, members of the TfL Executive Committee (including Managing Directors, the Commissioner, the Chief Finance Officer and General Counsel), the Mayor of London and the TfL Pension Fund. In addition, central Government has the potential to influence TfL by providing the statutory framework within which TfL operates and through the provision of funding in the form of grants and borrowing facilities.

Disclosure of related party transactions allows readers to assess the extent to which the Corporation might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with it.

GLA and functional bodies

Details of amounts received from the Business Rates Retention, and the Council Tax precept paid to TfL by the GLA are shown in note 10.

During 2019/20 TfL had the following other transactions with the GLA and functional bodies:

	Total income during the year £m	Total expenditure during the year £m	Outstanding balance at 31 March 2020 £m
GLA	**6.1**	**(2.9)**	**0.7**
Mayor's Office for Policing and Crime (MOPC)	**0.1**	**-**	**-**
London Legacy Development Corporation (LLDC)	**0.5**	**-**	**-**
~~London Fire Commissioner~~	-	-	-

43. Related parties (continued)

Board Members and Officers

Board Members, the Mayor of London, and key management (including the Commissioner and the TfL Executive Committee), are required to complete a declaration regarding any related party transactions. During the year, none of the Corporation Board, key management personnel or parties related to them have undertaken any ~~material~~ transactions with the Corporation or its subsidiaries (2018/19 none). Details of the remuneration of the Commissioner and all employees earning a base salary in excess of £150,000 are disclosed in the Remuneration Report (see note 5).

TfL Pension Fund

The Accounts of the TfL Pension Fund are prepared separately and are subject to a separate audit opinion. Contributions payable to the TfL Pension Fund by TfL as employer are disclosed in note 36.

Central Government

The DfT sets the permitted levels of borrowing for TfL through the spending review process. The most recent funding agreement was dated 27 March 2017 and covered permitted levels of borrowing for the period up to 31 March 2021. In addition to the borrowings set out in this agreement, the DfT made a grant of £150m towards the funding of the Crossrail project in July 2018. In December 2018 the Mayor of London and the Government agreed a further financial package to cover Crossrail overruns. The GLA will borrow up to £1.3bn from the DfT. The GLA will repay this loan from the existing Business Rate Supplement (BRS) and Mayoral Community Infrastructure Levy (MCIL). The GLA will also provide a £100m cash contribution, taking its total contribution to £1.4bn which it will provide as a grant to TfL for the Crossrail project.

Because the final costs of the Crossrail project are yet to be confirmed, a contingency arrangement was also agreed between TfL and the Government. This takes the form of a loan facility from the DfT of up to £750m.

Other public bodies

TfL provides financial assistance to London Boroughs to support Borough schemes that improve the local travelling environment. Financial assistance provided is disclosed in note 42.

TfL receives income from the London Boroughs for the provision of free travel for older and disabled customers, and students. This income is set out in note 1.

TfL has borrowings outstanding from the PWLB and pays interest to PWLB in respect of those borrowings.

TfL makes payments to the British Transport Police for the provision of policing services on the Underground and Overground railways.

TfL makes payments to the Metropolitan Police Service for policing services provided by the Safer Transport Command.

Transactions between the Corporation and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

44. Trust Funds

The Corporation acts as the sole trustee for the TfL Healthcare Trust, a trust established for the purpose of providing certain benefits relating to medical treatment for eligible employees of the Group and their family members. The Trust is administered by AXA PPP Healthcare Administration Services Limited, an independent third party. Under the terms of the Trust deed the funds held by the Trust do not represent the assets of the Corporation or its subsidiaries. Hence the Trust has not been consolidated into these financial statements.

	Income £m	Expenditure £m	Assets £m	Liabilities £m
At 31 March 2020				
TfL Healthcare Trust	**4.6**	**(4.1)**	**4.2**	**-**
At 31 March 2019				
TfL Healthcare Trust	4.9	(3.9)	3.1	(0.1)

45. Application of IFRS 16 Leases

As outlined in the Accounting Policies, on adoption of IFRS 16 on 1 April 2019, the Group and Corporation recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the TfL Group's incremental borrowing rate as of 1 April 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 2.43%. The corresponding right-of-use assets were recognised at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognised on the Balance Sheet immediately prior to the date of initial application.

For leases previously classified as finance leases the Group and Corporation recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. Any remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

Practical expedient applied

In applying IFRS 16 for the first time, the Group and Corporation have used the following exemptions available in the standard in respect of: lease contracts for which the lease terms ends within 12 months as of the date of initial application; lease contracts for which the underlying asset is of low value; the application of a single discount rate to a portfolio of leases with similar characteristics; exclusion of initial direct costs from the measurement of the right-of-use asset; and use of hindsight, for example, in determining the lease term where the contract contains options to extend or terminate the lease.

Measurement of total lease liabilities

	Group £m	Corporation £m
Operating lease commitments disclosed as at 31 March 2019	**1,835.8**	**556.4**
Less: rail access commitments no longer considered a lease under IFRS 16	**(56.3)**	**-**
	1,779.5	**556.4**
Discounted using the TfL Group's incremental borrowing rate at the date of initial application	**1,166.2**	**441.5**
Effects of:		
Addition of other finance lease liabilities as at 31 March 2019	**238.8**	**-**
Less: finance lease liabilities adjustment from IFRS 16	**(60.8)**	**-**
Addition of contracts reassessed as lease contracts	**663.0**	**5.7**
Exemption for leases with less than 12 months of lease term at 1 April 2019	**(0.3)**	**-**
Right-of-use lease liability as at 1 April 2019	**2,006.9**	**447.2**

45. Application of IFRS 16 Leases (continued)

Measurement of right-of-use assets

Newly recognised right-of-use assets were measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognised on the Balance Sheet as at 31 March 2019.

Reconciliation of Summarised Group Balance Sheet as at 1 April 2019

	As previously reported £m	Application of IFRS 16 Leases £m	Restated £m
Assets			
Intangible assets	112.6	-	112.6
Property, plant and equipment	40,815.2	(227.2)	40,588.0
Right-of-use assets	-	1,985.9	1,985.9
Investment property	492.0	-	492.0
Equity accounted investment in associated undertakings	233.5	-	233.5
Derivative financial instruments	18.6	-	18.6
Finance lease receivables	52.2	-	52.2
Debtors	809.6	(14.6)	795.0
Inventories	61.0	-	61.0
Assets held for sale	122.4	-	122.4
Cash and short-term investments	1,881.7	-	1,881.7
	44,598.8	1,744.1	46,342.9
Liabilities			
Creditors	(2,228.7)	21.5	(2,207.2)
Current tax liability	(0.1)		(0.1)
Borrowings and overdrafts	(11,144.6)	-	(11,144.6)
Right-of-use lease liabilities	-	(2,006.9)	(2,006.9)
Other finance lease liabilities	(238.8)	238.8	-
PFI lease liabilities	(179.7)	-	(179.7)
Other long-term financing liabilities	(132.7)	-	(132.7)
Derivative financial instruments	(49.5)	-	(49.5)
Provisions	(400.5)	-	(400.5)
Retirement benefit obligation	(5,370.6)	-	(5,370.6)
	(19,745.2)	(1,746.6)	(21,491.8)
Net assets	24,853.6	(2.5)	24,851.1
Reserves			
Usable reserves	1,627.0	-	1,627.0
Unusable reserves	23,226.6	(2.5)	23,224.1
Total reserves	24,853.6	(2.5)	24,851.1

45. Application of IFRS 16 Leases (continued)

Reconciliation of Summarised Corporation Balance Sheet as at 1 April 2019

	As previously reported £m	Application of IFRS 16 Leases £m	Restated £m
Assets			
Intangible assets	78.3	-	78.3
Property, plant and equipment	4,047.6	-	4,047.6
Right-of-use assets	-	433.0	433.0
Investment property	6.8	-	6.8
Investments in subsidiaries	10,322.5	-	10,322.5
Debtors	11,134.3	(7.3)	11,127.0
Assets held for sale	23.4	-	23.4
Cash and short-term investments	1,707.6	-	1,707.6
	27,320.5	425.7	27,746.2
Liabilities			
Creditors	(554.4)	21.5	(532.9)
Borrowings and overdrafts	(11,150.4)	-	(11,150.4)
Right-of-use lease liabilities	-	(447.2)	(447.2)
Other finance lease liabilities	-	-	-
PFI lease liabilities	(131.3)	-	(131.3)
Provisions	(149.2)	-	(149.2)
Retirement benefit obligation	(5,340.7)	-	(5,340.7)
	(17,326.0)	(425.7)	(17,751.7)
Net assets	9,994.5	-	9,994.5
Reserves			
Usable reserves	1,627.0	-	1,627.0
Unusable reserves	8,367.5	-	8,367.5
Total reserves	9,994.5	-	9,994.5

Lessor accounting

Neither the Group nor the Corporation needed to make any adjustments to the accounting for assets held as lessor under finance leases (see note 13) or operating leases (see note 34) as a result of adoption of IFRS 16.

46. Events after the balance sheet date

The impact of the coronavirus pandemic on the Group's operations is discussed in the Narrative Report and Financial Review.

As at 31 March 2020, the lockdown had started in the UK and TfL had begun to experience a significant reduction in its weekly revenues. As outlined in the going concern section of the Accounting Policies note to these financial statements, we have modelled the severe, but possible, downside scenario for coronavirus and the steps being undertaken to address the risks contained therein. We have agreed an Extraordinary Funding and Financing package with the Secretary of State to ensure we are able to meet any funding shortfall necessary to allow us to continue providing services.

We have considered the impact of the pandemic and the changes in public transport advice on the values at which income, assets and liabilities have been recorded in these accounts. ~~We do not consider that there has been any post-balance sheet event that would require a further adjustment being made to the carrying values at 31 March 2020 as reported in these financial statements.~~ As at the date of signing of the accounts, TfL continues to provide a near-full level of service.

We will continue to work closely with the DfT and the Mayor of London to determine what further sources of funding will be made available to progress our capital investment programme. ~~We will make decisions regarding~~Management believe that all capital projects in progress at 31 March 2020 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 ~~future~~course 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~~31 March 2020 will be fully funded to completion. We consider any possible future impairments of the carrying value of existing assets or assets under construction to be non-adjusting post balance sheet events for the purposes of these financial statements.

Audit and Assurance Committee

Date: **11 September 2020**

Item: **Financial Reporting Council Review of the Audit of the TfL Financial Statements and Value for Money Arrangements for the Year Ended 31 March 2019**

This paper will be considered in public

1 Summary

1.1 To inform the Audit and Assurance Committee of the results of a review by the Financial Reporting Council (FRC) of the audit of the financial statements and Value for Money (VfM) arrangements of TfL for the year ended 31 March 2019. The quality rating of the audit, the FRC report and its appendix, containing detailed findings and proposed auditor actions are set out on the paper on Part 2 of the agenda.

1.2 The information on Part 2 of the agenda is exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains detailed findings in respect of Ernst & Young's (EY's) performance during the audit, which are commercially sensitive. Any discussion of that exempt information must take place after the press and public have been excluded from the meeting.

2 Recommendation

2.1 **The Committee is asked to note the report and the supplementary information on Part 2 of the agenda.**

3 Background and Scope

3.1 The FRC is the independent body responsible for monitoring the quality of Major Local Audits, as defined by the Local Audit (Professional Qualification and Major Local Audit) Regulations 2014. This monitoring is performed by the FRC's Audit Quality Review (AQR) team. Their reviews of individual Major Local Audit engagements are intended to contribute to safeguarding and promoting improvement in the overall quality of Local Audit auditing in the UK.

3.2 Audit firms are required to audit the financial statements and VfM arrangements conclusion and exercise their statutory reporting powers, as required, in accordance with the Local Audit and Accountability Act 2014. The FRC review covered selected aspects of the audit of the financial statements and VfM arrangements conclusion. They also report any issues from the auditors' use of their reporting powers, but only if such matters are identified during the performance of our financial statement review.

3.3 The scope of this audit covered the following areas:

Key Audit Matters

(a) Revenue recognition;
(b) Capital projects;
(c) Significant accounting estimates;
(d) Property valuation;
(e) Crossrail budget overruns and funding impacts; and
(f) VfM arrangements – sustainable resource deployment and informed decision making.

Other Audit Areas

(a) Audit planning;
(b) Pension deficit;
(c) IT controls;
(d) Quality of communications with the Audit and Assurance Committee;
(e) Independence and ethical considerations; and
(f) Completion and audit quality control procedures.

3.4 Materiality for the audit was set by the FRC at £103.3m.

3.5 To provide a context for the quality assessment categorisation for TfL's audit as disclosed in Part 2 of the agenda, the categories used to describe the FRC's assessment of the standard of the audit work reviewed across all statutory audits inspected and the proportion of audits in each category across all firms in the three years to 31 March 2019 are shown below.

Category	Assessment	%
1	Good	17
2A	Limited improvements required	58
2B	Improvements required	19
3	Significant improvements required	6

List of appendices to this report:

Exempt supplementary information is included in a paper on Part 2 of the agenda.

List of Background Papers:

None

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TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Audit and Assurance Committee

Date: **11 September 2020**

Item: **Procurement Update**

This paper will be considered in public

1 Summary

The primary purpose of this paper is to provide an update on the key actions being taken by TfL's Procurement and Supply Chain team (P&SC) to address the results of internal and external audits since the previous update at the Committee meeting of 3 December 2019. It also offers a brief update regarding the restart of the Procurement and Supply Chain Improvement Programme.

2 Recommendation

2.1 **That the Committee notes the paper.**

3 Actions in Relation to Non-Competitive Transactions

3.1 The need to address internal and external audit findings in relation to non-competitive transactions (NCTs) has been highlighted by the Chief Procurement Officer as one of the P&SC team's highest operational priorities

3.2 In their 2019/20 review. the external auditors identified concerns in respect of the correct classification of transactions as NCTs. Transactions that had been competed had erroneously been classified as non-competitive. In April 2019, revised definitions and guidance on the classification of NCTs were issued. The sample of procurements reviewed as part of the external audit report, appeared to indicate a lower number of NCTs raised in the second half of the year.

3.3 A further enhancement to the P&SC contracts register database is currently being introduced to enable P&SC team members to classify NCTs at a more granular level.

3.4 P&SC intends to monitor and trend the value of NCTs going forward.

3.5 A small team is currently working through historic NCT records to apply these classifications and establish a baseline against which the different types of NCT can be trended. This will give further insight into where focus is needed to make improvements.

3.6 A revised Procurement and Contracting Policy (the Policy) and a revised Procurement and Contracting Procedure (the Procedure) have been drafted are due to be launched in September 2020. Together they place considerable emphasis on the importance of competition in the context of TfL's responsibility to demonstrate fair, proper and best value use of public funds throughout the procurement and contracting process. Both apply to any person undertaking or authorising commercial activity across the business, whether employees or contracted staff.

3.7 Specifically, the revised procedure responds to internal audit findings including single source actions; lack of paperwork to evidence correct governance; incidents of suppliers working without a contract and other potential breaches of governance.

3.8 Underpinning the Policy and the Procedure are a set of practitioner rules (the Rules), which are mainly directed at those in P&SC teams but extend to staff undertaking contract management or sponsors developing plans involving procurement actions.

3.9 The Rules go into a greater level of detail than the Procedure and serve as a valuable reference for practitioners. They embody best practice and address the full scope of issues likely to be encountered by those undertaking commercial activity.

3.10 To support the communication, understanding and assimilation of the Policy, Procedure and Rules the optional Procurement Module of TfL's training for all managers, "Managing Essentials" has also been updated and reinforces the message that competition is to be encouraged wherever possible.

3.11 All P&SC staff will be required to complete both the Managing Essentials Procurement module and the Practitioner modules as will all new joiners, including temporary staff and contractors.

4 Improvements to Procurement and Supply Chain Governance

4.1 The pan-TfL Commercial Approvals Meeting (CAM) which governs contracts of more than £5m, will now review those NCTs above £100k that require either the Single Source Request or Derogation forms to be completed, rather than £500k as before; to provide additional senior leadership scrutiny.

4.2 From September 2020 within each P&SC team, a Commercial Approval Panel will apply similar scrutiny to that established at CAM but for procurements of between £ 1m and £ 5m. This will similarly formalise the review of NCTs below CAM's £ 100k threshold.

5 Procurement and Supply Chain Contract Register and "Pipeline" Reporting Suite - Providing Greater Visibility and Accountability

5.1 Internal audits have previously identified the quality of P&SC management information as a concern.

5.2 Considerable effort has been invested to improve the quality of data in TfL's P&SC contract register. This has involved reviewing the type and level of information we require, revising the core set of data fields collected and developing our processes to improve the management of data quality.

5.3 A new reporting suite has been developed and was launched in August 2020 to provide greater visibility of P&SC's numerous contracts and procurement project plans (the P&SC "Pipeline"). The reports enable the P&SC SLT to encourage a more proactive/less reactive management style through enhanced levels of procurement project visibility.

5.4 Summary reports, which highlight the number of NCTs in the P&SC Pipeline for each P&SC business unit team are reviewed weekly in P&SC SLT meetings.

5.5 P&SC are now also able to use these new pipeline reports to foresee issues that have traditionally led to sub-optimal solutions. For example, if a procurement project becomes delayed to such an extent that the current contract for the goods/services with the incumbent supplier is likely to need extending without further competition, such risks can be identified early and mitigated.

6 Procurement and Supply Chain Improvement Programme Restart

6.1 A programme to deliver further improvements to P&SC's systems, processes and organisational structure to enhance the value for money delivered by the team, is being restarted following Covid-19.

June 2019

Leadership changes

New CPO joins organisation and leadership team structured define and new team and roles stood up.

Deloitte.

Oct 2019

Business Case phase

The phase delivered a signed off business case, identified and built new ways of working for the short term and drafted an implementation plan to embed the new ways of working into transform PS&C

Retearn

Feb 2020

Business Case submitted

Business case submitted to TfL ExCo and approved and endorse by IIPAG. Ways of working key deliverables commenced.

Retearn

Mar 2020

Programme paused

Programme paused due to Covid 19 and a need for organisation to focus on operational delivery.

Jun 2020

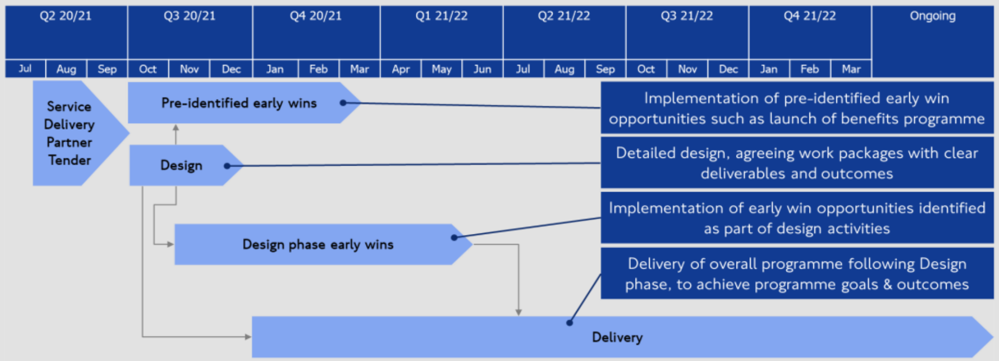
Programme restarted

Programme receives approval to restart and new Head of Programme (Transformation Programme) appointed.

Current Planning

- Head of Improvement Programme onboarded
- Programme re-start planning underway
- Governance approach identified
- Programme deliverable identified
- Early wins identified and prioritised
- Sourcing of a Service Delivery Partner initiated with Crown Commercial Services
- Integration Head of Procurement SROs on key priorities.

Delivery plan



Key Deliverables

Launch new policy with revised sourcing governance	Source to pay systems design and implementation
Benefits methodology launch	Data & reporting strategy / process and implementation
Supplier management - definition / process / tools and templates	Target operating model / organisational design
Source to pay lifecycle process and implementation	Capability framework
Change management strategy / implementation & comms	Integration with TfL PMO
Training framework / execution	Programme Management

List of appendices to this report:

None

List of Background Papers:

Procurement and Contracting Policy
Procurement and Contracting Procedure

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Audit and Assurance Committee

Date: **11 September 2020**

Item: **Control Environment Trend Indicators**

This paper will be considered in public

1 Summary

1.1 This paper sets out a number of Financial Control Indicators that TfL is proposing be reported to the Committee on a quarterly basis to inform Members as to the control environment across Finance, Business Services and Procurement.

2 Recommendation

2.1 **The Committee is asked to consider the proposed Financial Indicators and approve the attached dashboard for reporting at future meetings.**

3 Background

3.1 TfL has been through a restructuring of its Finance and Business Services teams during 2019 and the early part of 2020. The Chief Finance Officer (CFO) function, consists of finance, procurement and supply chain, commercial development, asset strategy and the London Underground change team. It is a core part of the organisation that supports delivering our financial goals including our Revised Budget for 2020/21.

3.3 Through the creation of the Business Services Function (BSF) we established key end to end processes ensuring we integrated the delivery of all cyclical activity within Finance. The key Finance end to end processes are Record to Account, Order to Cash and Projects and Assets.

3.4 Within Group Finance, the Finance Controls and Systems team was created to provide a single team responsible for our key Finance systems and governing our financial controls and providing the support needed to the CFO to maintain and improve our control environment. Within this team are the three Global Process owners responsible for setting the policy and processes by which the delivery teams in BSF perform their activities.

3.5 During this process the existing financial indicators were suspended. This has provided an opportunity to review our existing measures and propose an updated set of indicators that recognise the revised accountabilities under the new organisational structures.

4 Proposed Financial Control Indicators

4.1 The proposed financial control indicators are split into Finance, Procurement and Business Services. These indicators are either Financial or Value metrics.

Finance

4.2 **Revenue and Operating Cost Variance** is the absolute variance between the budget/latest forecast and the revenue/cost results achieved during the period.

4.3 It is important to track forecast variance as a mechanism for monitoring and managing forecast quality. It also focusses management attention on underlying performance, allowing them to make timely decisions and interventions based on a realistic understanding of performance and gap to targets. By continuing to track these measures management can rigorously evaluate the financial impact of planning decisions, offering the opportunity to change direction if decisions have not had the desired result or if new opportunities present themselves.

4.4 **Capital Delivery Variance** is the absolute variance between the budget/ latest forecast and the capital delivery results achieved during the period.

4.5 For organisations like TfL, the funding, planning and delivery of capital projects is core business and a key element of effective business strategy. Projects are normally funded from either cash reserves, third-party funding (e.g. government) or debt. Monitoring of spend versus budget provides information on how the approved capital works have progressed during the period and facilitates the early identification of a project that may exceed its allocated budget. Overruns to the sanctioned budget and schedule commitments adversely impacts delivery of the long-term capital plan, corporate performance, and delivery of transport solutions for London. Implementing this reporting measure will reliably flag emerging risks while they can still be efficiently mitigated.

4.6 **Cash Forecasting Variance** is the absolute variance between the budget/ latest forecast and the net cash flow (before borrowing and funding) achieved during the period.

4.7 The ability to trade in the short-medium term has been compromised because of the Covid-19 lockdown. Focussing on improving the cash position is integral to surviving and thriving in the longer term. Tracking cash forecasting variance will improve cash forecasting quality, increase focus on cash management and drive a cash culture. Reliable forecasting makes it easier to manage cash flows and anticipate short term liquidity needs. This in turn improves business decision making and supports TfL’s effort to provide guidance to external stakeholders.

Procurement

4.8 **Value and volume of Non-Competitive Transactions (NCT's)** provides a mechanism for monitoring and managing compliance with procurement regulations and TfL's Standing Orders in terms of NCT's allowing management to take early action to address issues in sourcing approaches.

4.9 **Benefit Delivery** is a measure of total annualised benefit delivery enabled by P&SC (year 1 establish baseline performance/year 2 targeted performance improvement). Focusing on benefit delivery will encourage a reduction in third party spend against budget, mitigate cost increases, and create value through the sourcing and contract management activities undertaken by the function.

4.10 **On Contract Spend** per centage is a measure of total contracted expenditure as a proportion of total addressable third-party expenditure (i.e. compliant spend per cent). Once a requirement is sourced and contracted it is important that the chosen mandated buying channels are utilised to ensure best value for TfL. Monitoring the level of compliance in TfL's third party spend allows management to take corrective action if required.

4.11 **Retrospective PO % (value and volume)** is a measure of value and volume of retrospective POs issued as a proportion of total POs issued. Purchase Order provides the opportunity for a business to approve spend before it's committed to make sure that spend is controlled and ensuring that the right suppliers are used. Failing to comply with TfL's "No PO, no pay" policy increases the risk of fraudulent purchasing (if there is no PO to match to and Invoice) and reduces the opportunity to negotiate savings on price, volume rebates and early payment discounts.

Business Services

4.12 **Value and Volume of Open Items aged over 28 days** is a measure of value and volume of transactions which have not been reconciled to the relevant sub-ledger. **Value and Volume of Unallocated Cash aged over 28 days** is a measure of value and volume of cash transactions which have not been matched to the corresponding invoice.

4.13 Both measures indicate the extent to which the balance on your accounts are accurate thus allowing for the actual reconciling items on the account to be revealed. Reconciling the accounts is a particularly important activity because it is an opportunity to check for fraudulent activity and to prevent financial statement errors. Tracking both measures will encourage reconciliations to be performed on a timely basis, for issues to be flagged earlier (preventing them from accumulating) and ultimately month end General Ledger reconciliations to be completed faster.

4.14 **Automated Postings %** measures the proportion of transactions which are automatically reconciled in SAP (accounting software). Manually checking and matching transactions and preparing / posting journals is time consuming and increases the risk of error and inconsistency. Tracking automated postings per centage will encourage the adoption of automated postings, free up valuable time and provide management with real-time information around the reconciliation process.

5 Control Self-Assessment Programme

The importance of controls

5.1 Controls are a critical part of any organisational system. For TfL, it ensures that resources are being efficiently and effectively used and that activities are correctly and accurately reported. Poor controls can lead to the risk that resources are used inefficiently or are subject to theft, fraud or abuse.

5.2 It is the responsibility of TfL with oversight by the Board and the Audit and Assurance Committee to ensure that good financial controls are in place, and it is the responsibility of management to ensure that the controls are operating effectively.

The assessment of Controls

5.3 For complex organisations, senior management do not rely solely on external audit completion and clearance nor the internal audit programme of work. They require greater depth and assurance in the form of an assessment of its own controls contained within all financial and operational areas. The industry standard term for this type of work is called a ‘Controls Self-Assessment Programme’.

5.4 The primary focus is to examine that controls are working effectively, as intended, and are being performed by specific control owners in order to mitigate key financial risks. This is done on a survey basis of control owners using a selective automated software tool together with a comprehensive repository of risks and controls, of which TfL is now well progressed on both.

5.5 The Control Self-Assessment (CSA) capability is a key aspect of all Risk and Controls Frameworks and results in a self-certification process that is clear, detailed and transparent. It provides the following benefits:

(a) Communicates the current status of controls to those impacted by their operation.

(b) Flags potential changes and failures to senior management and the Board so that they can be proactively addressed.

(c) Ensures that the risk and control documentation remain relevant and up to date.

(d) Ensures accountability for the operation of the controls throughout the organisation.

5.6 **Preparation of the new CSA Programme**
The mechanics of the CSA programme will be simple, concise and highly automated now that the control monitoring software (SAP Governance Risk

and Compliance) has been implemented and configured. The Finance Controls and Systems team is responsible for configuring the tool and will co-ordinate its operation and the multiple control assessments that will take place throughout the business with documentary evidence supporting.

5.7 The core functionality and assessment process will cover the following groups across TfL:

Organisational Owners

5.8 Individuals with responsibility for overseeing the financial controls within one organisational unit, usually the Finance Director or their direct reports. They will be able to view controls directly related to their area as well as controls performed by other areas on their behalf (for example within the Business Services or Procurement functions).

Process Owners

5.9 Individuals responsible for one or more process or sub-processes, including any associated controls within that process. This will allow a second level of review and validation of the controls within the CSA Programme.

Control Owners

5.10 Each control will be assigned an 'owner' who will be responsible for completing the CSA and ensuring that the control has been operating correctly. The control owner will not necessarily be the person executing the control, but rather the individual most able to influence and evaluate the operation of the control. Depending on the nature of the control this could be the individual who executes the control; the team lead/manager of those executing the control; or the person responsible for defining the process/standard/policy that govern the control operation.

Accountability and Follow-up

5.11 TfL is working on establishing a system to validate control owner responses, remediate control issues and implement a formal discipline plan to address any instances of inconsistency between results reported and observations noted during follow-up of noncompliance with established policies and procedures.

5.12 Overall results of the CSA Programme will be compiled and summarised by the Finance Controls and Systems team. Outcomes from the CSA will be reported to the CFO and the Audit and Assurance Committee to remediate instances of noncompliance with policies and procedures as well as control gaps.

6 Next Steps

6.1 The Finance Controls and Systems team are developing an internal control reporting template that will include meaningful dashboards that are understood and trusted by senior managers. The primary objective will be to be able to provide the Chief Finance Officer and Audit and Assurance Committee with a current status of the TfL Control environment. The resulting reporting templates are targeted to be discussed and agreed at the Audit and Assurance Committee meeting of 2 December 2020.

List of appendices to this report:

Appendix 1: Financial Indicators Dashboard

List of Background Papers:

None

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TfL Audit & Assurance Committee – Appendix 1 Performance Metrics Quarter [ ], 2020/21

[ ] [ ] 2020

Disclaimer: the figures contained in this presentation are for illustrative purposes only

Key metrics Audit Committee

Key control metrics relating to Forecasting Accuracy, Processing Payments and Procurement Period [ ], 2020/21

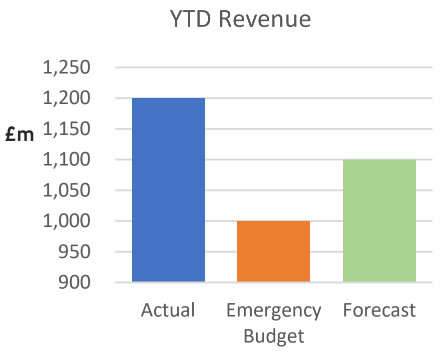
TfL Group: audit committee performance metrics to end Quarter [ ], 2020/21 [ ] [ ] 2020

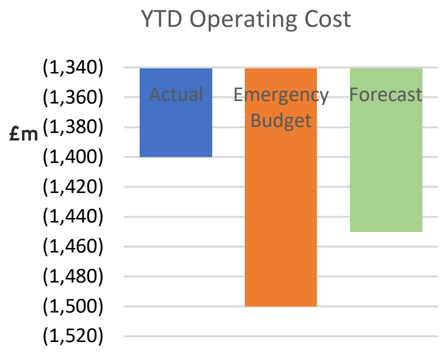
Quarterly Forecasting Accuracy

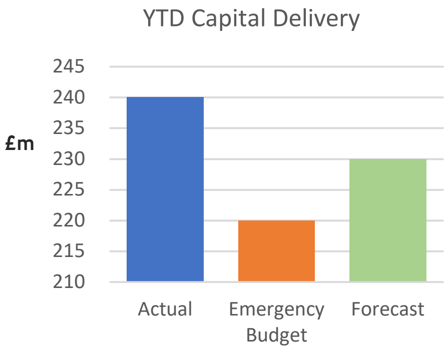
£m	*Q1 20*	Q2 20	Q3 20	Q4 20
Revenue	900	850	920	870
Variance to Emergency Budget	20	30	10	14
Variance to Forecast	(20)	(30)	(34)	(12)
Operating Cost	(1,200)	(1,250)	(1,090)	(1,136)
Variance to Emergency Budget	10	12	14	10
Variance to Forecast	5	10	15	20
Capital Delivery	180	210	230	240
Variance to Emergency Budget	20	12	13	19
Variance to Forecast	(20)	(30)	(34)	(12)
Net Cashflow	(400)	(390)	(375)	(365)
Variance to Emergency Budget	(50)	(55)	(45)	(60)
Variance to Forecast	(10)	10	12	(14)

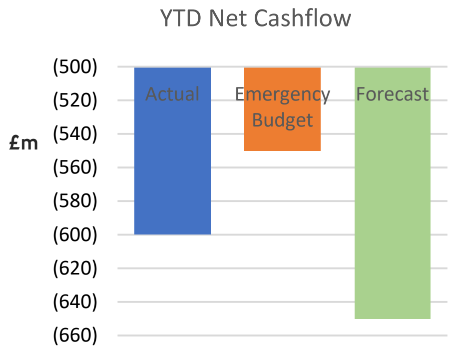
YTD Forecasting Accuracy

£m	*YTD*
Revenue	
Actual	1,200
Emergency Budget	1,000
Forecast	1,100
Operating Cost	
Actual	(1,400)
Emergency Budget	(1,500)
Forecast	(1,450)
Capital Delivery	
Actual	240
Emergency Budget	220
Forecast	230
Net Cashflow	
Actual	(600)
Emergency Budget	(550)
Forecast	(650)









Key metrics Audit Committee

Key control metrics relating to Forecasting Accuracy, Processing Payments and Procurement Period [ ], 2020/21

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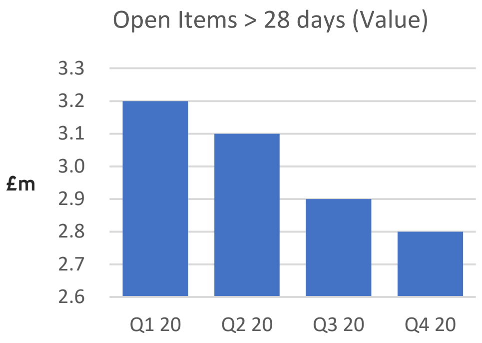
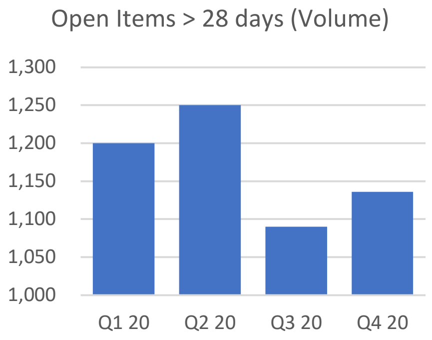
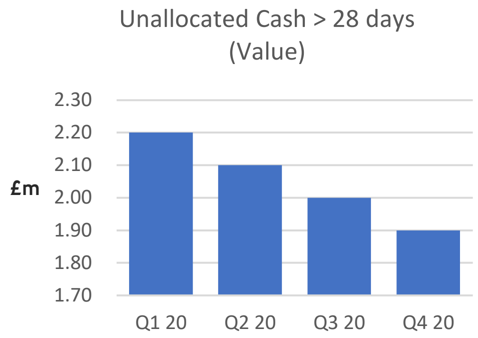
TfL Group: audit committee performance metrics to end Quarter [ ], 2020/21 [ ] [ ] 2020

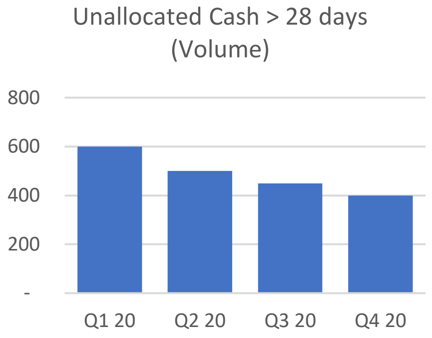
Quarterly Figures

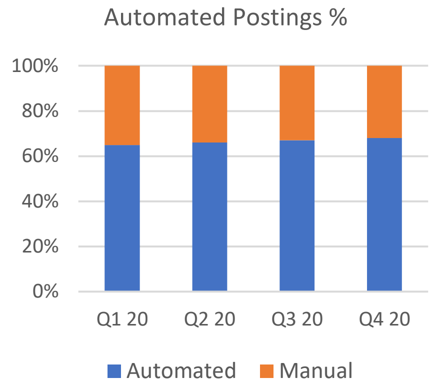
£m	*Q1 20*	Q2 20	Q3 20	Q4 20
Open Items > 28 days (Value)	3.2	3.1	2.9	2.8
Open Items > 28 days (Volume)	1,200	1,250	1,090	1,136
Unallocated Cash > 28 days (Value)	**2.20**	**2.10**	**2.00**	**1.90**
Unallocated Cash > 28 days (Volume)	**600**	**500**	**450**	**400**
Automated Postings %				
Automated	**65%**	**66%**	**67%**	**68%**
Manual	**35%**	**34%**	**33%**	**32%**











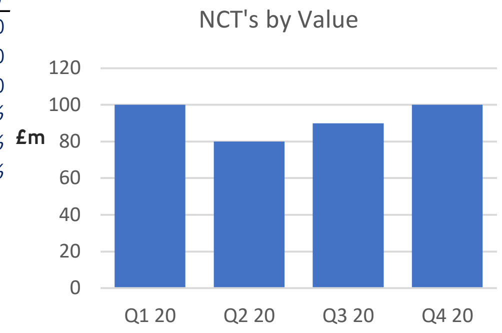
Key metrics Audit Committee

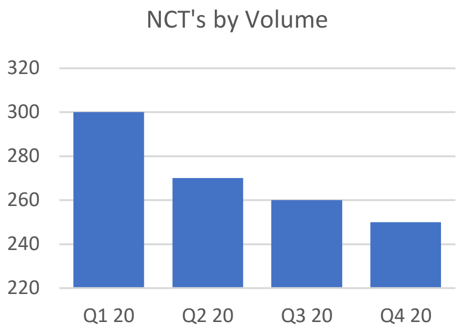
Key control metrics relating to Forecasting Accuracy, Processing Payments and Procurement Period [ ], 2020/21

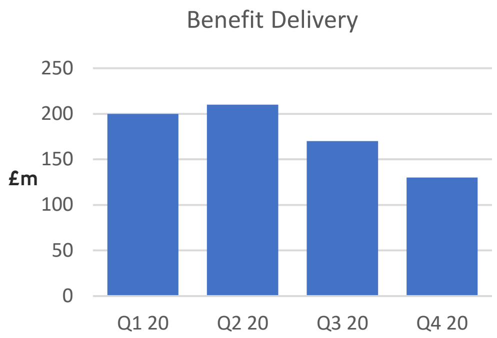
TfL Group: audit committee performance metrics to end Quarter [ ], 2020/21 [ ] [ ] 2020

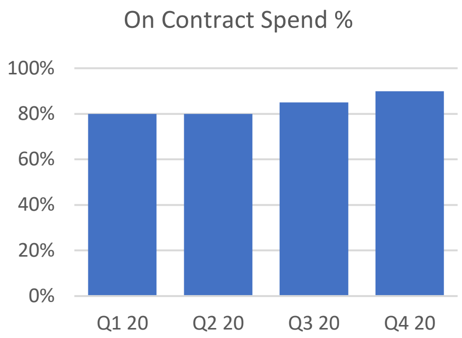
Quarterly Figures

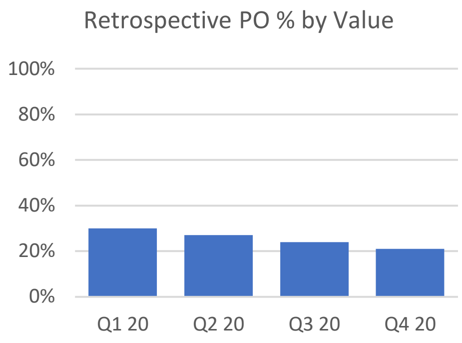
£m	*Q1 20*	**Q2 20**	**Q3 20**	**Q4 20**
Non Competitve Transactions by Value	100	80	90	100
Non Competitve Transactions by Volume	300	270	260	250
Benefit Delivery	200	210	170	130
On Contract Spend %	*80%*	*80%*	*85%*	*90%*
Retrospective PO % by Value	*30%*	*27%*	*24%*	*21%*
Retrospective PO % by Volume	*20%*	*20%*	*19%*	*17%*

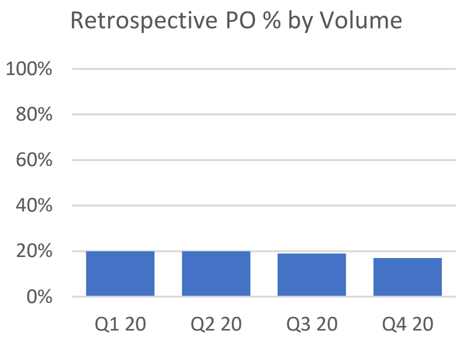












Audit and Assurance Committee

Date: **11 September 2020**

Item: **Effectiveness Review of the External Auditors**

This paper will be considered in public

1 Summary

1.1 To report to the Audit and Assurance Committee on external auditor effectiveness.

1.2 A more detailed paper is included on Part 2 of the agenda, which contains exempt supplementary information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains detailed comments on Ernst & Young's (EY's) performance during the audit, which are commercially sensitive. Any discussion of that exempt information must take place after the press and public have been excluded from the meeting.

2 Recommendation

2.1 **The Committee is asked to note the paper.**

3 Background

3.1 The Terms of Reference of the Audit and Assurance Committee require it to review formally the performance of the external auditors at least annually. This review covers the performance of the external auditors of all parts of the TfL Group where EY are auditor.

3.2 The Terms of Reference do not specify the means by which auditor performance is to be assessed. Other guidance is available, one of the more recent of which is the Financial Reporting Council 2016 publication "Guidance on Audit Committees". This is an update of guidance first published in 2003 and subsequently updated in 2008. It is based on the UK Corporate Governance Code, and although this relates to listed companies, the principles are also relevant to entities such as TfL.

3.3 The Guidance identifies four criteria in assessing external auditors:

(a) qualification;
(b) expertise and resources;
(c) Effectiveness; and
(d) Independence.

3.4 EY are the auditors of all entities within the TfL group (with the exception of London Transport Museum which was audited by Kingston Smith LLP). Both EY and Kingston Smith LLP are "registered auditors" and are required to comply with the Audit Regulations which cover such matters as independence and integrity, maintaining competence, compliance with technical standards and monitoring compliance with the Regulations. These requirements ensure that the criterion regarding qualification is addressed.

3.5 Independence of the external auditors is dealt with through separate reports to the Audit and Assurance Committee on fees for non-audit services and on independence and objectivity, both reported twice a year. The external auditors are appointed by Public Sector Audit Appointments Limited, the successor body to the Audit Commission, under a statutory process, and this provides additional safeguards in terms of independence.

3.6 This paper deals with assessing the remaining two criteria in the Guidance, namely the effectiveness, and also the expertise and resources, of EY as external auditors. The Museum is not material to the group as a whole and the effectiveness of the Museum audit was discussed at their own Audit Committee.

4 Methodology for Assessing External Auditor Effectiveness and Expertise

4.1 A questionnaire was devised and distributed to key finance staff and senior management to obtain their views on the conduct and effectiveness of the external audit, including the expertise and resources of the external auditors.

4.2 A separate questionnaire was also devised and distributed to members of the Audit and Assurance Committee to assess the quality and effectiveness of EY's performance and reporting across the Group in respect of the audit of the year ended 31 March 2020.

4.3 Responses from key staff were sought under four main headings:

(a) audit planning and preparation;
(b) field work;
(c) closing meetings and sign-off; and
(d) General.

Responses from Committee Members were sought under the headings:

(a) assessing the auditor's judgements about materiality;
(b) risk assessment;
(c) nature and extent of audit work; and
(d) audit conclusions and auditor reporting.

4.4 The questionnaires provided respondents with an opportunity to comment on the specific questions and also respond on more general free-form topics.

4.5 Questionnaires were sent out to all parts of the business and to Committee Members, and most were completed and returned. Some parts of the business consolidated their responses into one return for that business unit. The Finance Shared Services Centre and the Group Accounting team were also covered.

4.6 Respondents were asked to score responses on a 1 to 3 scale, with 3 being the top score. Average scores were calculated for each part of the questionnaire.

5 Conclusions on External Auditor Effectiveness and Expertise

5.1 Overall Members were satisfied with EY's performance as external auditors during 2019/20. Average scores ranged from 2.5-3.0.

5.2 TfL finance staff were also generally satisfied with EY performance. Given that this was the fifth year of EY as auditors the scores on average were broadly consistent with prior years with individual questions achieving average scores ranging from 2.1-3.0 (2018/19 2.1-3.0). The average score across all questions was 2.7 (2018/19 2.7).

5.3 It was noted that despite a number of challenges, arising from factors outside the realm of their control, EY once again delivered a thorough audit to a tight timeframe. Some minor areas of improvement have been communicated to EY.

5.4 The questionnaire asked if there were any members of the audit team that TfL staff would single out for their strong personal contribution. Several names were mentioned and these have been fed back to the partners.

List of appendices to this report:

Exempt supplementary information is included in a paper on Part 2 of the agenda.

List of Background Papers:

None

Contact: Tony King, Group Finance Director
Statutory Chief Finance Officer

Email: AntonyKing@tfL.gov.uk

Number: 020 7126 2880

Audit and Assurance Committee

Date: **11 September 2020**

Item: **Annual Audit Letter**

This paper will be considered in public

1 Summary

1.1 To inform the Audit and Assurance Committee of the status of the Annual Audit Letter issued by EY.

2 Recommendation

2.1 **The Committee is asked to note the letter.**

3 Background

3.1 The Annual Audit Letter is prepared by EY and summarises their conclusions on the Annual Statement of Accounts and Value for Money. This letter is issued at the conclusion of the annual audit process.

4 Update

4.1 EY plan to issue an unqualified opinion on the TfL financial statements. Their opinion, however, does include a paragraph on material uncertainty relating to the availability of funding to deliver current operational and capital plans. As described in more detail in a revised going concern note to the Accounting Policies section of the financial statements, this sets out that there is significant uncertainty as to the level of future funding to be received from the Government. 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. 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 impairment of carrying values at 31 March 2020, which is not reflected in the financial statements.

4.2 As was the case in 2018/19, their opinion on Value for Money was qualified in two respects:

(a) in respect of the governance arrangements relating to Crossrail's delivery of the Elizabeth line; and

(b) in respect of a series of weakness identified by management and Internal Audit in relation to procurement processes.

4.3 As at the date of the Audit Letter, EY have not yet undertaken the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Corporation for Whole of Government Accounts papers. These procedures are expected to be undertaken between September and November 2020 in line with the revised timetable set by HM Treasury.

List of appendices to this report:

Appendix 1: EY's Annual Audit Letter 2019/20

List of Background Papers:
None

Contact:	Tony King, Group Finance Director Statutory Chief Finance Officer
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Number:	020 7126 2880

Transport for London
Audit status update

Year ended 31 March 2020

24 July 2020

Building a better working world

Private and Confidential

24 July 2020

Transport for London
Palestra
197 Blackfriars Road
UK SW1H 0BD

Dear Members of the Audit and Assurance Committee,

Audit results report

This report summarises our conclusions in relation to Transport for London Group (TfL Group) financial position and results of operations for the year ended 31 March 2020. As we reported in our status report of 3 June 2020, the implications of COVID-19 for Transport for London Group (TfL Group) are extensive and the company's response efforts are rightly the focus of management at this difficult time. The only work outstanding at time of writing of this report is final close out procedures which are not expected to give rise to further issues to report.

The audit is designed to express an opinion on the 2020 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.

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 and Assurance Committee and management. It is not intended to be and should not be used by anyone other than these specified parties.

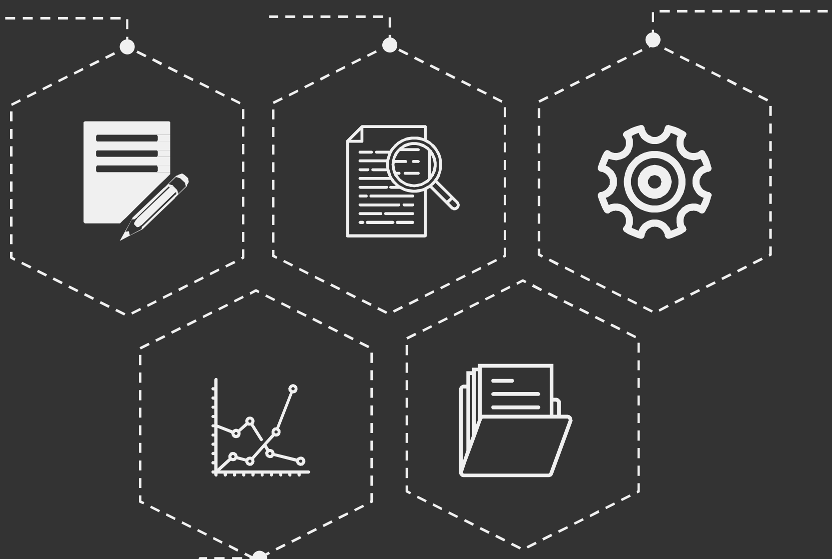
Yours faithfully,

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. We reported the status of our work as at 8 June 2020, this report sets out our final observations and conclusions in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure, following conclusion of our remaining procedures.

The COVID-19 pandemic has significantly impacted the Group's ability to execute its activities. In March 2020, the Prime Minister announced unprecedented measures in the Government's bid to halt the spread of COVID-19 in the UK, which resulted in a reduction of over 80% in passenger journeys in March 2020 and a temporary stop to non-essential construction activity at its project sites. The operations of the Group will continue to be impacted during 2020/21 by the challenge of providing services, whilst observing the necessary social distancing measures, resulting in a continued high level of relatively fixed operational costs, combined with a significant reduction in fares and other income. This has given rise to the need for emergency funding from Government and a package of £1.6bn has been agreed for the period to 17 October 2020. The Government has implemented a review of TfL's future financial position and financial structure to be completed by the end of August 2020, to inform the position post 17 October 2020.

The current situation has given rise to new issues for the audit compared to our Audit Plan in respect of:

- 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 17 October 2020 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
- Conclusion by TfL's valuers that there is a material valuation uncertainty at 31 March 2020.

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 17 October 2020, and the potential for impairment of assets in the course of construction or tangible fixed assets.
- An emphasis of matter in respect of the valuation of properties by TfL's valuers - which has been mirrored in our audit opinion whilst not disagreeing with the values based on historic knowledge. Clearly predicting the future at this time is very challenging, and physically visiting buildings to value them also limited which is what has given rise to the valuers uncertainty.

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 consistent with prior year:

- A series of weaknesses identified by management and internal audit in respect of procurement processes; and
- The governance arrangements relating to Crossrail's delivery of the Elizabeth line

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 beyond 17 October 2020 and that it will be important for the Group to maintain essential services and deliver a revised balanced budget over the remainder of the 2020/21 year, in line with its statutory duties and a combination of future measures from the Group, GLA and the Government should enable the Group to do so. 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 and that in advance of 17 October 2020, an additional funding package will need to have been identified and presented to the project Sponsors, which will be considered alongside the review of TfL's future financial position and financial structure.

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.

On the basis of the absence of an intention to discontinue provisions of services, the emergency funding agreement and the clear intent to agree future funding, we agree that it is reasonable to prepare TfL's financial statements on a going concern basis.

However, 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 17 October 2020.

At 31 March 2020, the Group had capital projects in the course of construction totalling £19.3bn, of this £14.0bn relates to Crossrail and £1.3bn relates to 4 Lines Modernisation. 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 non-essential, which could then lead to an impairment of some assets related to those services.

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 2020, will 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 will mean that the level of services able to be operated will change, resulting in some assets in use no longer having the useful economic life assumed in these financial statements.

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

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 £10 million on surplus for the year, an increase of £117m on non current assets and of £65m in non current liabilities.

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.

During our audit work a number of adjustments were made to the presentation of items in the draft financial statements, the only material item relating to the presentation of the revaluation gain of £875m on transferring properties to investment properties which was moved to Other Comprehensive Income from the comprehensive Income and Expenditure account, between the draft financial statements and the final financial statements.

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.

We have recently received very broad claim by the public that TFL is inefficient. The claim was too broad to respond to and we have asked them to reframe any query they have in the light of public sector rights of inspection. Currently, we cannot see how the claim would impact our conclusions.

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 8 June 2020, there has been no change to our independence since that date.

02 Areas of Audit Focus- the following pages use the June audit committee report with an update to completion

Significant risk

Impact of COVID-19

What is the risk?

We have reviewed our risk assessment from planning in light of COVID-19 and its potential impact on TfL and have identified various areas within the Group impacted. We have assessed the impact of COVID-19 on our materiality thresholds used, we deem our thresholds to be appropriate.

We continued monitoring the impact, through the execution of our planned procedures and through our post balance sheet events procedures.

What judgements are we focused on?

We have assessed the impact of COVID-19 on the annual financial statements. Judgements impacted by COVID-19 relate to the assessment of impairment of assets, valuation of properties, recoverability of debtors, refund of tickets and pension valuation. Other areas identified include going concern and disclosures in the annual accounts.

What did we do?

Based on this and other management enquiries, we have completed additional procedures to address the risks identified as impacting TfL as a result of Covied-19:

- Investment properties – impact on valuation;
- Impairment of assets and capital projects;
- Debtors – recoverability;
- IFRS16 - impact on credit rating/discount rates and lease liabilities at year-end;
- Provisions – new provisions as a result of COVID-19;
- Accruals for sick pay/holiday pay;
- Pensions valuation – issues faced as a result of current market conditions and discount rates;
- Revenue – refund for of tickets due to travel restrictions;
- Funding risk – the risk associated with the impact on a project's cash flow and review of Emergency budget.

We have completed our procedures on management's draft paper and emergency budget/forecast outlining the potential accounting implications of the COVID-19 impact.

Group oversight and remote audit

As a result of COVID-19, all non-essential travel is currently prohibited. As such, we have utilised our technology to perform the reviews of working papers remotely which combined with regular video/conference calls will provide sufficient evidence for the group audit. We held regular status calls between EY and management throughout the audit.

Update at July 2020

We have completed our remaining procedures with no material issues.

We are satisfied that appropriate disclosures have been made in the financial statements. We have reported separately in this report on the key issues relating to investment properties, revenue, future funding of capital and going concern.

Significant risk (continued)

Management override of controls, required by ISA (UK and Ireland) 240

What is the risk?

Management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every engagement under ISA (UK & Ireland) 240.

What judgements are we focused on?

As part of our risk assessment we 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 the prior year, weaknesses were identified by management and internal audit in procurement controls, management has been implementing of action plans to address these weaknesses during 2019/20.

What did we do?

For both TfL, TTL groups and subsidiaries, we have:

- Robustly challenged management's assumptions on capitalising expenditure;
- Critically reviewed fares revenue;
- Applied professional scepticism by questioning whether management's explanations are logical, reasonable and in line with relevant historic trends supported by sufficient appropriate evidence;
- Reviewed the business rationale for unusual transactions;
- Tested significant transactions that are outside the normal course of business or that appear unusual;
- Performed journal entries testing with specific focus on journals related to cost capitalised indicative of management override (posted by members of management, with blank or unusual descriptions, etc.) with specific focus on top side journals;
- Considered the effectiveness of management's controls designed to address the risk of fraud; and
- Understood the oversight given by those charged with governance of management's processes over fraud;
- Tested procurement transactions pre and post action plan implementation to identify any material override of controls.

Reported at 8 June 2020

With regards to the procedures performed, we have obtained sufficient audit evidence regarding any business rationale for unusual transactions, any assumptions for the capitalisation of expenditure, and for judgements and assumptions for significant estimates.

During the prior year weaknesses in procurement process controls were identified by management and internal audit. Management has an action plan in place which was partially implemented during 2019/20. We have completed additional testing and did not identify any material fraud or error. Our recommendations on finding results will be shared at a later stage in our Management Letter when the procedures have been finalised.

Update at July 2020

Our procedures were complete at June – no further matters to report.

Significant risk and key audit matter

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

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

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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
- 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 KPMG's ISAE 3402 controls report and the agreed upon procedures report
- We tested the calculation of 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

Reported at 8 June 2020

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

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

We were in the process of assessing the provision that had been recognised for ticket refunds as a result of COVID-19.

Update at July 2020

We have completed the remaining procedures including the assessment of conclusions within KPMG's ISAE3402 report. 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.

We have concluded that the basis on which fares revenue is recognised is reasonable. The judgements made related to fares revenue in the financial statements have been appropriately described.

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 2019/20 financial year, TfL's capital expenditure is budgeted to be £4.0 billion.

There is a risk of improper capitalisation of cost (through improper calculation of the accruals or improper split between capital and operating expenditure). In addition there is a risk of potential impairment of projects as a result of funding constraints.

What judgements are we focused on?

Judgements and controls need to be effective, to appropriately recognise the costs from these significant projects including:

- Appropriate split of costs between capital and operating expenditure;
- Assessment of the economic useful lives of the asset where costs are capitalised; and
- Whether to recognise impairments and write-offs for assets to reflect increased risks of projects being terminated or suspended.

What did we do?

For TfL, TTL groups and subsidiaries we have:

- Reviewed 14 major capital projects (including Crossrail), based on quantitative and qualitative thresholds
- Gained an understanding of key controls and governance surrounding capital project accounting and management
- Tested controls focused on the effectiveness of the approval process for expenditure and for capitalisation
- Met with management and project managers during the year and attended management's P11 and P13 accruals meetings
- Evaluated management's judgements and assumptions used in determining the future benefits expected from the projects and ensured they are appropriate and supportable
- considered pain/gain arrangements and related accounting treatment and assessed whether or not capitalisation of costs is appropriate
- Performed detailed testing on a sample of expenditure incurred and capital accruals to source documentation
- For material projects in progress at the year end, we have tested whether the completion of the projects are included in the latest business plan and whether there is available funding to complete the expenditure. Where management has assessed this is not the case, we have tested the completeness of removal of project costs from the balance sheet and write off in the income statement
- We reviewed claims, contracts and discussed with legal to test for the existence of additional obligations or expenditure that was inappropriate to capitalise.

We performed additional procedures in response to the impact of Covid-19 on our significant risk which are set out in the next page

Significant risk and key audit matter

Inappropriate capitalisation or potential impairment of capital projects including capital accruals

Page 293

What did we do?

Additional procedures in response to the impact of Covid-19 on our significant risk were as follows**:**

- We obtained an understanding of the COVID-19 impact on all capital projects selected for testing. Enquiries focused on delays in the project timeline, project teams being demobilised, expected changes to cost to complete and any contractors that have submitted a force majeure notification in terms of the contract to encompass impact up until signing date.
- We have obtained details of costs incurred in respect of safe stop, incurred in the period to 31 March 2020 and tested to supporting evidence.
- We have corroborated enquiries through detail testing where deemed appropriate.
- Further, we obtained management's impairment analysis to assess if any projects required write-offs as result of COVID-19, in particular whether it was probable the projects in progress at 31 March were likely to receive funding to completion.

Reported at 8 June 2020

Procedures were complete 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.

Update at July 2020

Management has categorised all projects in progress at the balance sheet date between into categories of project falling into 'Higher', 'Moderate' and '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 higher and moderate risk projects totals c£110m. 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 2020, 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 investment properties (including assets held for sale) of £1.5 billion as at 31 March 2020. Included within the portfolios are office buildings and investment properties.

The unique and material nature of TfL and TTL group's property portfolios means that small changes in assumptions when valuing these assets can have a material impact on the financial statements.

Change in strategy

In the current 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.

Impact of COVID-19

Further, in current year fair value assessment of property portfolio is challenging due to less certainty with regards to the valuation and rapid changes in market values in the current market conditions as a result of Covid-19.

What judgements are we focused on?

Judgements and controls need to be effective, to appropriately recognise the carrying value of assets including:

- Identifying and relying on significant assumptions used by external valuers;
- Reviewing and understanding methodology used to assess the property valuation;
- 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 have:

- Discussed with management and reviewed evidence to gain understanding of TfL and TTL group's property portfolios
- We tested 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
- We met with TfL's external valuers and discussed the methodology and valuation assumptions used
- Performed substantive testing and corroborated explanations for property additions, disposals and accounting for lease contracts
- Assessed the work of TfL's property valuers. We have used our EY property valuation team, as appropriate, to benchmark assumptions and test whether the valuations are within an acceptable range based on comparative market data for rental yields
- We tested property additions, disposals and accounting treatment of leases to supporting documentation
- Review infrastructure and office buildings, PFI accounting models and appropriateness of accounting and disclosures.

We performed additional procedures in response to the change in strategy and impact of Covid-19 on our significant risk which are set out in the next page

Significant risk and key audit matter

Complexity of accounting for TfL and TTL property portfolios

What did we do?

Additional procedures in response to the impact of the change in strategy on our significant risk were as follows:

- We obtained evidence that the assets, that had been newly identified as investment properties, met the criteria for recognition under IAS40.
- We included testing of a sample of the valuation of a sample of the newly identified investment properties within our sample for procedures above to test the year end valuation of these assets.
- We compared the presentation of the related revaluation gain to the requirements of IAS16 and IAS40 for the transfer from owner-occupied to investment property assets. In particular we challenged management as to whether this should be presented within the Comprehensive Income and Expenditure Statement or within Other Comprehensive Income.
- We also considered whether the disclosures provided with respect to the new investment property assets were adequate to understand the nature of the transaction.

Additional procedures in response to the impact of Covid-19 on our significant risk were as follows:

- We reassessed and challenged judgements made by the valuer in light of the uncertainties highlighted.
- We assessed the adequacy of additional disclosures made in notes 13 and 15 of the financial statements in respect of the 'material valuation uncertainty' noted by TfL's external valuer.

Reported at 8 June 2020

We had not yet received all supporting information to enable us to assess the carrying value of properties.

Update at July 2020

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

The original presentation in the draft financial statements showed the revaluation uplift of £875m relating to the transfer of previously owner-occupied assets to investment property assets within the Comprehensive Income and Expenditure Account. We concluded that this was incorrect and this gain on initial transfer should be shown within Other Comprehensive Income, this has been reflected in the final draft of the financial statements. The related deferred tax has also been moved to the same presentation.

We concluded that the disclosure set out in the notes to the financial statements provides users with an appropriate explanation of this matter.

Due to the unprecedented impact of COVID-19 on the market, CBRE (TfL's external valuer) has highlighted that valuations at 31 March 2020 were subject to a '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 set out in the Executive Summary, we have included an Emphasis of Matter paragraph in our opinion to draw attention to the material valuation uncertainty.

Areas of Audit Focus

Significant risk and key audit matter

Crossrail Funding

What is the risk?

The Crossrail project continues to be complex and as it reaches its conclusion, there will be the finalisation of related costs and contractual matters. These matters will not be completed at the year end and therefore judgement is required in assessing the appropriate value of obligations, considering whether there are any obligations inappropriately omitted from the financial statements. Further there is a risk that costs may be incurred that do not meet the criteria for capitalisation.

During the year, the Trial Running date was delayed from February 2020 to September 2020 and the impact of the COVID-19 pandemic is likely to cause further delays.

Due to the COVID-19 pandemic, all physical works on all Crossrail sites were temporarily paused on 24 March. The physical works have recently recommenced on several Crossrail project sites and continues to be informed by the latest guidance from the Government and Public Health England.

As part of the year end process, management has assessed the sources of funding to meet the obligations. 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 and that in advance of 17 October 2020, an additional funding package will need to have been identified and presented to the project Sponsors, which will be considered alongside the review of TfL's future financial position and financial structure.

What did we do?

For TfL, TTL group and subsidiaries, we have:

- Discussed and reviewed the business plan prepared by the management
- Determined an appropriate strategy to address those identified risks
- Reviewed the latest forecast outcome;
- Reviewed the forecasted Anticipated Final Cost "AFC" in order to meet the Earliest Opening Programme "EOP" for reasonableness
- Reviewed management's assessment of funding requirements and commitments, including performing sensitivity analysis on key assumptions
- Tested the impact of any amounts to be funded by TfL on the overall position of TfL including whether there is any impact on other in progress projects
- Evaluated management's judgements and assumptions used in determining the future benefits expected from the projects and ensuring they are appropriate and supportable
- Tested whether there is any evidence to suggest that 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 was appropriate

We performed additional procedures in response to the impact of Covid-19 on our significant risk which are set out in the next page

Significant risk and key audit matter

Crossrail Funding (continued)

What did we do?

Additional procedures in response to the impact of Covid-19 on our significant risk were as follows:

- We have gained an understanding of the impact of COVID-19 on Crossrail and its projects.
- We have considered the information from the Department of Transport, contained within the Extraordinary Funding and Financing Agreement of 14 May 2020, that:
  - Crossrail remains a vital project for both London and the UK.
  - TfL is required to ensure that delivery of all stages of Crossrail is achieved as quickly and cost effectively as possible.
  - in advance of 17 October 2020, an additional funding package will need to have been identified and presented to the project Sponsors, which will be considered alongside the review of TfL's future financial position and financial structure.
- We assessed the adequacy of additional disclosures in the financial statements in respect of this matter.
- We have discussed the status of the financial budget and restart plans for Crossrail which are not yet agreed by the Sponsors.

Reported at 8 June 2020

We still had procedures to complete to conclude on Crossrail's going concern and the impact of the EOP on the business plan.

Update at July 2020

We are satisfied that the capitalised costs in the year meet the criteria for capitalisation and are appropriate.

We did not identify additional obligations requiring provision at 31 March 2020.

We note that Crossrail is still reviewing project finalisation plans and costs due to the complexity of the restart programme, as well as changing delivery partners on some elements of the project. As a result of the lockdown it is likely that total costs could exceed previously agreed funding envelopes. We note that the funding agreement could lead to some non essential elements of the completion plan might not be funded, resulting in expensing of abortive project costs. As noted above, there is a material uncertainty relating to 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.

Other matters

IFRS16 Leases

CIPFA/LASAAC announced its plans to delay implementation of IFRS 16 in the Code until 1 April 2021. However, as the subsidiaries of TfL are required to adopt IFRS16 in the 31.3.20 financial statements, TfL has adopted IFRS16 in the 2019/20 financial statements, which CIPFA has allowed under the Code. There are various practical expedients on adoption which include not restating prior year and reflecting an opening adjustment through reserves for the impact at 1 April 2019 which is the approach TfL has adopted.

TfL has a number of complex contractual arrangements in place which require accounting under IFRS16. Adoption has resulted in additional right of use assets with a value of £1,985m and related lease liabilities of £2,006m.

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 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 judgemental difference of £49m higher value for right of use asset and £34m for the related lease liability. 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.
- When we have benchmarked the interest rates used to available independent market information, we also noted a range of rates compared to management's rates, we note that small changes in the rate used can impact the values significantly due to the length and scale of these rolling stock contracts, for example, using a different market rate could further increase the asset and liability by £38m, the values are extremely sensitive to the rates used.
- Assessing the length of leases – In particular with respect to station and track access. For example for the Elizabethline an assumption has been made that the life will be 8 years, as this is the current length of the concession arrangement, of course the line should run for longer than this but at the end of that initial operation period management has concluded there is no contractual liability until further arrangements are put in place.
- 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). Management has assessed a value for peppercorn leases relating to land and buildings and this is < £5m. TfL also has peppercorn leases relating to stations, the background to these leases is that they were taken on to ensure that appropriate maintenance was completed and therefore have concluded that no material value arises from these leases and we concur with that conclusion.
- 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 at 1 April 2019. As the proportion of non-diesel vehicles increases the cost allocation may change. The allocation for 19/20 has not been re-assessed as the judgement is that there has been no material change, management has committed to revisiting this judgement for 20/21.

In addition we also noted some smaller errors in calculations arising from omissions of items from calculations which are also reported on the summary of audit differences.

Finally during the process to quantify the impact of IFRS16 – an omission of a lease that should have been recognised in prior year was identified. The cash flows relating to this lease totalled £76m – this is not material to the prior year and so no restatement has been made, this has been correctly accounted for under IFRS16 in the 31 March 2020 balance sheet.

Other matters

Silvertown PFI

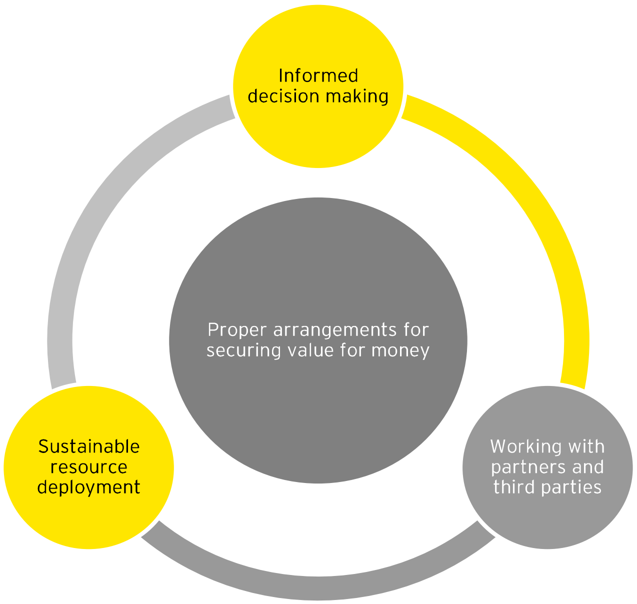
During the year, TfL entered into an agreement with RiverLinx Limited for the Design, Build, Financing, Operations and Maintenance ("DBFOM") of Silvertown Tunnel, connecting the Greenwich Peninsula and the Royal Docks in London. The financial obligations to make payments to RiverLinx Limited will start 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.

Prior to this agreement initial works had been performed by TfL with respect to surveys, planning etc and these costs had been considered for capitalisation and totalled £63m. Of this amount the very initial stage costs of £18m had been expensed in prior years and the balance of £45m had been recorded as an asset in the course of construction. TfL has invoiced RiverLinx for £63m and has received this in cash. This amount has then been recognised in the Comprehensive Income and Expenditure Account as income and matched with the £45m brought forward value for asset in the course of construction as a disposal of the asset.

This presentation is a judgement as to whether control, risks and rewards have passed to Riverlinx. Our preferred approach would be to have continued to record the asset and record related liability, both to be amortised over the life of the contract, however we have accepted this treatment, on the basis of management's analysis.

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. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

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:

- A series of weaknesses identified by management and internal audit in respect of procurement processes; and
- The governance arrangements relating to Crossrail’s delivery of the Elizabeth line

Value for Money Risks

What is the significant value for money risk?	What we will do?
Sustainable resource deployment – Significant audit risk TfL has significant financial risks in its business plan to 2024/25 as a result of: ➢ continuing reductions in external funding from government ➢ the commitments relating to the launch of the Elizabeth line and lost revenue arising from the delayed opening date ➢ significant cumulative cost reductions planned to be delivered over the course of the next five years to 2024/25.	During 2018/19 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. In 2018/19 TfL's internal audit function also identified a number of high priority recommendations that require implementation across the organisation to rectify the weaknesses. The issues above are evidence of weaknesses in proper arrangements for procuring supplies and services effectively to support the delivery of strategic priorities. During 2018/19, an action plan was drawn up to address these matters, implementation of this action plan commenced during 2019/20 but was not fully complete by 31 March 2020 and those that were implemented were not in place during the entirety of 2019/20, therefore proper arrangements were not operating effectively during the year covered by this opinion.
Informed decision making – Significant audit risk Despite sound governance arrangements around budgeting and the financial planning for TfL as a whole, the governance arrangements relating Crossrail's delivery of the Elizabeth Line was an area of significant scrutiny in 2018/19.	The governance arrangements of Crossrail's delivery of the Elizabeth Line was an area of significant scrutiny in 2018/19. An independent report for TfL and Department for Transport by KPMG on finance and commercial, and governance aspects of Crossrail, as well as an independent review by the National Audit Office have both identified issues relating to decision making relating to increased costs and impacting the plan for completion of Crossrail as a whole. During 2018-19 a new management team were appointed and a revised completion schedule drawn up. We note that significant effort has continued to be undertaken to reassess actual progress of the programme, forecast spending and opening dates for the line. During the year, the project continued to encounter technical issues and re-scheduled the Trial Running date on a number of occasions. The impact of COVID-19 will introduce further delays, likely additional cost and the need for a revised funding plan. The previous funding plan required TFL to fund any excess costs over and above the prior year current planned spend. As noted above, Government has stated in the Extraordinary Funding and Financing Agreement dated 14 May 2020, that Crossrail remains a vital project for both London and the UK and that in advance of 17 October 2020, an additional funding package will need to have been identified and presented to the project Sponsors, which will be considered alongside the review of TfL's future financial position and financial structure, which in particular has the risk of resulting in the deferral or cancellation of other Group capital projects.

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 Assurance and Audit Committee and provided within the Letter of Representation:

Uncorrected misstatements 2020 (£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:							
‣ IFRS16		2		18		(20)	
‣ Pension asset values		11				(11)	
Judgemental differences:							
‣ IFRS16 – rolling stock – rate used at each delivery date		(7)		49		(34)	(8)
Impact of difference arising in prior year:							
‣ Difference in accounting for certain contract incentive payments*		2		50			(52)
Total effect of uncorrected misstatements (before tax)		8		*117*		*(65)*	*(60)*
Less: tax effect at current year marginal rate		(2)					
Cumulative effect of uncorrected misstatements before turnaround effect		6					
Turnaround effect of prior year investment property valuation		4					
Cumulative effect of uncorrected misstatements, after turnaround effect		10					

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.

05 Appendices

Appendix A

Required communications with the Audit Committee

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Discussed within engagement letter
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	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 judgments 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;
	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.
		Discussed within this report

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Required communications	What is reported?	Our Reporting to you: When and where
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 ▶ 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	These matters are included within this report and also included within the Planning Audit Report for the year ending 31 March 2020

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		Our Reporting to you
Required communications	**What is reported?**	**When and where**
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 ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy 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 and assurance committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Discussed within this report
Fraud	▸ Enquiries of the audit and assurance 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 and assurance Committee responsibility.	Discussed within this report

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		Our Reporting to you
Required communications	**What is reported?**	**When and where**
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 processes within the firm to maintain objectivity and independence Communications whenever significant judgments 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 2016: ▸ 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	These matters are included within this report and also included within the Planning Audit Report for the year ending 31 March 2020

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
	▸ 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 ▸ Details of any contingent fee arrangements for non-audit services ▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▸ The audit and assurance 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 and assurance committee may be aware of	Discussed within this report

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		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Internal controls	▸ 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 20
Representations	▸ 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 (In progress)	▸ 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

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Audit and Assurance Committee

Date: **11 September 2020**

Item: **Independent Investment Programme Advisory Group Quarterly Report**

This paper will be considered in public

1 Summary

1.1. This paper presents the Independent Investment Programme Advisory Group (IIPAG) Quarterly Report for August 2020. It describes the work undertaken since the last report presented to the Committee meeting of 8 June 2020.

1.2. A paper is included on Part 2 of the agenda which contains exempt supplementary information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

2.1 **The Committee is asked to note the Independent Investment Programme Advisory Group's quarterly report, the management response and the exempt supplementary information on Part 2 of the agenda.**

3 IIPAG Quarterly Report

3.1 Under its Terms of Reference, IIPAG is required to produce quarterly reports of its advice on strategic and systemic issues, logs of progress on actions and recommendations and the effectiveness of the first and second lines of project and programme assurance. IIPAG's Quarterly Report for August 2020 is included as Appendix 1 to this paper.

3.2 Figure 1 on the following page sets out the status of the IIPAG recommendations at the end of each of the last three quarters.

3.3 Recommendations that are currently open but relate to projects which are currently paused due to the impacts of Covid-19 on the TfL investment programme have not been included in the quarter 1 data shown. Should these projects resume then revised recommendation action dates will be agreed and included in data reported to subsequent Committee meetings.

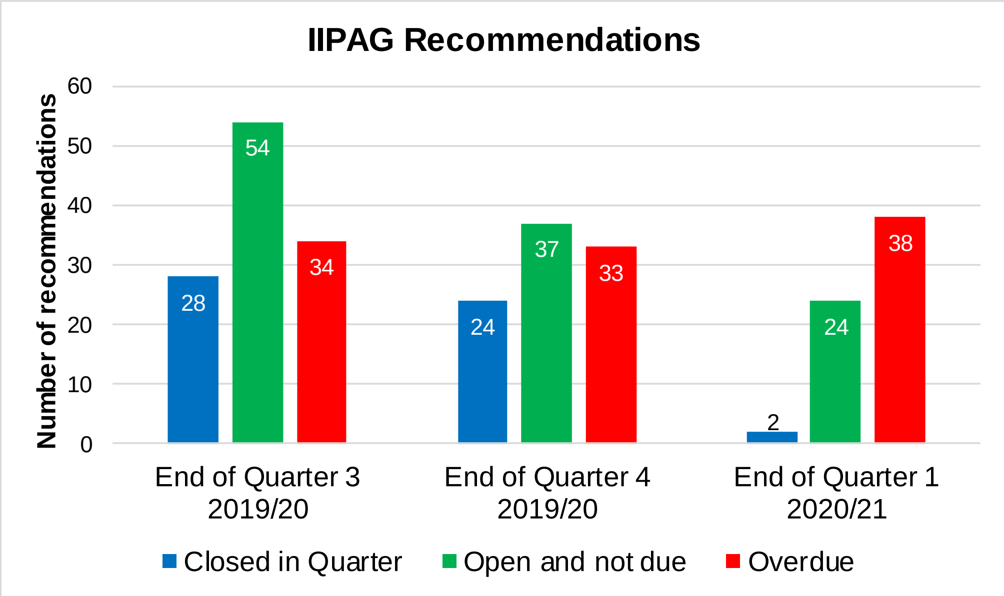

Figure 1: Status of IIPAG Recommendations

3.4 The impact of Covid-19 on the investment programme and the number of TfL staff on furlough has affected our ability to actively address and close recommendations over the last quarter. As staff return from furlough, we will focus on addressing the number of overdue actions.

3.5 Of the overdue recommendations, one is a critical issue. This relates to the Four Lines Modernisation (4LM) programme. The project team intend to address this following the concluding of the deep dive review of the programme and as part of negotiations on Covid-19.

3.6 There were no new unagreed IIPAG recommendations during the quarter.

4 Management Response to IIPAG Quarterly Report

4.1 IIPAG refer to the current focus within TfL on the finances and business planning and the understandable need to make urgent interventions during a crisis. IIPAG note that, as a general rule, decisions to descope or rephase projects should be subject to scrutiny and assurance.

4.2 In these exceptional times, TfL has had to take some very difficult decisions around Safe Stopping our projects and the implications this might have on future estimated final costs and delivery of projects. Quick decision making was absolutely essential in the early days of the Covid-19 crisis, to preserve core operations and ensure our staff were working in safe conditions. We were clear from the outset in our funding discussions with government that we needed funding to support our supply chain to preserve value for money.

4.3 An Emergency Budget for 2020/21 has been approved by the Board, which looks to ensure that our that investments for safety and reliability renewals are prioritised, but that we also meet our financial obligations under the Emergency Funding Agreement with Government.

4.4 As TfL gains greater certainty around our future revenue streams and government funding for the balance of 2020/21 and into 2021/22, we will continue to appraise our investment programmes to ensure we deliver value for money, in these exceptional circumstances.

4.5 On the basis of the conditions set out in the funding agreement, our priorities for investment may need to shift towards more environmental and walking and cycling schemes, and we will need to work collaboratively with IIPAG to ensure our processes allow for this investment to take precedence where appropriate

4.6 Clearly ensuring value for money is a priority for us as well as Government, so where we can more effectively demonstrate value for money in relation to schemes which are currently unfunded or at risk of being deferred, we should.

4.7 The decisions around the safe start of our investment programmes in May and June 2020, have been carefully considered by our Executive Team, with safety the primary consideration and restart of remaining projects as quickly as possible, but within our funding constraints agreed with government.

4.8 It has been helpful that IIPAG has completed more cross-cutting work, as outlined in their quarterly report for August. The IIPAG reports arising from the cost cutting work have been shared with key stakeholders within the business and actions will be put in place to address the recommendations made by IIPAG.

4.9 TfL welcomes the IIPAG report following the IIPAG review focussed on understanding the status of the Commercial Development transformation and to review the new governance structure and health of the assurance framework. We will be seeking to implement the findings outlined in IIPAG's report.

4.10 The findings from the IIPAG review on Value for Money were very helpful and have led to a series of workshops being held to understand key issues and to identify tangible actions that can be taken, over the short, medium and long-term.

4.11 The overall aim of the workstream is to drive a culture change and embedding a much more rigorous value for money (VfM) mindset across the project delivery community. From these workshops, we will be implementing a number of process improvements, which will drive increased consistency of the TfL VfM approach throughout the project lifecycle to reduce the number of non-value adding activities and focusing our resources on key workstreams. This includes:

(a) a focus on project initiation including tighter financial controls on seed funding, and passing 'Gate 0,' as per TfL's Pathway project control process, being mandatory for all significant projects;

(b) improved business case management e.g. greater independent review, centralised collation, monitoring and tracking of business cases throughout the project lifecycle;

(c) new escalation routes to Surface Directors, London Underground Executive or TfL Investment Group meetings (depending on magnitude of change) if there has been significant change to cost, scope, benefits or milestones during the project lifecycle; and

(d) tracking of capital efficiency through the project lifecycle.

4.12 Regular updates on the progress of this workstream will be provided at the TfL Investment Group meeting.

List of appendices to this report:

Appendix 1: Independent Investment Programme Advisory Group (IIPAG) - Quarterly Report August 2020

List of Background Papers:

None

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Independent Investment Programme Advisory Group (IIPAG) – Quarterly Report August 2020 - Appendix 1

1. Introduction

1.1. This report to the Audit and Assurance Committee covers the period from April to August 2020. It describes IIPAG's activities in this period, findings from our cross-cutting work, and the approach to our workplan for 2020/21.

2. IIPAG Activity

2.1. IIPAG's activities since April have been significantly reduced, reflecting TfL's response to COVID-19. TfL has been fundamentally reviewing its financial position and investment plans. While this work was in progress nearly all planned Project Assurance Reviews were put on hold. In April many TfL staff were furloughed, including most of the Project Assurance team. Accordingly, IIPAG's engagement in Project Assurance Reviews (PARs) and in cross-cutting work which depended on interaction with TfL personnel has been low. The proposed IIPAG review of the operation of the TfL Programme Management Office (PMO) has been deferred.

2.2. The senior TfL investment governance bodies which we usually attend – Investment Group, London Underground Executive and Surface Transport Leadership Group - were until recently repurposed to focus on the finances and business planning, in which we were not involved.

2.3. PAR activity is now beginning to restart. We have undertaken reviews of the new Streetspace Programme and Air Quality Management. We have also contributed to, but not produced separate reports for, reviews of Heavy Overhaul and the East London Line Housing Infrastructure Funding bid. We have had some limited engagement on the Four Lines Modernisation (4LM) programme.

2.4. As plans become clearer we expect our activity to ramp up again. While we understand the need for TfL to make urgent interventions during a crisis, in our view, as a general rule, decisions to descope or rephase projects are investment decisions, with value for money consequences, and should be subject to scrutiny and assurance

3. Cross- cutting work

3.1. We have used this quieter period to finalise some cross-cutting work, and have provided reports to TfL management on:

- Value for money: Business Cases and Prioritisation
- TfL Standards
- Assurance of Commercial Development
- International Consulting

3.2. Key findings and recommendations from these reports are provided in Appendix 1 to this report. The full report on Assurance of Commercial Development is being provided to the Committee for their consideration, this is included as Appendix 2 to this report. We are seeking to finalise a report on Commercial Transformation which will be presented to the December meeting of the Committee. We are keeping a watching brief on TfL's progress with Project Initiation and Engineering Resource.

4. IIPAG Work Programme for 2020/21

4.1. We had hoped by now to be able to submit IIPAG's work programme for 2020/21 for Audit and Assurance Committee approval. However, as noted above, TfL has been reviewing its investment programme in the light of the current financial situation. It has made a number of decisions to put projects on hold or review their scope and timing, but at the time of writing TfL is awaiting Government decisions on support beyond October 2020. The contents of the investment programme are therefore not fully determined. In these circumstances we have not found it possible to provide a clear plan for our own assurance work on sub-programmes and projects for the remainder of 2020/21.

4.2. We are, however, engaging fully with the business on the reviews that are known to be needed over the next couple of months to support submissions to PIC. At sub-programme level we expect these to include Northern Line Extension, Surface and LU Technology, and 4LM. In addition we anticipate a follow up review of the Streetspace programme, and reviews of the Telecommunications Commercialisation and Emergency Services programmes, Hammersmith Bridge and Bank Station. In light of planned reductions in spend on renewal works we also expect to be prioritising reviews of asset management programmes across all types of asset and modes, looking particularly at processes for condition monitoring and prioritisation.

4.3. On cross-cutting issues, in addition to the reviews recently completed or underway which are noted above, we have identified a number of topics for future consideration:

- The PMO
- Cost performance
- Governance and Sponsorship
- Commercial strategy
- Capital Strategy, Signalling Strategy and Asset Management Strategy
- How investment decisions reflect the MTS objective for 80% sustainable travel

4.4. We consider that the time is not right to initiate work on any of these at present. Some (such as the PMO) are affected by current uncertainties and developments relating to the investment programme, and all depend on our ability to engage with TfL Staff, a number of whom are still furloughed. We therefore plan to keep our cross-cutting work programme under review and will report progress quarterly.

4.5. IIPAG's budget for 2020/21 is £395,000, which provides for around 340 days' work (allowing for on-costs). We expect that this will be significantly underspent due to COVID.

List of appendices to this report:

Appendix 1 – IIPAG Cross-Cutting Reports: Main Findings and Recommendations

Appendix 2 – Review of TfL Commercial Development Transformation and Governance and Assurance Arrangements – including Covid-19 Impacts

List of background papers:
None

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Appendix 1

IIPAG Cross-Cutting Reports: Main Findings and Recommendations

1. Value for Money: Business Cases and Prioritisation

1.1. This review focussed on two specific aspects of value for money (vfm) – business cases and prioritisation. Value for money has several other dimensions, and there is not a common language for vfm in TfL. We recommend that TfL should set out in one place its policy and approach to vfm as a whole, and the various aspects of vfm.

1.2. We found that there is extensive guidance on business case methodology, and further development and training is underway. Some of the high profile projects have developed strong business cases, and parts of the business have well-established practice. However across the piece there is variable quality. In our report we identify some common weaknesses that we have observed. Business cases often do not appear to be a key driver of decisions such as option selection. Whilst we recognise that political and strategic considerations also have an important part to play, they should not override the requirements for robust assessment of value for money.

1.3. There is less guidance on what is expected in terms of vfm to support authority requests at programme or sub-programme level, or on the evidence needed to support prioritisation. We have seen few examples of good practice, and governance bodies are not consistently challenging the quality of what is presented to them.

1.4. In TfL's current financial circumstances vfm is more important than ever. TfL needs a stronger culture and practice of vfm, both in decisions on projects and in prioritising its expenditure. This culture needs to come from the most senior levels, and be driven through all the governance bodies. In our view this culture change is the single most important way of improving value for money in TfL.

1.5. Sponsors have the key accountability for achieving vfm in their projects and programmes, and in our view they need to give this greater priority and visibility. We welcome the increased attention that Investment Group is paying to vfm, but we consider that the Finance Group can take a strong role as champion and challenger of vfm at all levels. We recommend that capability in business cases and prioritisation needs to be developed in IDP/sponsorship, and in Finance.

1.6. We also recommend that TfL should enhance its guidance and best practice on business cases and prioritisation, and consider the scope for strengthening its processes to require better evidence on vfm.

1.7. We recognise that in general these are not changes that can be made overnight. We will monitor progress on an on-going basis and review it more comprehensively in early 2021.

2. TfL Standards

2.1. TfL standards are generally used in conjunction with national and international standards and perform a vital role in protecting the business from potentially expensive mistakes in specification, design and construction. There is however recognition within the business that the way they are implemented varies significantly across different parts of TfL and that there are opportunities to improve their impact in terms of value for money.

2.2. Last year the TfL Standards Improvement Programme was set up as part of the wider objective to drive efficiencies. The principal aim of the Programme is to create continuous improvement in standards development in order to reduce costs. Our recommendations have been made in the context of the work of the Programme.

2.3. This review identifies a number of opportunities to improve standards, grouped into Structural opportunities (the way standards are drafted, organised and maintained) and Cultural opportunities (the way the organisation uses its standards) and makes the case for change. Recognising that TfL's challenge with its standards is not unique, we have also included a relevant external case study from a large multi-national, operating in a safety critical sector, with a multi-billion dollar annual capital budget.

2.4. Our recommendations are based on supporting and focussing the efforts of the Standards Improvement Programme over the current year, with a review of progress in around 12 months. We think that the work of the Programme should be supported by strong senior leadership and a high level of ambition. For greatest impact, efforts should be focussed initially in a limited area through an intensive programme of standards review and change along the lines of the case study included in the report. As a shorter term measure we also recommended that a robust standardised risk assessment should be developed as a priority, for use in concession applications.

3. Commercial Development

3.1. The main focus of this review has been to understand the status of Commercial Development (CD) transformation and to review the new governance structure and the health of the assurance framework. The main review took place during COVID lockdown and was updated in August.

3.2. CD is standing up a new TfL subsidiary in 20/21, currently called DevCo, which incorporates Property Development, Property Management and Commercial Property. The CD Director is also responsible for Estates Management and International Consulting.

3.3. CD is a property business and is very different to the TfL transport service business. It requires tailored governance and management processes. Much of property development delivery is done in joint venture (JV), partnering with some of the UK's most successful property development companies.

3.4. The governance structure for DevCo is close to being finalised. CD and DevCo act in full compliance with TfL governance, standing orders and financial reporting processes. We think that corporate governance design as it relates to the investment decision process is clear. We believe that the post contract delivery governance needs further development in some areas.

3.5. With regard to the management of delivery risk, areas that require more focus are project management and contract management. The TfL risk associated with limited visibility of JV delivery risk management and supply chains is of concern especially as each JV has different partners, processes and reporting. Standardised reporting is highly recommended and could be facilitated by the introduction of Pathway on all projects, which is currently work in progress with PMO.

3.6. The assurance framework is an area requiring more development. First line assurance on projects requires a written process. Second line assurance has not been applied so far and now is a good time for Project Assurance to assist with the framework design and planning. As for third line assurance, Internal Audit has included CD in their Audit Plan; IIPAG has not reviewed CD before now. IIPAG proposes to review CD annually and to carry out some project reviews.

3.7. IIPAG is impressed with the emphasis on getting the basics right in time to manage the large volume of projects due to start delivery shortly. We have seen good planning and teamwork and a targetted use of external experts and industry leaders.

4. TfL International Consulting

4.1. TfL Consulting was set up in 2018 in response to a commitment in the Mayor's manifesto to generate revenue by selling TfL expertise at home and abroad. The business is still in its start up stage but has reached its target staff level of 18 FTEs. The overriding strategic objective is to minimise risk to TfL through careful selection of opportunities and partners.

4.2. In the last two years the business has generated revenues of circa £1m from projects delivered in eight different countries. The target is to grow turnover rapidly to £45m in year five, with the bulk of the revenue being generated through O&M contracts delivered via joint ventures. The current year's revenue target is approximately £5m. We have concerns over the challenging 5 year revenue targets and, in particular, that for O&M work. Although O&M opportunities certainly exist, we suggest that achieving the revenue target would require the acceptance of levels of risk which TfL has previously not considered appropriate. The availability of key specialist resource may also become a constraint on future growth.

4.3. Good work has been carried out to set up key business and governance processes, including the Complexity Authority Matrix and modifications to Pathway. An accredited Quality Management system is planned for early establishment; we believe this is needed as a priority to help assure project deliverables and comply with client requirements.

4.4. The business is currently operating without a dedicated timesheet and financial system. As the business grows, this will become increasingly inefficient and error prone. A timesheet and associated finance system is needed urgently.

4.5. Although the TfL Audit team have been working with the TfL Consulting team during its start up phase, in our view TfL Project Assurance should be involved to provide second line assurance through continuous assurance and review of higher risk projects.

4.6. TfL Consulting has adapted to the Covid situation rapidly and flexibly and is currently pursuing a large number of secondments (>200) to Central and Local Government organisations for TfL staff with the right skills and experience who would otherwise remain on furlough.

Appendix 2

Independent Investment Programme Advisory Group

Review of TfL Commercial Development Transformation and Governance and Assurance Arrangements – including Covid-19 Impacts

Status:	Formal Issue
Version:	V06
Date:	23 August 2020
Author:	Joanne White

Document control

Document History

Version	Date	Changes since previous issue
V01	30 March 2020	Initial draft issued to IIPAG and PA Head for comment
V02	20 April 2020	Revised to include comments from IIPAG, follow up information from CD and report restructuring
V03	21 April 2020	Remove track changes for draft issue to CD Director for discussion purposes
V04	21 May 2020	Final for formal issue
V05	18 August 2020	Draft - Updated to include Covid 19 impacts
V06	23 August 2020	Final – minor changes. Formal issue

Distribution

IIPAG, TfL Project Assurance Head, Audit and Assurance Committee

Copy to Director of Commercial Development

1. EXECUTIVE SUMMARY

The main IIPAG review took place in March 2020 just as Covid-19 began to hit the UK . Version 05 of this report has been revised to include an update in paragraph 13 on the Covid-19 impacts on Commercial Development (CD) business planning.

The focus of this review has been to understand the status of CD transformation and to review the new governance structure and the health of the assurance framework.

CD is standing up a new TfL subsidiary, which incorporates Property Development, Property Management and Commercial Property: it is currently called DevCo and is due to start operating in the 20/21 financial year. The CD Director is also responsible for Estates Management and International Consulting, which sit in CD but are not part of DevCo. International Consulting is a new business and is in the start up phase.

CD is a property business and is completely different to the TfL transport service business.This explains the need for tailored governance and management processes in CD. Much of property development delivery is done in joint venture (JV), partnering with some of the UK's most successful property development companies.

The governance structure for DevCo is close to being finalised. CD and DevCo act in full compliance with TfL governance, standing orders and financial reporting processes. We think that corporate governance design as it relates to the investment decision process is clear. We believe that the post contract delivery governance needs further development in some areas.

With regard to the management of delivery risk, areas that require more focus are project management and contract management. The TfL risk associated with limited visibility of JV delivery risk management and supply chains is of concern especially as each JV has different partners, processes and reporting. Standardised reporting is highly recommended and could be facilitated by the introduction of Pathway on all projects, which is currently work in progress with PMO.

The assurance framework is an area requiring more development. Lots of checks and balances are in place but the assurance framework should be formalised to be more effective. Elements of first line assurance on projects are being implemented but we see no written process to capture it all. Second line assurance has not been applied so far and now is a good time for Project Assurance to assist with the framework design and planning. As for third line assurance, Internal Audit has included CD in their Audit Plan; IIPAG has not reviewed CD before now. We propose to review CD annually and to carry out some project reviews.

IIPAG is impressed with the calibre of the team and the emphasis on getting the basics right in time to manage the large volume of projects due to start delivery shortly. We hope that this emphasis will not be lost once the pressure of project delivery makes itself felt. We have seen good planning and teamwork and a targetted use of external experts and industry leaders.

2. INTRODUCTION

Created in 2012, TfL's Commercial Development (CD) directorate was initially responsible for managing property, media assets, telecoms, facilities, retail and consultancy across the entire TfL estate with the objective of generating non-transport income to re-invest in to the transport network. CD now focuses on property and consulting, working extensively with developer partners to deliver their property development programme.

In May 2019, the Finance Committee approved the consolidation of commercial property assets into TTL Properties Ltd, a TfL wholly owned subsidiary. Previously, the asset ownership was spread throughout the various TfL entities. The purpose of the consolidation was two-fold: firstly, to improve management and optimise revenue, and, secondly, to create a separate balance sheet, which can be used to source new funding streams for the property development business. The outward facing company name is yet to be finalised and is generally currently referred to as DevCo. Much work has been done over the last year to structure DevCo, modelled on leading UK property development companies. DevCo is set to become one of London's largest property development companies. In order to give some idea of the scale of the business, the Capital Investment target in the pre-Covid CD 10-year Business Plan was £1.15bn. Once TfL future funding is settled, the target will remain the same although timescales may change. Pre-Covid, CD was generating £100m revenue income per year with significant growth expected from the investment plan. Covid-19 has impacted the investment plan – see paragraph 13.

In 2019, IIPAG was asked by Project Assurance to review CD activities as it is an area where project assurance may not have been fully developed. The intention to do this review was endorsed by the Audit and Assurance Committee Chair. Of particular interest were the governance arrangements and the scope and accountability for 1st, 2nd and 3rd line assurance. Our first meeting took place in quarter 2 of 2019/20. It was apparent that CD was about to go through a major change programme, including the standing up of DevCo and streamlining of CD's other activities and so we decided to hold the review in quarter 4 of 2019/20 to allow many of the changes to enter into effect. Covid-19 has not impacted our findings in this area.

3. CURRENT STATUS OF COMMERCIAL DEVELOPMENT TRANSFORMATION

3.1 What does CD do?

CD comprises several workstreams of which the most significant is Property Development (key focus on Build-to-Rent). Others are: Estates Management (manages TfL office facilities and aspects of land and property relating to TfL's transport business), Property Management and Commercial Property (focus on rental income generation) and International Consulting. With the exception of International Consulting, all CD workstreams are interlinked to a greater or lesser degree and the CD directors are all members of various DevCo oversight groups.

DevCo unites Property Development, Property Management and Commercial Property. Estates Management is not in DevCo but has a number of important DevCo interfaces. International Consulting is completely independent of DevCo.

Pre-Covid, DevCo had plans in place to start on the construction of over 10,000 housing units by March 2021, which will employ more than 7000 workers on sites by 21/22. Included in DevCo assets are over 2700 commercial assets currently valued at £1.5bn and existing development sites with a Gross Development Value (expected value when sold on the open market) of £10bn. It is currently working with 25 development partners, including nine in joint venture.

3.2 **DevCo Pipeline of Projects**

DevCo started operating in Period 1 20/21 and has a significant pipeline of development projects. The Property Development firm scope currently includes: 15 JV projects, including the major Build-to-Rent project with Grainger for 3500 homes, approx. 40 third party-led projects from which TfL will gain land sale revenue and approx. 15 feasibility studies. Each type of project has a different risk profile.

3.3 **CD is different from the rest of TfL**

CD staff state that the business is different from the rest of TfL and we agree that this is true. The main difference is that all revenue is generated from TfL assets but is not directly related to the provision of transport services. There are, therefore, important differences in: team skill set, design requirements, sustainability considerations, business drivers, joint venture partnering as a fundamental execution model, risk categories, performance focus and measures for success. The challenge for CD is to manage these differences within the TfL environment. We consider the current approach is prudent: DevCo processes are being designed from scratch based upon property development industry best practice and modified to fit within the TfL governance and operating framework.

3.4 **Focus on getting the basics in place**

Much effort has been put into CD restructuring but, with a busy pipeline of projects moving into the delivery phase in 20/21/22, there is a risk that management attention will be diverted away from establishing DevCo strategies, practises and processes. We caution the CD team to take measures to avoid this risk.

3.5 **Estates Management**

The Estates Management (EM) group “owns” and manages elements of the land and property that TfL needs to run its business. This group is not part of DevCo but there are a large number of interdependencies. DevCo manages rent income from the facilities, EM manages data on group lease payment obligations and provides key data to DevCo and provides facilities management services to DevCo assets as well as to TfL land and buildings. The EM director is a CD leadership team member and is involved in shaping DevCo.

EM supports major projects, e.g. compulsory purchases and land acquisition for the Northern Line Extension project, and is managing the final claims on Crossrail compulsory purchase orders. EM annual capital spend is between £6m-8m per year within the head office portfolio (30 buildings).

Management of the EM portfolio requires a large amount of data. The data is currently held across the business. EM is currently working with an external consultant and T&D to create a central data repository, which will eliminate the risk of multiple views and data sources. Additionally, EM is working with PMO to introduce tailored Pathway products, including a management dashboard.

No 2nd line assurance has been performed so far on EM and a risk assessment should be performed by PA with EM to see if a review would add value. Internal Audit has performed a 3rd line assurance audit at the beginning of 2020 on the EM Facilities Management supply chain.

August 2020 update – EM is in the process of mapping all 1st, 2nd and 3rd line assurance to identify assurance gaps. With regard to the acute need for a solution to the data management issues, progress has been made in clearly identifying and defining the problem, analysing the options and in making recommendations to management for an investment in a selected solution. At the time of writing this report, the timescales were unclear.

3.6 **TfL Consulting**

TfL Consulting is a new business within CD, which has been created to support the Mayor of London's manifesto pledge of 2016. It is currently in the start- up phase. The average value of advisory contracts to date has been around £75k. They are working with PMO to roll out a tailored Pathway product. Although low value to date, the provision of advisory services can, at times, represent significant risk e.g. TfL reputational risk, and the aspiration to grow through taking on multi-million pound O&M contracts in the next 5 years will increase such risk significantly. IIPAG interviewed the TfL Consulting Director in mid-March and again in July 2020. In summary, Covid-19 is bringing some new business opportunities, particularly with regard to the short and medium-term secondment of TfL specialists to other companies. The IIPAG report has now been issued with an addendum to summarise Covid-19 impacts.

4. DEVCO PROJECT DELIVERY IN JOINT VENTURE

4.1 Working with development companies in joint venture is a fundamental risk management strategy. As set out in the CD Investment Strategy, joint ventures provide:

- Built stock at a discount to market value (i.e. actual cost of development rather than completed market value)
- Skills sets not available within TfL
- Enables debt to be raised off balance sheet

4.2 TfL Procurement & Supply Chain (P&SC) is integrally involved in the JV contract award process. In 2016, there was a competitive tender to select the 13 joint venture partners in the Property Partnerships Framework agreement. An important selection criteria was cultural fit. When a site comes to market, a mini competition is held within the framework to select the JV partner for that site based upon "best value". This process is led by P&SC and external advisors, such as Deloitte or

Savills, are involved throughout to ensure due process and to validate the evaluation scoring. All tenders and contract awards are compliant with TfL processes and governance.

4.3 Every JV project has its own Special Purpose Vehicle which sets out the legal status of the JV. TfL representation in the JV project team is “thin” with a significant dependence upon the JV partner for design and construction delivery. Every JV project has a JV Board, with TfL Board members, meeting regularly (often monthly) with update reports going up to the CD Investment Group. Progress reporting is managed by the JV partner and the main KPIs are set by the property, financial and operational objectives in the signed joint business plan. Every JV project has a Business Plan which is approved by the JV Board and is included in the JV agreement.

4.4 There are still some big questions to be addressed around KPIs and reporting, such as: what are the optimum JV delivery metrics, how is change control managed, how is risk managed, what risk exists in the supply chain, how are progress reports generated and is the data reliable? These all represent necessary areas of challenge for the 1st line of defence and are questions which have yet to be answered.

5. PROJECT AND PROGRAMME MANAGEMENT

5.1 There is widespread recognition in CD that project and programme management (hereafter referred to as “Project Management”) leadership and experienced resources are required. The development of Project Management tools, people and processes is in the plan but requires more traction, especially considering the large volume of projects entering the delivery phase in the coming months.

5.2 Recruitment of an experienced head of CD Project & Programme Management has been in train for several months but the approval has been paused. In the meantime, more project management resources are needed to manage the tactical workload demands and allow the Interim Head of Project and Programme Management to make timely progress towards the much needed strategic elements of execution planning, risk management, delivery health and safety, and performance management. Apropos of this report’s objectives, Project Management leadership is essential to delivery risk management through assurance of better scope definition, better commercial data and better contracts management. The latter would include better visibility of the supply chain and better monitoring of reported progress.

6. PMO - No Covid-19 update available due to furlough

6.1 PMO is working with all of the CD workstreams to introduce tailored Pathway tools and processes. PMO is aiming to complete the tailored Property Development Pathway process in April 2020 and is receiving support at all levels of the CD organisation. They are aiming for 60-80% Pathway compliance by mid-year (Covid 19 permitting).

6.2 Deloitte has been working with CD to establish an appropriate risk management framework. In their advice, they stress alignment with the TfL Risk Management Framework and acknowledge the PMO capability in risk management. ARM is in the process of being adopted. The new governance framework addresses risk in several contexts but the area requiring greater visibility is risk management in delivery by the JV partner.

6.3 Data management is currently an issue but is being addressed. Data is held in various different locations around CD, which makes reporting laborious and subject to error. There is not yet “one single source of the truth”. PMO is working with CD to set up a centralised data management system, starting with Property Development. The current forecast is that this will take six months.

6.4 Currently, there is no project-wide standard JV delivery progress reporting format. We strongly recommend, that once the Pathway processes and reporting formats have been finalised, CD works towards achieving standardised reporting from the JV partners, which will greatly assist data control and validation and improved project management. PMO is also working with CD and Finance to create a dashboard to include delivery and strategic milestones and financial reporting. However considerably more work is required to achieve the necessary goal of a one page delivery progress dashboard.

7. PROCUREMENT AND (POST) CONTRACT MANAGEMENT

7.1 A procurement team is embedded in CD and is colocated with the Property Development team and the teamwork appears to be strong. The reporting line is directly to TfL Procurement. TfL governance and procurement processes are fully applied. Procurement provides input to internal CD governance papers which go to CD Investment Group and CD Advisory Group. We recommend that Procurement be involved early in every case of execution strategy development.

7.2 Procurement is very involved in the JV contract award process. Once the contract is signed, however, procurement has limited visibility of the JV partner’s supply chain to be able to perform appropriate first line assurance. This is a question of both process and, possibly, resource availability. This may also be a question of the allocation of responsibility between Procurement, Development Managers and Project Management and clear RACIs should be established for each project.

8. DEVCO GOVERNANCE

8.1 With the new DevCo due to commence operation in Period 1 of 20/21, the design of the governance structure is close to being finalised. It follows and complies with the broader TfL governance requirements and standing orders and is closely tied in with the Finance organisation and its reporting requirements. The documentation describing governance and the various terms of reference is clear and accessible to all. The hierarchy of governance, which is linked into the broader TfL governance is clearly mapped. (Appendix 2).

8.2 DevCo brought in a full-time governance/secretarial role in January 2020 who is responsible for finalising the governance structure, terms of reference and corporate reporting requirements. Having a full-time resource has been instrumental in the very good progress that has been made in this area and in readying DevCo to go live in the new financial year.

8.3 DevCo is fully compliant with TfL standing orders, governance and financial reporting.

8.4 It is understandable that the investment decision governance has received a lot of attention as the contractual and financial risk to be managed is significant. It would be timely now to give greater scrutiny to post contract delivery risk management, such as JV and supply chain change control and compliance with delegated authority levels over the life of a project.

9. DEVCO ASSURANCE ARRANGEMENTS

9.1 In the course of this review, we have looked at both the corporate assurance framework, which is well developed and the three lines of defence assurance framework for the delivery of projects, which is work in progress. Comments on the project assurance framework are in 10.3, 10.4 and 10.5 below.

9.2 During the interviews with CD personnel, there was a certain lack of understanding as to the TfL assurance framework and first, second and third line defence in the management of risk. Indeed, second line assurance has been overlooked up until now and only Internal Audit has been present as third line. To facilitate the interviews, we found the following Audit and Assurance Committee definition to be a useful reference, supplemented by the TfL Pathway Project Delivery Assurance Process Practical Guide.

"First line of defence – control and monitoring arrangements carried out by the functions responsible for managing the risks/controls;

"Second line of defence – typically audit and inspection regimes carried out by teams separate from those responsible for managing the risks/controls, but reporting through the TfL management hierarchy; and

"Third line of defence – fully independent audit and review activities, typically with a strategic focus, and reporting to Executive Committee, Audit and Assurance Committee and other Board Committees and Panels".

9.3 **First line of defence:** We have seen and heard that there is plenty being done which can be characterised as first line of defence but there remains plenty still to be done. The issue is complicated by the fact that joint venture partners are responsible for design and construction delivery and use their own processes and reporting formats, which represents project management risk to TfL. A better understanding of the three lines of defence in the management teams and a written DevCo assurance process and plan would help clarify requirements and bring some standardisation to the first line of defence process. Pathway roll out will help address this issue and will pave the way for a formalised approach to project management but we recommend also that CD adopt the Integrated Assurance and Gate Strategy Plan as a standard.

The draft terms of reference for the governance hierarchy includes a number of first line assurance activities in addition to Pathway gateways and we can take comfort from the intention to review projects, risks and issues up through the organisational hierarchy.

Two key bodies in the hierarchy are the Commercial Development Investment Group (CDIG – shown as "Investment" on the chart in Appendix 2) and the Commercial Development Advisory Group (CDAG – shown as "DevCo Oversight Group" in Appendix 2. It is to be noted that the names of various groups and panels are in a state of flux currently). Both have important roles to play in the first line of defence.

CDAG/ Oversight Group will be chaired by the TfL CFO and will meet monthly. The Director of CD is a group member and a number of independent advisors drawn from the property development industry will attend (reflecting an extension of current arrangements). It is to be accountable for DevCo's performance against strategic objectives. It provides direction, support and challenge but does not "approve" anything, which is the domain of TfL governance bodies. All JV projects are reviewed cyclically and the forum is also used for issue management.

DevCo CDIG is to be chaired by the CD Director and the members will be drawn from the CD executive leadership team . It reports to the Executive Leadership Group (ELG). Its main purpose is to review and approve significant investment decisions. The ELG also provides "oversight on overall investment performance" and is very focused on investment decisions and first line assurance of investment return. In terms of delivery assurance, CDIG regularly reviews progress against the business plan by the JVs, with a focus on investment metrics.

There is still considerable work to be done to create a common language and common reporting with the JV partners, to establish KPIs and a management dashboard for a cohesive approach to the first line of defence.

9.4 **Second line of defence:** Currently there is an absence of second line of defence scrutiny. It is possible that the value that Project Assurance can add is not yet understood in the context of an assurance framework. With the new organisations, only two JVs on site and a pipeline of projects, now is the time to provide support and expertise to CD, providing the right skills in PA to assure property development projects are available.

9.5 **Third line of defence:** Internal Audit has included CD in the Audit Plan for the new financial year. Again, at this point in time when DevCo is starting its activities and the other CD groups are restructuring, there are a number of areas which might benefit from the expertise in the Internal Audit group.

This is the first review performed by IIPAG. A short review of International Consulting to complete the CD picture will follow in quarter 1 of 2020/21. IIPAG also plans to review a sample CD JV project and South Kensington has been selected. This review will be performed in 2020 as soon as the Covid 19 situation allows. We also propose that DevCo and a significant project be reviewed by IIPAG annually. We note that there is widespread use of external consultants for validation purposes, e.g. cost validation and best value evaluations in the JV tendering process. Other examples exist such as the review of design by the Mayor's Design Advocates. This represents good practise especially where specialist resources do not exist in TfL. We think that tightening the planning of assurance and more consistent use of standard tools and methods will improve the scrutiny and control of project deliverables which can make a meaningful difference to the likelihood of project success.

10. A SUMMARY OF OUR FINDINGS

CD is a relatively new business for TfL and does have different drivers, market and reporting from the TfL transport service operation. The challenge for CD is to operate one of the largest London property development companies whilst complying with TfL governance, standing orders and work processes that have been established for a different type of business. On the whole, CD is planning to achieve compliance by putting in place a competent team, supported and mentored by industry leaders and by clearly mapping and defining the interfaces with the rest of TfL. To date there has been much focus on the pre-delivery deal-making phase of projects and we find the assurance and governance is well developed in this regard. However, we think it is recognised that more work is needed on the delivery (post-contract) phase of projects and especially assurance around delivery by joint venture partners.

The basic DevCo execution strategy is to work with joint venture partners. Much care has been given in the selection of the joint venture partners to ensure a good cultural fit with TfL and the use of the project business case to assure financial returns for both investors is very effective. When IIPAG asked the question, "how do you assure the performance of the JV partner in design and construction", the answer came in two parts. Firstly, we were told the structure of the deals with both companies investing in the project (having 'skin in the game") with clear return on investment goals in the agreed business plan is a clear incentive to optimise project management and report honestly to the JV client. Secondly, "the property development companies on the framework agreement have been selected competitively, are massively experienced, are all industry leaders and are a good cultural fit with TfL". This is all good practice when it comes to working in joint venture but is not a substitute for robust management of TfL risk. Visibility of and management of TfL risk within the JV projects is critical but also management of risks associated with the JV partner, such as business failure, is essential even if they are considered to be industry leaders.

The need for effective 1st, 2nd and 3rd line assurance and challenge by TfL, especially of the supply chain, is essential not only to optimising TfL return but also to exemplary project management and maintenance of good working relationships with the JV partner. We think that tightening the planning of assurance and more consistent use of standard tools and methods will improve the scrutiny and control of project deliverables which can make a difference to the likelihood of project success.

11. SUMMARY OF RECOMMENDATIONS

Many improvements are already being worked on by CD, particularly in managing investment decision risks but we believe that a focus on a **formalised delivery assurance framework** will address a number of delivery management issues at the same time. Timely involvement by **Project Assurance** would be helpful in achieving this. **IIPAG** plans to review CD annually and discuss areas of potential scrutiny with **Internal Audit**.

IIPAG plans to review in 2020 a key CD project which is currently in delivery. The South Kensington project has been selected. August 2020 update: the selection has now changed to Colindale as the London Underground South Ken project has been suspended. It would be valuable to record lessons learned from South Ken, particular with regard to the TfL: developer interface.

With the large volume of development projects moving to the delivery stage very soon, it is critical that the basic project management processes, tools and strategies are in place and that **experienced project management resources** are dedicated to this task. **RACIs** are essential to establish assignment of responsibilities and accountabilities for delivery on projects to promote effective delivery.

As the delivery pipeline begins to gain momentum, we urge CD not to lose focus on **getting the basics in place**, such as delivery governance, project management, assurance planning, delivery progress reporting and visibility of the end-to-end process for change management.

The management of TfL risk in JVs is essential particularly with regard to JV partner performance and JV managed risk in the supply chain.

Steps are already being taken to address the data management challenge and together with the introduction of Pathway, **standardised progress reporting from the JVs**, including KPIs and metrics to allow for comparison across projects should be a key objective. Improvements in the **visibility of how JVs manage risk**, work with the supply chain and report progress are recommended.

12. LIST OF SPECIFIC RECOMMENDATIONS CONTAINED IN REPORT SECTIONS

Report Section	Recommendations
6.4, 9.3	Standardised progress reporting on JV projects and creation of management dashboards
9.3, 9.4, 9.5, 3.5,	1st, 2nd and 3rd line assurance improvements, written CD assurance framework, assurance planning, adopt Integrated Assurance & Gate Strategy Plan, provide training to CD team on 3 lines of defence.
3.4,	Establishing DevCo and Project Management strategies, practises and processes
4.4, 8.4	JV delivery metrics, change control, risk management, progress reporting
5.1, 5.2	Development of PM tools and processes, recruitment of experienced PM personnel
7.1	Involvement of P&SC in development of project execution strategies
7.2	RACIs on every project to address P&SC/Development Manager:Project Manager roles and interfaces.

13. REPORT ADDENDUM: AUGUST 2020 UPDATE FOR COVID-19 IMPACTS

This IIPAG review originally took place in March 2020, prior to Covid-19. Update phone interviews were held with senior management in July and August 2020. This Report Addendum addresses the impact of Covid-19 on Commercial Development.

Key Risk IIPAG wishes to highlight

Paragraph 5.2 above highlights the need for an experienced senior head of Project & Programme Management and additional skilled **project management** resources to manage the delivery risk of a large number of projects. The contract for provision of an interim Head of Project & Programme Management expires in October 2020 and recruitment of a permanent replacement and suitably skilled project managers has been paused. CD has explained that the lack of certainty over TfL funding beyond October 2020 is the reason for both the recruitment pause and the contract expiry and that they plan to address this issue vigorously once longer-term funding has been secured.

The risk to project delivery due to the lack of suitable project management resources remains and has become more acute since March 2020. It represents a significant risk to the forecast CD revenues for future years.

Summary of Covid-19 Impact on Commercial Development

CD actions to address the impact of Covid-19 with revised business planning and participation in the KPMG/DfT and Board reviews have been intense. With the reduction of TfL passenger revenue, the forecast medium-term CD revenue seems to have increased in enterprise visibility and importance. The key uncertainty underpinning all planning and potential financial commitments is DfT funding of TfL after October 2020.

Revised forecasts for overall **CD operating profit** for the year 20/21 has decreased by 70%. A gradual improvement up to 70% of the original 20/21 plan is forecast for next year. Forecasts are based on TfL passenger projections to which the re-opening of shops in TfL-owned properties is linked and which impacts the viability of tenant businesses. It is to be noted that TfL has made a major effort to support its retail tenants during Covid-19 by giving a rent holiday in the first quarter of the year and reducing rents by 50% in the second quarter in the hope that this will help some businesses survive. Similar action was taken by a range of public and private sector landlords on the basis that long-term revenues will be better served by retaining tenants, even if short-term rent collection is impacted. Reportedly, this action has been well received by the GLA, local government bodies and the tenants themselves.

CD forecast **capital revenues** have been impacted by the necessity to reduce capital expenditure and delay development activity. In the short-term, this results in higher net capital flows into TfL. Development activity was further postponed due to lockdown pauses by commercial developers, longer processing of planning applications by local authorities and delays to vacant possession dates on TfL sites due to construction “Safe Stop”. CD’s ability to raise money in the near term is complicated by its reliance upon TfL’s balance sheet despite the £1.7bn of assets it holds. Discussion about the possible creation of a separate CD balance sheet, allowing it to raise funds independently of the TfL balance sheet, is underway as part of the DfT/KPMG review.

Nonetheless, the **revised CD business plan** includes some revenue potential this year, e.g. Where TfL land sales were already under contract when Covid 19 hit, (such as the three Crossrail sites), those transactions will proceed although the timing is unclear. There are also some assets where CD has assessed that customer interest is strong and these are included as a forecast sale in the revised business plan but again, timing is unclear. Activity in the medium-term remains uncertain pending the DfT funding decision after October 2020 but the intention is to revert to the original programme of investment as soon as TfL funding becomes clear. The property market remains very confident about investment in London and currently there is no reduction in the value of TfL key assets. In summary, much activity is paused in 20/21, with an expectation that it will build in 21/22 as soon as funding becomes clear with a return to delivery of the original investment programme at similar returns.

Big changes are in store for the **CD retail sector** in the light of the difficulties mentioned about shop tenants above and the global impact of Covid-19 on working and travel habits. In contrast to the global financial crisis, Central London retail has been disproportionately impacted by Covid-19 and persistent changes in social and working habits could result in a permanent reduction in footfall and incomes. The CD retail strategy will be radically re-designed to accommodate the trend towards localism and the transformation of high streets outside central London. The CD strategy for retail in Central London will also be re-thought to mitigate the impact of footfall reduction as people continue to work from home.

With regard to the **CD residential sector** and the target to build 10,000 homes, progress has slowed: site handovers are being delayed and statutory consultations are being extended and, as a result, the March 2021 construction start-on-site date can no longer be met. TfL remains committed to the target but its ability to deliver is dependent on certainty of government funding after October 2020 to fund TfL costs in arrangements where JV partners have confirmed their willingness to proceed. TfL has submitted planning applications for approx. 5000 homes across 13 boroughs and continues to work closely with their partners. After funding, planning consents remain the biggest risk.

The **Build to Rent** market has proven to be resilient and there is likely to be little impact on rentals. The rental collection rate is 90%. This seems to be a secure sector so no strategy change is contemplated.

With regard to **Estates Management**, TfL head office numbers reduced overnight from 12,000 to 500. The new working habits are driving a strategy to reduce the footprint of TfL's Central London estate and thereby substantially reduce annual costs whilst at the same time providing a number of local spaces in outer London for those employees who are not able to work from home. The expectation is that the majority of office-based staff will work from home for a significant proportion of time on a long-term basis. In parallel, TfL has commissioned a review of all its operational landholdings, including stations, with the aim of identifying new opportunities for savings and/or disposal or development. Finally, TfL's Director of Estates Management is working closely with colleagues from across the GLA Family to understand how costs can be further reduced through greater collaboration and space-sharing.

Planning for the property development market in a time of pandemic can hold little certainty. CD's plan is tightly linked to overall TfL planning and reflects access to development partners' own planning and key industry associations' outlooks. **Key risks** in the revised CD business plan include land value volatility, risks to the residential market despite the current positive position and availability of capital. Supply chain risk is being monitored closely although there is no current cause for concern.

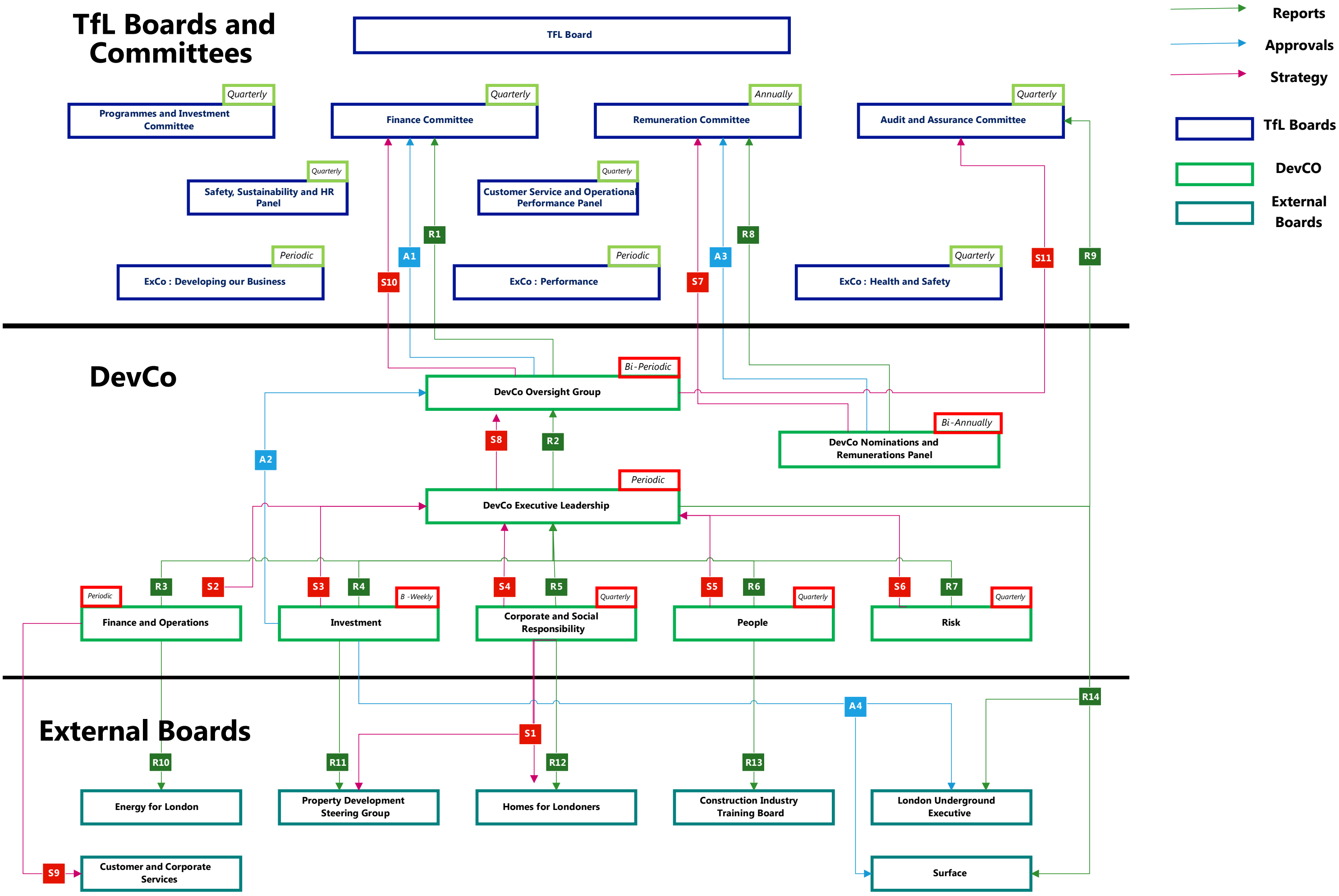
It is to be noted that CD has continued to work on improving governance and assurance but progress has been limited due to the resources required for crisis management. Nonetheless, IIPAG is pleased to note that activity is underway to map all ongoing assurance activities to identify any potential gaps in 1st, 2nd or 3rd line assurance. IIPAG hopes that a re-focus on this area of risk management will see faster progress.

In conclusion, CD has made significant revisions to its business plan to reflect the impacts of Covid-19. All of IIPAG's recommendations in paragraph 11 still stand. We find that the project management resource risk is serious and increasing.

APPENDIX 1 – LIST OF CD INTERVIEWEES

1. Ken Youngman	Divisional Finance Director
2. Heather Renton	DevCo Company Secretary
3. Lisa-Jane Risk	Estates Management Director
4. Dan Lovatt	Head of Property Management (Interim)
5. Lester Hampton	Property Development Director
6. Carrie Harding	Senior Property Programme Manager
7. Francis Salway	Independent CDAG member
8. Rob Holmans	Programme Management Functional Head (Interim)
9. Carlos Vazquez	PMU
10. Andy Mayes	Head of Procurement
11. Carrie Harding	Senior Property Programme Manager
12. Jonathan Patrick	TfL CPO, Director of Procurement & Supply Chain

APPENDIX 2 – DEVCO GOVERNANCE ROUTING MAP



Audit and Assurance Committee

Date: **11 September 2020**

Item: **Risk and Assurance Quarter 1 Report 2020/21**

This paper will be considered in public

1 Summary

1.1 The purpose of this report is to inform the Committee of the work completed by the Risk and Assurance Directorate during Quarter 1 of 2020/21, the work in progress and planned to start, and other information about the Directorate's activities.

1.2 A paper is included on Part 2 of the agenda, which contains exempt supplemental information and documentation. Subject to the decision of the Committee, this paper is exempt and is therefore not for publication to the public or press by virtue of paragraphs 3, 5 and 7 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business and financial affairs of TfL, that is commercially sensitive and likely to prejudice TfL's commercial position; and information relating to ongoing fraud and criminal investigations and the disclosure of this information is likely to prejudice the prevention or detection of crime and the apprehension or prosecution of offenders.

2 Recommendation

2.1 **The Committee is asked to note the report and the supplemental information on Part 2 of the agenda.**

3 Background

3.1 This is the first quarterly report for 2020/21 to the Audit and Assurance Committee highlighting the activities of the five teams making up the Risk and Assurance Directorate, namely: Enterprise Risk; Internal Audit; Integrated Assurance; Project Assurance; and Counter-fraud and Corruption.

3.2 The Directorate's work during Quarter 1 was significantly impacted by the lockdown resulting from the Covid-19 pandemic. From the end of April 2020, the majority of staff in most teams were placed on furlough and output was substantially reduced. The exception was the Counter-fraud and Corruption team, none of whom were furloughed, and whose work has continued uninterrupted. Over the past few months we have been bringing staff back from furlough as the work requirements have increased, and as of early September 2020 the large majority of staff are back at work.

4 Enterprise Risk Management

4.1 Consultations with TfL's Restart and Recovery Co-ordination Group, the Executive Committee and various senior leaders have resulted in a new set of Level 0 risks reflecting the new circumstances in which the business now operates.

4.2 These risks have been designated as 'Enterprise Risks' to make a clear distinction between the previous set of 'Strategic Risks' and to clarify that these are risks that potentially affect the entire enterprise of TfL, also referred to as 'pan-TfL risks'.

4.3 The new set of 14 Enterprise Risks have been mapped against the previous set of 17 Strategic Risks to retain coverage in a more streamlined approach, whilst being cognisant of the changes in the external operating environment and upcoming challenges, including the themes of the pandemic, Brexit, economic uncertainty and disparity leading to unequal outcomes for Londoners.

4.4 TfL's new set of 14 Enterprise risks are:

(a) Major health, safety or environmental incident or crisis (ER1);

(b) Protecting the wellbeing of our employees (ER2);

(c) Major service disruption (ER3);

(d) Cyber and protective security (ER4);

(e) Supply chain disruption (ER5);

(f) Loss of stakeholder trust (ER6);

(g) Financial sustainability (ER7);

(h) Delivery of key projects and programmes (ER8);

(i) Modal mix misaligned to strategic policy objectives (ER9);

(j) Inability to support new ways of working (ER10);

(k) Disparity leading to unequal or unfair outcomes (ER11);

(l) Asset condition (ER12);

(m) Governance controls and suitability (ER13); and

(n) Opening of the Elizabeth Line (ER14).

4.5 We are facilitating workshops for the business in order to fully define these new risks, including capturing the various accountabilities, responsibilities, causes, consequences and mitigations. This work is in progress and is expected to be completed in the next couple of months.

4.6 A new schedule is being produced to ensure that these risks are discussed at Executive Committee meetings and the relevant Committees and Panels of the Board, at least once in the year ending 31 March 2021.

4.7 A list of the Level 0 and Level 1 risks is included in Appendix 1.

5 Audit and Assurance

5.1 In TfL, assurance is delivered in accordance with the 'three lines of defence' model:

(a) First line of defence – control and monitoring arrangements carried out by the functions responsible for managing the risks/ controls;

(b) Second line of defence – typically audit and inspection regimes carried out by teams separate from those responsible for managing the risks/ controls, but reporting through the TfL management hierarchy; and

(c) Third line of defence – fully independent audit and review activities, typically with a strategic focus, and reporting to Executive Committee, Audit and Assurance Committee and other Board Committees and Panels.

5.2 Within the Risk and Assurance Directorate, the Internal Audit function provides third line assurance, whilst the Integrated Assurance and Project Assurance teams provide second line assurance. Further information regarding the work of these teams during Q1 is set out below.

5.3 The table below maps the outcomes of audit and project assurance reviews carried out by the teams in Risk and Assurance up to the end of Q1 against the TfL Strategic Risks. If a risk is not listed, this means that no work has been completed against it during the year. The revised internal Audit plan has been mapped to the new Enterprise risks.

5.4

	←2nd line assurance	Total	←3rd line assurance	Total
ER7 - Financial sustainability	1	1	1 1	2
ER8 – Delivery of key projects and programmes	1	1		

Audit rating/PA review outcome

- Poorly controlled
- Requires improvement/critical recommendations
- Adequately controlled/recommendations
- Well controlled
- Memo or consultancy

Internal Audit

5.5 The Internal Audit plan for 2020/21 was approved by the Audit and Assurance Committee on 16 March 2020. Following the lockdown due to Covid-19, and the furloughing of almost the entire Internal Audit team, little progress was made with delivery of the audit plan during Q1. Two audits were completed in the quarter, both of which were from the 2019/20 plan. Details of these can be found in Appendix 2. A number of audits were in progress at the time that the team were furloughed and these were put on hold. These are now being restarted and completed. A list of the audits in progress at the end of Q1 can be found in Appendix 3.

5.6 We have been bringing internal audit staff back from furlough in a staged manner since June, as audit work has been able to resume across a range of areas. The entire internal audit team is expected to be back at work by 7 September 2020.

5.7 The impacts of Covid -19 on TfL and the loss of a significant portion of the working year has meant that we have needed to substantially revise our audit plan, in liaison with senior management across the business. Our revised plan for the remainder of 2020/21 is included as Appendix 4. This includes several audits that were not included in the plan approved by the Committee in March, mostly directly related to the impacts of Covid-19. A large number of the audits included in the plan approved in March 2020 have had to be cancelled or postponed until 2021/22. These are listed in Appendix 5.

Mayoral Directives

5.8 Mayoral Directions fall into three broad categories: those addressing technical issues relating to statutory powers; those related to commercial development activities; and those related to projects and programmes.

5.9 Since the end of Q4, there have been two directions to TfL, neither of which affected Internal Audit activity:

(a) Directing TfL to implement changes, from 15 June 2020, to temporarily restrict the existing arrangements that provide free travel at peak hours for the Older Person’s Freedom Pass and the 60+ Pass holders. (MD2642 on 03 June 2020).

(b) Directing TfL to widen the scope and levels of road user charging schemes, from 22 June 2020. The Mayor directed TfL to further engage with local authorities and charities with a view to establishing rules for a new Congestion Charge reimbursement arrangement for workers, including volunteers, who are providing services on behalf of a local authority or charity in direct response to the pandemic. (MD2648 0n 15 June 2020)

Management Actions

5.10 Internal Audit monitors the completion of all management actions and confirms whether management has adequately addressed them. We report by Directorate, on the percentage of actions closed on time over the past six periods. Schedule 1 provides additional information relating to action management trends over the last six periods.

5.11 As internal audit staff have returned to work following furlough, they have been working with the business to review all outstanding actions, deleting any that are no longer relevant, closing those that have been completed and agreeing revised completion dates for the remainder. Schedule 1 shows overdue actions at the end of period 5. There were no actions more than 60 days overdue at that date

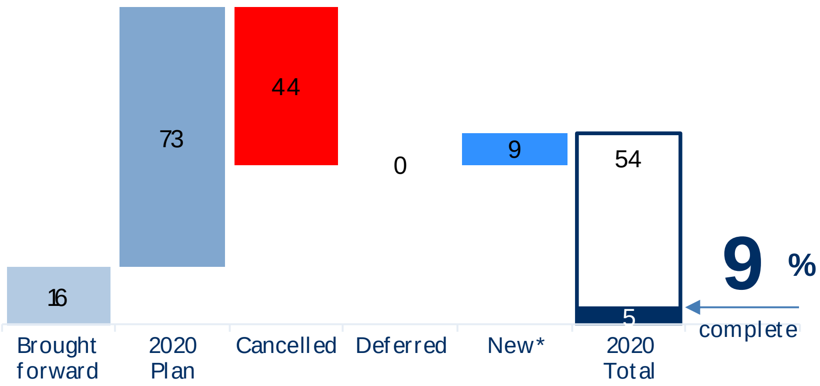
5.12 At its 8 June 2020 meeting, the Committee requested an update on the status of two particular audits. These updates are as follows:

(a) **Occupational Health**: Four (out of 13) actions remain open. These relate to key processes that require further revision in the light of Covid-19. Revised implementation dates have been agreed and the outstanding actions are all due to be completed by the end of October 2020.

(b) **Bus Safety Update Programme**: All actions have been reviewed and nine (out of 24) remain open, none of which are Priority 1. Revised dates have been agreed for the remaining actions and are being tracked. All are scheduled to be completed by the end of the calendar year.

Schedule 1: Internal Audit Q1 summary

Audit plan 2020/21 (to Period 5 2020/21 end)



Notable audits planned during Q1 2020/21

Key highlights

The audit plan for 2020/21 has been impacted by COVID-19 and has been revised substantially following discussions with the business.

We have added a number of new audits to the revised plan specifically related to the effects of COVID 19 on TfL operations and finances.

We issued one memorandum and one report during Q1. The memorandum covered TfL Scorecard and the report was on the Management of the One FM contract which was concluded as Requires Improvement.

Reports

2 Issued Q1

5 Issued (to Period 5 end)

Audit ratings by Directorate – rolling 13 period view

Audit ratings by Directorate – last 13 periods

	PC	RI	AC	WC	M/C*
Crossrail		3			
CCT	1	8	2		3
Finance		2	5		2
Gen. Counsel					
HR		1			
LU		2			
Major Projects					
Surface					4
TfL Engineering					
TfL Strategy					
Pan TfL					
TOTAL	3.0%	48.5%	21.2%	0.0%	27.3%

KEY
PC: poorly controlled
RI: requires improvement
AC: adequately controlled
WC: well controlled
M/C: memo/ consultancy

Action management (to Period 5 end)

Overall TfL performance

Measure	#	%	6-period trend
Closed on time*	82	73%	
Extended*	25	22%	

7 overdue

242 open

By Directorate

	Overdue	Closed on time*
Crossrail	1 (0-30 days); 2 (31-59 days)	50%
CCT	1 (31-59 days)	56%
Finance		78%
Gen. Counsel		
HR		
LU		67%
Major Projects		
Surface	1 (0-30 days)	80%
TfL Engineering		
HSE	2 (0-30 days)	
Pan TfL		

0-30 days
31-59 days
60-99 days
100+ days

*based on actions due in the last six periods

Integrated Assurance

5.13 The Integrated Assurance team carries out second line of defence audits, primarily in relation to health and safety and engineering compliance, and compliance with Payment Card Industry Data Security Standard (PCI DSS). Audit reports issued by the team follow a similar system of audit conclusions and priority ratings for issues as the Internal Audit team.

5.14 A summary of work carried out by Integrated Assurance can be found in Schedule 2: Integrated Assurance Q1 summary.

Project Assurance

5.15 The Project Assurance team carries out assurance reviews of projects and programmes across TfL's Investment Programme, with individual projects selected for review following a risk-based assessment. Generally, projects with an Estimated Final Cost over £50m are also subject to (third line) input from the Independent Investment Programme Advisory Group (IIPAG). However, IIPAG's agreed work-bank is determined by the project's risk profile, which includes some projects less than £50m, and not all sub-programmes are reviewed. The IIPAG Quarterly Report is included separately on the Committee Agenda. Reports from Project Assurance Reviews are considered alongside the Authority request at the sub-programme board or operating business board depending on the size of the project.

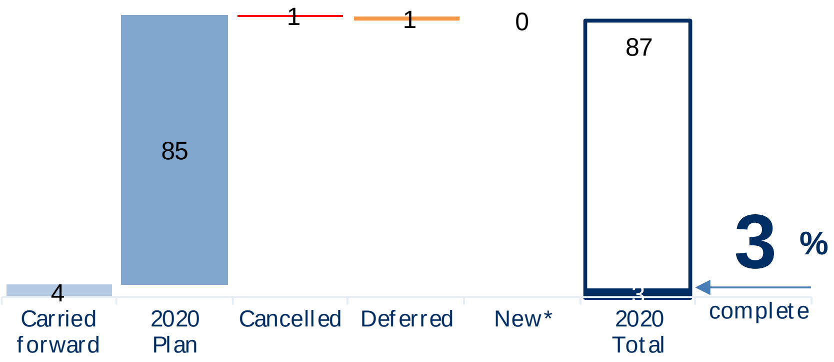
5.16 Project Assurance also conducts reviews of the sub-programmes to inform their annual request for Authority at the Programmes and Investment Committee.

5.17 Project Assurance reviews do not carry an overall conclusion in the same way as audit reports, however, issues raised may be designated as critical issues. The Project Assurance team follows up on all recommendations to ensure they have been addressed.

5.18 A summary of the work completed by Project Assurance can be found in Schedule 3: Project Assurance Q1 summary.

Schedule 2: Integrated Assurance Q1 Summary

Audit plan 2020/21



Key highlights

Covid-19 has had a substantial impact on the 2020/21 audit programme for 2020/21 All but one of the Integrated Assurance team were put on furlough for the majority of quarter one. During this time the intended annual audit plan has been revised with risk owners and assurance stakeholders to ensure it is feasible and best reflects TfL's current risk profile. For example covid specific checks have been included in the LU Operational Integrated Systems audits.

The annual plan currently contains 89 audits in total which is ambitious although, half of these are short, focused audits of local compliance with management system or payment card industry requirements.

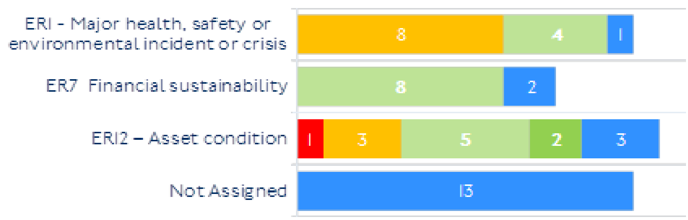
The revised plan is being circulated amongst the TfL senior team. It incorporates some specific assurance projects including reviews of TfL's security strategy and of the risk interface with Network Rail and other operators.

Reports last 13 periods

	PC	RI	AC	WC	M/C*
Crossrail					
CCT			3		
Finance			1		2
Gen. Counsel			1		
HR					
LU		5	6	1	15
Major Projects					
Surface		5	5		2
TfL Engineering			1		
SHE					
Pan TfL		1			
TOTAL	0.0%	22.9%	35.4%	2.1%	39.6%

KEY
PC: poorly controlled
RI: requires improvement
AC: adequately controlled
WC: well controlled
M/C: memo/ consultancy

Audit Ratings by Strategic Risk Last 13 Periods



Action management (to Period 5 end)

Overall TfL performance

Measure	#	%	6-period trend
Closed on time*	32	64%	
Extended*	24	48%	

22 actions overdue

0 due this period

by Directorate

	Overdue	Closed on time*
Crossrail		
CCT		
Finance	2	100%
Gen. Counsel	2	100%
HR		
LU	2	60%
Major Projects		
Surface	1 2 13	30%
TfL Engineering		92%
SHE		
Pan TfL		

0-30 days
31-59 days
60-99 days
100+ days

*based on actions due in the last six periods

Project Assurance quarterly report Q1(P1-P3), 2020/21

Due to the impacts of COVID-19, including the corresponding safe stop of projects across TfL and the furloughing of TfL staff, a very limited number of reviews were undertaken in quarter 1. Given the impacts to the business, the common theme that is currently affecting projects widely is the impact of COVID-19.

Sub-Programme Reviews

No sub-programme reviews were completed in the quarter.

Overdue Recommendations

As at the end of Q1 there were 51 open recommendations for 11 sub-programme reviews, with 23 of these recommendations overdue against their original completion date.

The impact of COVID-19 on the investment programme and the number of TfL staff on furlough has affected our ability to actively address and close recommendations over the last quarter. As staff return from furlough we will focus on addressing the number of open and overdue actions.

Of the overdue sub-programme recommendations, two (one by IIPAG and one by Project Assurance) are critical issues. Both of these overdue critical recommendations relate to the Four Lines Modernisation (4LM) programme. The project team are looking to address these in the coming weeks following the conclusion of a detailed review of the programme.

Recommendations relating to projects which are currently paused due to the impacts of COVID-19 on the investment programme have not been included in the above data. Should these projects resume then revised recommendation action dates will be agreed and included in subsequent Project Assurance reports.

Project Reviews

Project Assurance completed one project review in Q1, in relation to Old Street Roundabout, which IIPAG did not participate in. This review resulted in nine recommendations being made, none of which were critical.

Customer Feedback

5.19 There were no customer feedback forms returned in Q1.

6 Counter-Fraud and Corruption

6.1 The Counter-fraud and Corruption team carries out investigations in all cases of suspected and alleged fraud. They also carry out a proactive programme of fraud awareness, prevention and detection activities designed to minimise TfL's exposure to fraud risk. A summary of the team's activities during Q1, including information on significant closed fraud investigations is set out in Schedule 4: Counter-Fraud and Corruption Q1 Summary.

6.2 Details of significant new and ongoing fraud investigations during Q1 can be found in the paper on Part 2 of the agenda.

Schedule 4: Counter-Fraud and Corruption Q1 Summary

Fraud investigation

During Q1, seven new cases were opened (2019/20 Q1: seven new cases). Of the seven newly opened cases, two were as a result of whistleblowing and three were identified through internal control mechanisms. Three of the seven allegations related to procurement & supply chain activities. Seven financial investigations were conducted involving eight subjects and nine bank accounts. Two Suspicious Activity Report (SAR) checks were undertaken, involving three subjects and nine different bank accounts.

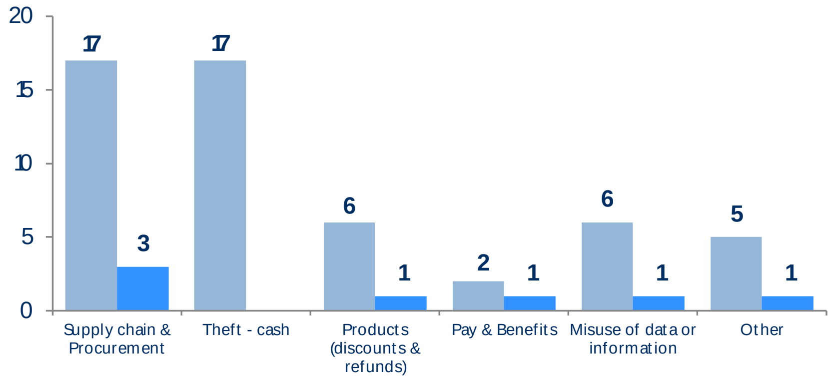
Fraud prevention

- The Counter-fraud & Corruption (CFC) Team prepared a communication to the Executive Committee highlighting key fraud risks associated with, but not exclusive to, the COVID-19 pandemic. These included cyber-related attacks / fraud, and procurement, payment and refund fraud. The Counter-fraud & Corruption Team are working with members of the Steering Group to develop a plan to ensure effective mitigations are in place to manage these risks. The CFC Team also presented an update to the Executive Committee on significant new and ongoing investigations and fraud awareness activities undertaken as part of their agreed Action Plan (2019-21).
- Members of the Counter-fraud & Corruption and Cyber Security Teams, using intelligence obtained through Law Enforcement and other reliable external sources, have been posting regular bulletins on Yammer to raise awareness of current frauds affecting businesses and individuals associated with the current pandemic.
- There were issues with service delay refunds on magnetic tickets, which could be claimed online with minimal checking of validity, leading to a series of unconnected fraud cases with multiple claims. Following discussions between the Counter-fraud & Corruption Team and the Payments Team, the ability to claim such refunds online has been stopped and a new process will be introduced to deal with claims, hopefully preventing recurrence.
- Members of the Counter-fraud & Corruption Team attended a meeting with senior Crossrail Limited management to re-mobilise the Fraud Risk Assurance Group (FRAG). It was agreed that the group, comprising of stakeholders from CRL and the CFC Team would meet regularly to discuss emerging and existing fraud risks. Terms of Reference for the group are being finalised.

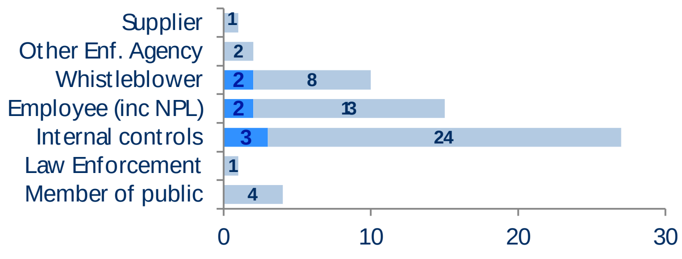
Cases by directorate

Investigations	B/F	New	Closed	C/F
LU	36	1	3	34
Surface Transport	5	0	0	5
CCT	7	2	0	9
Crossrail	3	0	0	3
Major Projects	1	0	0	1
Commercial Dev.	0	1	0	1
General Counsel	0	1	0	1
Finance	1	2	0	3
Total	**53**	**7**	**3**	**57**

Cases by type New and Brought Forward



Cases by source New and Brought Forward



Significant closed cases

IA18-754 - Allegation of Conflict of Interest within Stations

An allegation of a conflict of interest was received involving the supply of parts and maintenance within LU stations with the contract specification having been designed to ensure that only one supplier met the requirements. The investigation identified three employees, one of whom was responsible for creating the specifications, which led to the award of the contract to a sole supplier. The supplier had also issued credit cards to the three employees, without the authority of senior management, and these were used extensively for personal use rather than any business use. All three employees were the subject of internal fact-finding interviews. One employee was dismissed after a company disciplinary interview and two resigned post fact-find. The BTP Commercial Fraud Team were consulted, but concluded that the evidence gathered during the investigation was insufficient to proceed with a prosecution. A controls report has been produced with action owners assigned. The TfL Legal Team continue to work with senior management in the maintenance team to cease goods and services being procured through this supplier. Savings are estimated at £240k, based on forfeited voluntary severance packages being finalised at the time of the investigation due to transformation.

7 Resources

7.1 At the beginning of Q1 the Directorate was carrying six vacancies: four in Internal Audit (including the Head of Internal Audit post), and one each in Project Assurance and Integrated Assurance

7.2 During Q1, in light of restrictions on recruitment, Mushtaq Ali was appointed to the role of Head of Internal Audit on an interim basis. We also had a new Counter-fraud and Corruption Investigator join the team. There was one leaver, from Project Assurance.

7.3 Since the end of the quarter one of the two vacancies in project assurance has been filled. In addition, we have made an appointment to a vacant Internal Auditor post. The successful candidate will take up his position in October 2020.

8 Control Environment Trend Indicators

8.1 As previously reported to the Committee, the Business Services Finance team has been working in conjunction with the Finance and Commercial teams to develop a revised set of Commercial and Financial indicators. A paper setting out the outcomes of this work can be found elsewhere on this agenda. The remaining Q1 indicators are attached as Appendix 6, although in view of the reduced outputs during the quarter those relating to audit report conclusions are not very meaningful.

List of appendices to this report:

Appendix 1: Level 0 and Level 1 Risks
Appendix 2: Internal Audit reports issued in Q1 2020/21
Appendix 3: Work in Progress at the end of Q1 2020/21
Appendix 4: Revised Audit Plan for the remainder of 2020/21
Appendix 5: Cancelled/Deferred audits from 2020/21 audit plan
Appendix 6: Control Environment Trend Indicators

A paper containing exempt supplemental information is included on Part 2 of the agenda.

List of Background Papers:

Audit reports, Project Assurance reports.

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Level 0 TfL Enterprise Risks				
#	Risk	Owner	Manager/s	Mayor's Transport Strategy / Corporate Strategy
ERI	Major Health, Safety or Environmental incident or crisis	Chief Safety, Health & Environment Officer	Head of Insights & Direction; Head of Corporate Environment; Head of Occupational Health & Wellbeing; Head of Transport Strategy & Planning	MTS: Healthy streets and healthy people
ER2	Protecting the wellbeing of our employees	Chief People Officer	Head of Strategic Planning and Governance; Head of Occupational Health & Wellbeing	CS: People and stakeholders
ER3	Major service disruption	Managing Director - LUL	Director of Network Management; Director of Bus Operations; Director of Rail and Sponsored Services; Director of Asset Operations; Chief Operating Officer; Director of Business Partnering & ER	MTS: A good public transport experience
ER4	Cyber and protective security	Managing Director - ST	CTO & Director of CE; Director Compliance Policing & On-Street; Director of TfL Engineering	MTS: Healthy streets and healthy people
ER5	Supply chain disruption	Chief Finance Officer	Chief Procurement Officer; Director of Innovation	MTS: A good public transport experience
ER6	Loss of stakeholder trust	MD Customer, Communications & Technology	Director of News and External Relations; Group Finance Director; Director of Legal	CS: People and stakeholders
ER7	Financial sustainability	Chief Finance Officer	Group Finance Director	CS: Finance
ER8	Delivery of key projects and programmes	Director of Major Projects	Director of Project & Programme Delivery; Director, Network Extensions; LU Director of Renewals & Enhancements	MTS: A good public transport experience
ER9	Modal mix misaligned to strategic policy objectives [to be reviewed]	MD Customer, Communications & Technology	CTO & Director of CE; Director of City Planning; Director of Innovation	CS: Finance
ERI0	Inability to support new ways of working	MD Customer, Communications & Technology	CTO & Director of CE; Chief People Officer; Estates Management Director	MTS: A good public transport experience

Level 0 TfL Enterprise Risks				
#	**Risk**	**Owner**	**Manager/s**	**Mayor's Transport Strategy / Corporate Strategy**
ERI1	Disparity leading to unequal or unfair outcomes	Director of Diversity, Inclusion &Talent	Chief Safety, Health & Environment Officer; CTO & Director of CE; Director of City Planning; MD Customer, Communications & Technology; Diversity & Inclusion Lead	CS: People and stakeholders
ERI2	Asset condition	Managing Director - LUL	Director of TfL Engineering Delivery	MTS: A good public transport experience
ERI3	Governance and controls suitability	General Counsel	Director of Legal	MTS: All MTS themes
ERI4	Opening of the Elizabeth Line	Managing Director - LUL	Chief Operating Officer; Operations Business Manager	MTS: A good public transport experience

Level 0 and Level 1 Risks

Level 1 London Underground Strategic Risks				
#	Risk	Owner	Manager	Mayor's Transport Strategy / Corporate Strategy
LU 01	LU Ineffective relationship with colleagues	Director of Line Operations	Head of Business Partnering; Head of Employee Comms & Engagement	CS: People
LU 02	LU Diversity and Inclusion	Director of Customer Services	Head of Business Partnering (HR)	CS: People
LU 03	LU Service issues worsen customer perceptions	LU Managing Director [TBC]	Director of Line Operations, Director of Asset Operations, Director of Customer Services	MTS: A good public transport experience
LU 04	LU Failure to deliver our budget	Divisional Finance & Procurement Director (LU)	Senior Divisional Financial Controller (LU)	CS: Finance
LU 05	LU Inability to keep our assets in safe and operable condition	Director of TfL Engineering Delivery	Director of Asset Operations, Engineering Heads of Profession	MTS: A good public transport experience
LU 06	LU Major Incident	Director of Line Operations	Head of Network Delivery	MTS: Healthy Streets & Healthy People
LU 07	LU Inability to 'Restart and Recover' following COVID-19	Director of Operational Readiness	Head of Network Command	MTS: All themes
LU 08	LU Operations Cyber-security threat	Director of TfL Engineering	TBC (currently the Director of TfL Engineering until an appointment is confirmed)	MTS: A good public transport experience
LU 09	LU Risk of injury, death or significant poor health and wellbeing to our colleagues or customers	LU Managing Director	Head of Safety, Health & Environment Business Partnering (LU)	MTS: Healthy Streets & Healthy People
LU 10	LU Inability to establish clear strategy and governance	LU Chief of Staff	Head of LU Business Strategy; Head of LU Secretariat	MTS: All themes
LU 11	LU New Major Programmes Operational Readiness & Integration of New Assets	Director of Operational Readiness	TBC (Currently Director of Operational Readiness)	MTS: A good public transport experience
LU 12	LU Failure to deliver investment in our assets	Director of Renewals & Enhancements (LU)	Head of PMU	MTS: A good public transport experience
LU 13	LU Inability to operate Control Centres	Director of Line Operations	Head of Line Operations (Circle & Hammersmith and District lines); Head of Profession Service Control)	MTS: A good public transport experience

Level 1 Surface Transport Strategic Risks				
#	Risk	Owner	Manager	Mayor's Transport Strategy / Corporate Strategy
ST-03	Inability to deliver the Investment Programme	Director of Project & Programme Delivery	Head of Projects & Programmes Delivery (Assets)	MTS: All MTS outcomes
ST-04	Inability to maintain Highway Infrastructure asset base	Director of TfL Engineering Delivery	Head of Asset Investment	MTS: Healthy streets and healthy people
ST-07	Disruption to quality of service due to planned or unplanned events	Director of Network Management	Head of Control Centre Operations	MTS: A good public transport experience
ST-08	Inability to attract, recruit, engage, develop and retain talent in key competencies	Director of CPOS	Senior HR Business Partner	CS: People
ST-10	Disruptive technology undermines core business	Director of Innovation	Senior Policy Manager	All MTS themes: All MTS outcomes
ST-11	Achieving health, safety and environmental outcomes and performance	Chief Safety, Health & Environment Officer	Head of Safety, Health and Environment - ST	MTS: Healthy streets and healthy people
ST-12	Major cyber security incident	CTO & Director of CE	Head of T&D – Surface	MTS: A good public transport experience
ST-16	Inability to source new revenue stream for roads	Divisional Finance Director (ST)	Senior Divisional Financial Controller	CS: Finance
ST-17	Protective Security	Director of CPOS	Snr Op Security & Crime Reduction Manager	MTS: Healthy streets & healthy people: London's transport system will be safe & secure
ST-20	Inability to achieve net bus income target from patronage decline	Director of Bus Operations	Director of Bus Operations	MTS: A good public transport experience

Level 1 Commercial Development Strategic Risks				
#	Risk	Owner	Manager	Mayor's Transport Strategy / Corporate Strategy
CD-01	Inability to deliver predicted revenue growth	Director of Commercial Development	Divisional Finance Director (CD)	MTS: New homes and jobs
CD-02	Landlord compliance with legislation	Director of Commercial Development	Estates Management Director	MTS: Healthy streets & healthy people
CD-03	Compliance with Mayor's housing strategy	Director of Commercial Development	Property Development Director	MTS: New homes & jobs
CD-04	Building security	Director of Commercial Development	Estates Management Director	MTS: Healthy streets & healthy people

Level 1 Professional Services Strategic Risks				
#	**Risk**	**Owner**	**Manager**	**Mayor's Transport Strategy / Corporate Strategy**
City Planning				
CP-01	Changes in legislation	Director of City Planning	Head of Transport Strategy and Planning	All MTS themes: All MTS outcomes
CP-02	Insufficient project funding	Director of City Planning	Head of Transport Planning and Projects	CS: Finance
CP-03	Insufficient progress in meeting the MTS	Director of City Planning	Head of Transport Strategy and Planning	All MTS themes: All MTS outcomes
CP-04	Changes in economic factors	Director of City Planning	Head of Strategic Analysis	All MTS themes: All MTS outcomes
Engineering				
ENG-01	Engineering not understood or consulted	Director of TfL Engineering	COO Engineering	All MTS themes: All MTS outcomes
ENG-02	TfL is not compliant with its ROGS regulations	Director of TfL Engineering	Head of Technical Engineering	MTS: Healthy streets & healthy people
ENG-03	Engineering is unable to deliver its provision	Director of TfL Engineering	COO Engineering	MTS: A good public transport experience
ENG-04	Engineering is unable to attract and retain resources	Director of TfL Engineering	Head of Technical Engineering	CS: People
General Counsel				
GC-01	Significant Legal Non-Compliance	Director of Legal	Director of Legal	All MTS themes: All MTS outcomes
GC-02	Insufficient legal resource to meet demand from the business	Director of Legal	Director of Legal	All MTS themes: All MTS outcomes
GC-03	Significant non-compliance with FOI Act/EIRs	Head of Information Governance and DPO	Information Access Manager	All MTS themes: All MTS outcomes
GC-04	Significant non-compliance with GDPR and other privacy legislation	Head of Information Governance and DPO	Head of Privacy and Data Protection	All MTS themes: All MTS outcomes
GC-05	Inadequate TfL Management System	Head of Information Governance and DPO	Head of TfL Management Systems	All MTS themes: All MTS outcomes
GC-06	Failure to deliver improvement to the quality of R&A outputs to support decision making	Director of Risk and Assurance	Head of Integrated Assurance	All MTS themes: All MTS outcomes
GC-07	Assurance activities fail to reflect and address business risks and concerns	Director of Risk and Assurance	Head of Integrated Assurance	All MTS themes: All MTS outcomes
Human Resources				
HR-01	Inability to attract the right resources	Chief People Officer	Director of Diversity, Inclusion &Talent	CS: People
HR-02	Inability to retain the right resources	Chief People Officer	Director of Diversity, Inclusion &Talent	CS: People
HR-03	Low or declining employee engagement	Chief People Officer	Head of Strategic Planning & Governance	CS: People

Level 1 Professional Services Strategic Risks				
#	Risk	Owner	Manager	Mayor's Transport Strategy / Corporate Strategy
HR-04	Pay becomes neither fair nor equal	Chief People Officer	Director of Compensations & Benefits	CS: People
HR-05	Employee Relations climate deteriorates	Chief People Officer	Director of Business Partnering & ER	CS: People
HR-06	Failure to deliver Organisational Change	Chief People Officer	Head of Strategic Planning & Governance	CS: People
HR-07	TfL Pension Fund funding	Chief People Officer	Director of Compensations & Benefits	CS: People
HR-08	Delivering a seamless Hire to Retire process	Chief People Officer & Transformation Director	Head of Strategic Planning & Governance	CS: People
		Technology and Data		
T&D-02	T&D is unable to attract the right resources	Director of Strategy & Chief Technology Officer	Head of Strategy	CS: People
T&D-03	TfL loses role in providing digital services to customers	Director of Strategy & Chief Technology Officer	Head of Digital	MTS: A good public transport experience
T&D-06	Loss, misuse, or breach of GDPR for data owned by Tech & Data	Director of Strategy & Chief Technology Officer	Chief Data Officer	All MTS themes: All MTS outcomes
T&D 09	Under or over spend on budget	Director of Strategy & Chief Technology Officer	Head of Technology - Programmes	CS: Finance
T&D-10	Political pressure to change ticketing policy	Director of Strategy & Chief Technology Officer	Head of Technology & Data - Payments	MTS: A good public transport experience
T&D-14	SAP system out of support	Director of Strategy & Chief Technology Officer	Head of ERP Transformation	CS: Finance
T&D-19	Extreme weather and climate change effects	Director of Strategy & Chief Technology Officer	Head of Technology & Data - Surface Transport	CS: Finance
T&D-21	Over-reliance on current ticketing supplier	Director of Strategy & Chief Technology Officer	Head of Technology & Data - Payments	CS: Finance
T&D-22	Theft or fraud in the revenue collection process	Director of Strategy & Chief Technology Officer	Head of Technology & Data - Payments	CS: Finance
T&D-23	Risk of ticketing systems failure	Director of Strategy & Chief Technology Officer	Head of Technology & Data - Payments	CS: Finance
T&D-31	TfL is not ready for the switchover from PSTN	Director of Strategy & Chief Technology Officer	Head of Transformation Portfolio – Networks	CS: Finance
T&D-32	Software is non-compliant with	Director of Strategy & Chief	Head of Technology	CS: Finance

Level 1 Professional Services Strategic Risks				
#	Risk	Owner	Manager	Mayor's Transport Strategy / Corporate Strategy
	licencing agreements	Technology Officer	Services Operations	

Level 1 Major Projects Directorate Strategic Risks				
#	Risk	Owner	Manager	Mayor's Transport Strategy / Corporate Strategy
MPD-01	Lack of TfL non-MPD resources, especially Engineering and Commercial	Head of Programme	Head of Programme	CS: People
MPD-02	Poor Supplier Performance	Director of Major Projects	Head of Programme	MTS: A good public transport experience
MPD-03	Lack of Resilience in Access and Closures Plans	Director of Major Projects	Head of Delivery – Access	MTS: A good public transport experience
MPD-04	Major Engineering risks (eg software defects)	Head of Engineering MPD	Head of Engineering MPD	MTS: Healthy streets and healthy people
MPD-05	Imperfect coordination of interfaces with Network Rail	Head of Programme	Senior Commercial Manager NRA	MTS: A good public transport experience
MPD-06	Scope Creep due to requirements for non-conformance rectification and asset condition worse than assumed	Head of Programme	Head of Programme	MTS: A good public transport experience
MPD-07	Crossrail delay may impact on other TfL programmes	Director of Major Projects	Director of Major Projects	MTS: All MTS outcomes
MPD-08	MPD projects cancelled, descoped or deferred as funds reprioritised	Head of Programme	Head of Programme	CS: Finance
MPD-09	External Consents delay projects	Head of Programme	Head of Programme	MTS: A good public transport experience
MPD-10	Projects increased costs due to inability to hand over to Asset Operations	Head of Programme	Head of Programme	CS: Finance

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Internal audit reports issued in Q1 2020/21

Appendix 2

Grouped by Enterprise Risk

- Two reports were issued during the quarter

Enterprise risk	Directorate	Audit title	Objective	Issued period	Last action date	Conclusion	Current status	P1	P2	P3
Financial sustainability	Finance	Management of the ONE Facilities Management (FM) Contract	Provide assurance on the effective management of the ONE FM contract.	1	31/12/2022	Requires Improvement	Follow-up	1	2	0
		TfL Scorecard	Provide assurance that the year-end outturns on the scorecard indicators are being reported accurately.	3	n/a	Memo	Closed	0	0	0
Total								**1**	**2**	**0**

Work in progress at the end of Q1 2020/21

Appendix 3

Grouped by Enterprise Risk

- Fifteen audits were in progress at the end of Q1

Enterprise risk	Directorate	Audit title	Objective	Status
Financial sustainability	Technology & Data	Use of Whole Life Costings in Procurements (T&D)	To assess the adequacy and effectiveness of the processes in place for Whole Life Costings of prospective or procured IT solutions..	Reporting
	Finance	Budget Planning and Forecasting (ST)	To review the adequacy and effectiveness of the ST budget planning and forecasting processes	In progress
Governance and control suitability	LTM	LTM Fraud Controls	To determine the adequacy and effectiveness of the London Transport Museum (LTM) counter-fraud controls.	Reporting
	Finance	CPC Contract Management Review	To provide assess the adequacy and effectiveness of the revised control environment in relation to the operation of the PSP contract and the 4LM programme.	Completed
	Surface Transport	Payments to Local Authorities using the Borough Portal	To provide assurance on the effective management of the borough portal to deliver Local Implementation Plans (LIPS)	Reporting
	Surface Transport	Bus Service Delivery Model network service delivery targets.	To review the effectiveness of the Bus Operations model, post transformation, and ensure that operational roles and responsibilities are aligned and support bus	In Planning
Cyber and protective security	Technology & Data	End User Computing (EUC) hardware stock management	To review the adequacy and effectiveness of the processes for management of End User Computing stock.	Reporting

Enterprise risk	Directorate	Audit title	Objective	Status
Inability to support new ways of working	Technology & Data	The strategic approach to cloud computing governance	To examine the arrangements the organisation has in place to govern the design, deployment, use and decommissioning of cloud computing, including policies, procedures and controls.	Reporting
	Technology & Data	Active Directory Controls: Follow-up	To provide assurance that appropriate action has been taken to control weaknesses identified during a previous audit (IA 15 421) to bring risks within acceptable tolerance.	Follow-up
Opening of the Elizabeth Line	Crossrail	Crossrail Complaints Commissioner Accounts	To provide assurance over the accounts of the Crossrail Complaints Commissioner for the period ending 31 March 2019.	In progress
	Crossrail	Culture Change	To review the degree to which culture has changed and is embedded in line with agreed values and behaviours	In progress
	Crossrail	Governance and Organisational Effectiveness	To provide assurance that Internal Governance and Organisational Effectiveness is being approached and managed effectively, and in a manner that supports programme delivery.	Reporting
	Crossrail	Adequacy of the Supply Chain Assurance Framework	To provide assurance over the adequacy of the controls to manage key risks within Crossrail's supply chain (Tier 2 and Tier 3)	In progress
	Crossrail	Counter fraud assurance	To provide assurance that fraud counter measures in the business are adequate and effective in minimising risk to CRL.	Follow up
	Crossrail	Consents Compliance Governance	To provide assurance over the adequacy and effectiveness of controls to monitor and manage compliance with planning, traffic and environmental consents requirements.	Reporting

Revised Audit Plan (2020/21): **Appendix 4**

There are 38 internal audits planned for delivery in 2020/21 (titles in red are new audits):

Enterprise Risk No.	Enterprise Risk	Audit Title	Objective	Planned Quarter	Directorate/ Sponsor	Business Unit
ER01	Major Health, Safety or Environmental Incident or Crisis	Integrated Assurance will deliver a portfolio of engagements and assurance reviews at the second line of defence, relating to safety assurance in addition to the SHE and Engineering assurance teams.				Various
		Adequacy of the SHE Management System	To provide assurance on the adequacy of the SHE system	Q2	Safety, Health and Environment	Safety, Health and Environment
		Fatigue Risk Management	To provide assurance over the effectiveness of controls to manage fatigue risk.	Q4	Safety, Health and Environment	Bus Operations

Transport for London Audit and Assurance Committee

Enterprise Risk No.	Enterprise Risk	Audit Title	Objective	Planned Quarter	Directorate/ Sponsor	Business Unit
ER02	Protecting the wellbeing of our employees	Post Covid 19 return to work strategy	To provide assurance that the controls over TfL's strategy to enable return to work at Head Office Buildings are adequate and effective	Q2	Finance	Commercial Development
		Work Place Violence Strategy- Training & Reporting	To provide assurance over the adequacy of the Work Place Violence (WPV) Strategy	Q3	Surface Transport	Compliance, Policing and On-Street
ER03	Major service disruption	Integrated Assurance will deliver a portfolio of engagements and assurance reviews at the second line of defence.				Various
ER04	Cyber and protective security	Integrated Assurance will deliver a portfolio of compliance and consultancy engagements at the second line relating to the Payment Card Industry, Data Security Standard				Various

Enterprise Risk No.	Enterprise Risk	Audit Title	Objective	Planned Quarter	Directorate/ Sponsor	Business Unit
		Enterprise IT Security Layer	Provide assurance on the governance, accountability, adequacy and effectiveness of TfL's enterprise IT security layers.	Q2	Customers, Communication & Technology	Technology & Data
		Privileged Access to Critical Enterprise Systems	Provide assurance on the adequacy and effectiveness of controls governing privileged access to critical enterprise systems including the vetting process.	Q4		
		EUC hardware stock management	Review the adequacy and effectiveness of the processes for management of End User Computing stock.	Q1		
		IT Disaster Recovery and Operational Resilience	Provide assurance over TfL's ability to withstand and recover from disruptive IT events.	Q3		
ER05	Supply chain disruption	Procurement during Covid 19	Provide assurance on the adequacy and effectiveness of controls for procurements conducted during the Covid-19 pandemic	Q2	Finance	Procurement & Supply Chain

Enterprise Risk No.	Enterprise Risk	Audit Title	Objective	Planned Quarter	Directorate/ Sponsor	Business Unit
		Procurement & Supply Chain Governance	Provide assurance around the transformation of Procurement & Supply Chain.	Q2	Finance	Procurement & Supply Chain
		Management of critical suppliers	Review the adequacy and effectiveness of the process for managing critical suppliers	Q2	Finance	Procurement & Supply Chain
ER07	Financial Sustainability	Taxi and car mileage claims during Covid 19	To provide assurance on the adequacy and effectiveness of controls for claiming taxi and car mileage expenses during Covid 19.	Q2	Finance	Business Services
		Furlough Process	To provide assurance on the adequacy and effectiveness of TfL's furlough controls to ensure adherence to government guidelines and that all monies due to TfL under the scheme are collected.	Q2	Human Resources	Human Resources
		Certification of the A2/M2 Connected Corridor Project Costs	To certify costs in relation to EU funding for the A2/M2 Connected Corridor Project.	Q2	Surface Transport	Network Management

Transport for London Audit and Assurance Committee

Enterprise Risk No.	Enterprise Risk	Audit Title	Objective	Planned Quarter	Directorate/ Sponsor	Business Unit
		LIPS Scheme for Hillingdon Borough	Provide assurance that the expenditure was in line with the agreed scheme.	Q2	Surface Transport	Investment Delivery Planning
		Embedding of the Business Planning & Consolidation tool	Provide assurance on the planned implementation and embedding of the Business Planning & Consolidation tool	Q3	Finance	Finance
		Capita Revenue Collection	Provide assurance on the adequacy and effectiveness of Capita's revenue collection processes, including bailiffs	Q3	General Counsel	Licensing, Regulation & Charging
		Pension Contributions	Provide assurance on the adequacy and effectiveness of controls to administer pension contributions	Q3	Human Resources	Pensions
		Transitioning to the new Additional Voluntary Contributions provider	Provide assurance on the adequacy of controls to transition to the new AVC provider	Q3	Human Resources	Pensions
		Adequacy and effectiveness of tenant billing and rent collection processes using Right Financial	Provide assurance over the adequacy and effectiveness of the tenant billing and rent collection processes.	Q4	Finance	Commercial Development

Enterprise Risk No.	Enterprise Risk	Audit Title	Objective	Planned Quarter	Directorate/ Sponsor	Business Unit
		Solution (RFS)				
		Clean mobile energy (seventh review)	Certify costs in respect of EU funding.	Q4	Customers, Communication & Technology	City Planning
		LTM Plans for New Income Generation	Provide independent advice on the LTM's plans for building new income streams post Covid-19.	Q3	Customers, Communication & Technology	LTM
		LU Modernisation Programme	To provide assurance that the LU modernisation programme is effectively delivering the expected cost saves.	Q3	LU	LU
ER08	Delivery of Key Projects and Programmes	Project Assurance and Integrated Assurance will deliver a portfolio of assurance reviews at the second line of defence, in addition to work undertaken by SHE and PMO teams.				Various
		IIPAG will deliver a portfolio of assurance reviews at the third line of defence				
ER10	Inability to support new ways of working	Remote Working Arrangements	Provide assurance over the adequacy and effectiveness of remote working arrangements during Covid-19 (and lessons learned)	Q2	Safety, Health and Environment	Safety, Health and Environment

Enterprise Risk No.	Enterprise Risk	Audit Title	Objective	Planned Quarter	Directorate/ Sponsor	Business Unit
ER11	Disparity leading to unequal or unfair outcomes	Digital accessibility TfL	Provide assurance on the adequacy and effectiveness of TfL's compliance with The Public Sector Bodies (Websites and Mobile Applications) Accessibility Regulations 2018	Q4	Customers, Communication & Technology	Technology & Data
ER12	Asset Condition	Integrated Assurance will deliver a portfolio of engagements and assurance reviews at the second line of defence, in addition to work carried out by the Engineering Maintenance Assurance team and the Bus Contract Compliance team				Various
ER13	Governance and controls suitability	TfL Governance and Decision Making	To provide assurance that the revised TfL Governance and decision-making arrangements have been adopted and embedded across the business.	Q2	General Counsel	General Counsel
		Compliance with GDPR and associated risks.	Provide assurance on the adequacy and effectiveness of TfL's information security controls to comply with GDPR.	Q4	Customers, Communication & Technology	Customer Experience
ER14	Opening of the Elizabeth Line	Integration of Crossrail assets	To provide assurance that the controls over the integration of Crossrail assets into TfL are effective	Q3	London Underground	London Underground
		Management of works deferred to LU	To provide assurance that current identified residual scope is managed effectively	Q4	London Underground	London Underground

Enterprise Risk No.	Enterprise Risk	Audit Title	Objective	Planned Quarter	Directorate/ Sponsor	Business Unit
ER14/ FC3	Crossrail may not be able to demonstrate sufficient commercial and/ or financial control.	Crossrail Complaints Commissioner Accounts	Provide assurance on the accuracy of the Crossrail Complaints Commissioners Accounts	Q4	Crossrail	Finance
		Management of Indirect costs	To provide assurance that the Crossrail organisation is managing indirect costs in line with Programme requirements	Q2	Crossrail	Crossrail
		Management of AFC	To provide assurance over the effectiveness of controls for the management of Anticipated Final Cost (AFC)	Q4	Crossrail	Crossrail
ER14/ SC4	Volume of residual works may impact operation and safety of the railway (ADM)	Alternative Delivery Model Strategy	To provide assurance that the alternative delivery model strategy is adequate	Q3	Crossrail	Crossrail
ER14/E07	It may not be possible to demonstrate a safe, operable and maintainable railway to enter	Readiness for Trial Running	To provide assurance over the operational readiness of the operators to commence Trial Running	Q4	Crossrail	Crossrail

Enterprise Risk No.	Enterprise Risk	Audit Title	Objective	Planned Quarter	Directorate/ Sponsor	Business Unit
	Trial Running according to the plan in the current climate.					
ER14/FC3	Crossrail may not be able to demonstrate sufficient commercial and/ or financial control.	Demobilisation of Tier 1 contractors	To provide assurance that the controls around Tier 1 contractor demobilisation are adequate and effective	Q2	Crossrail	Crossrail
ER14/FC3	Crossrail may not be able to demonstrate sufficient commercial and/ or financial control.	Risk Management	To provide assurance over adequacy and effectiveness of risk management in Crossrail	Q2	Crossrail	Crossrail
ER14/HS4	Safety performance could be impacted by changing from the Crossrail programme rules to the IM operational rules.	CRL HSE framework	To provide assurance over the adequacy and effectiveness of the HSE framework	Q3	Crossrail	Crossrail

Enterprise Risk No.	Enterprise Risk	Audit Title	Objective	Planned Quarter	Directorate/ Sponsor	Business Unit
ER14/OC1	Lack of clarity in decision making as Crossrail and TfL may fail to align on the transition plan to complete the programme.	Transfer of CRL programme to TfL	To provide assurance on the effectiveness of controls around the transfer of the Crossrail programme to TfL	Q3	Crossrail	Crossrail

Cancelled/Defered Audits from the 2020/21 audit plan - Appendix 5

- The audit plan approved by the Committee in March 2020 has been re-prioritised to reflect the impact on resources of the Covid-19 lockdown and subsequent furlough of Internal Audit staff, as well as other changes to the needs of the business. The table below list all audits that are being cancelled or postponed.

Risk	Audit title	Audit Objective	Business Area	Business Area	Notes
ER01 – Major health, safety or environmental incident or crisis	River Safety Strategy	To provide assurance over the adequacy and effectiveness of controls over river safety.	Surface Transport	River Services	Reprioritisation– will be considered for next year's plan
	Principal contractor in LU supply chain	To provide assurance on the effectiveness of arrangements governing LU Contractors acting as Principal Contractor.	London Underground	London Underground	Reprioritisation– will be considered for next year's plan
	Delivery and governance of the Film Unit's strategy and associated risks	Provide assurance over the delivery and governance of the Film Unit's strategy and the management of associated risks.	Customer, Communication and Technology	Customer and Revenue	Reprioritisation – will be considered for next year's plan
	Commercial Development's assurance mechanisms for the oversight of tenant works	Provide assurance on the adequacy and effectiveness of Commercial Development's internal controls for the oversight of tenant works, and the management of associated risks to TfL.	Finance	Commenrcial Development	Reprioritisation – will be considered for next year's plan
	LTM's Environmental Strategy	Provide assurance on the adequacy and effectiveness of LTM's Environmental Strategy.	LTM	LTM	Reprioritisation – will be considered for next year's plan
ER02 – Protecting the wellbeing of our employees	Imtrplementation of the TfL People Strategy	Provide assurance on the adequacy and effectiveness of implementing the TfL People Strategy.	HR	HR	Reprioritisation – will be considered for next year's plan
	Strategic Workforce Planning	Provide assurance on the adequacy and effectiveness of strategic workforce planning across TfL.	HR	HR	Reprioritisation – will be considered for next year's plan

Risk	Audit title	Audit Objective	Business Area	Business Area	Notes
ER03 – Major service disruption	Engineering Resource Model: Phase I	To provide assurance that the controls over engineering resourcing strategy are adequate and effective.	London Underground	London Underground	Reprioritisation – will be considered for next year's plan
	Digital Engineering Strategy	To provide assurance on the adequacy of the Digital Engineering Strategy.	London Underground	London Underground	Reprioritisation – will be considered for next year's plan
ER04 – Cyber and protective security	Software Development Lifecycle of the Contactless Payments System	Assess the adequacy and effectiveness of controls for developing and implementing changes to the Contactless Payment System.	Customer, Communication and Technology	Technology & Data	Reprioritisation – will be considered for next year's plan
	TfL Protective Security Programme	To provide assurance over the design adequacy of governance and control frameworks – real-time.	Surface Transport	Compliance, Policing and On-Street	Reprioritisation – Will be brought forward if an opportunity arises
	Cubic entity review	Provide assurance on the adequacy and effectiveness of services provided by Cubic, including the processing and retention of data, access controls, revenue collection, contract management and IPR deposits.	Customer, Communication and Technology	Technology & Data	Reprioritisation – will be considered for next year's plan
	Cyber Incident Response	Assess the adequacy and effectiveness of controls for the detection and protection against cyber-attacks on Enterprise IT.	Customer, Communication and Technology	Technology & Data	Reprioritisation – will be considered for next year's plan

Risk	Audit title	Audit Objective	Business Area	Business Area	Notes
	Insider Threat Management	Assess the adequacy and effectiveness of controls for the prevention and detection of data theft and introduction of malware.	Customer, Communication and Technology	Technology & Data	Reprioritisation – will be considered for next year's plan
	Security of BYOD	Provide assurance on the effectiveness of the strategy to ensure security of TfL data during use of BYOD.	Customer, Communication and Technology	Technology & Data	Reprioritisation – will be considered for next year's plan
ER05 – Supply Chain Disruption	CPC Contract Review - Phase II	To assess the adequacy and effectiveness of the revised control environment in relation to the operation of the PSP contract and the 4LM programme.	Finance	MPD	No longer required due to changes in business activity
ER06 – Loss of stakeholder trust	Modern Slavery Act Compliance	Provide assurance on TfL's and LTM's compliance to the Modern Slavery Act.	Finance	Procurement and Supply Chain	Reprioritisation – will be considered for next year's plan
	Governance processes for live marketing events (experiential marketing)	Provide assurance over the adequacy and effectiveness of the governance processes for live marketing events.	Customer, Communication and Technology	Customer and Revenue	Reprioritisation – will be considered for next year's plan
ER07 – Financial sustainability	Bank reconciliations	Provide assurance on the adequacy and effectiveness of the bank reconciliations process.	Finance	Finance	Reprioritisation – will be considered for next year's plan
	Payments to contractors	Provide assurance on the adequacy and effectiveness of controls over payments to contractors on capital and maintenance contracts.	Finance	Finance	Reprioritisation – Will be brought forward if an opportunity arises

Risk	Audit title	Audit Objective	Business Area	Business Area	Notes
ER07 – Financial sustainability	Clean mobile energy (sixth review)	Half-yearly certification of costs in respect of EU funding.	Customer, Communication and Technology	City Planning	Cancelled as not required as there has been limited expenditure over the certifying period. This will be rolled into the 7th review which is included in the plan.
	Estate Management Strategy	Provide assurance on the adequacy and effectiveness of the Estate Management Strategy to reduce the head office footprint, increase productivity and reduce associated head office running costs.	Finance	Commercial Development	Superseded by the audit on the Return to Work Strategy
	City Planning Estimating and Forecasting Process	To provide assurance on the adequacy and effectiveness of the estimating and forecasting process.	Customer, Communication and Technology	City Planning	Project Assurance have completed a review on this and time is required for remedial action to be completed
	Due diligence process for new tenants	Provide assurance on the adequacy and effectiveness of Commercial Development's due diligence process for retail tenants, including Financial vetting	Finance	Commercial Development	Reprioritisation – will be considered for next year's plan
	Commercial Development's asset management strategy	Provide assurance over the adequacy and effectiveness of the asset management strategy for maximising secondary revenue income at retail locations.	Finance	Commercial Development	Will be covered by other 3rd party review activity
	Strategy and governance for delivering in-station retail targets	Provide assurance over the adequacy and effectiveness of the strategy and governance to deliver Commercial Development's 'In Station Retail' (ISR) revenue targets.	Finance	Commercial Development	Will be covered by other 3rd party review activity

Transport for London Audit and Assurance Committee

Risk	Audit title	Audit Objective	Business Area	Business Area	Notes
	Revenue generation and reporting for the Global advertising contract (LU and Rail)	Provide assurance over the adequacy of controls and processes to ensure that income is maximised and reported correctly to TfL.	Customer, Communication and Technology	Customer and Revenue	Reprioritisation – will be considered for next year's plan
ER07 – Financialy sustainability	Strategy for delivering commercial income across Customer Information, Design & Partnerships	Provide assurance over the adequacy of the strategy to deliver commercial income across Customer Information, Design & Partnerships.	Customer, Communication and Technology	Customer and Revenue	Reprioritisation – will be considered for next year's plan
	Delivery of Commercial Development's secondary revenue targets	Provide assurance on the adequacy and effectiveness of Commercial Development's plans to deliver its secondary revenue increases, and the extent to which these are being delivered in line with the business plan.	Finance	Commercial Development	Will be covered by other 3rd party review activity
	Transformation - Close out process	Provide assurance on the adequacy and effectiveness of the Transformation programme's close out process.	Customer, Communication and Technology	Transformation	Reprioritisation – will be considered for next year's plan
	LU Modernisation Programme (phase 2)	To provide assurance that the LU modernisation programme is effectively delivering the expected cost saves.	London Underground	London Underground	Reprioritisation – will be considered for next year's plan
ER08 – Delivery of key projects and programmes	Lessons Learned in Projects and Programmes	To provide assurance that the lessons learned process is effective.	Programme Management Office	Programme Management Office	Reprioritisation – will be considered for next year's plan
	Benefits Realisation	To provide assurance that controls in place to deliver programme benefits are adequate and effective.	Programme Management Office	Programme Management Office	Reprioritisation – will be considered for next year's plan

Transport for London Audit and Assurance Committee

Risk	Audit title	Audit Objective	Business Area	Business Area	Notes
	PMO governance	To provide assurance that the PMO governance arrangements are adequate and effective.	Programme Management Office	Programme Management Office	Being reviewed by Project Assurance
ER09 – Modal mix misaligned to strategic policy objectives	Digitalisation at LTM	Provide assurance on over the adequacy of arrangements in place to transform the LTM into an effective digital environment.	LTM	LTM	Reprioritisation – will be considered for next year's plan
ER12 – Asset condition	Asset lifecycle review	To provide assurance on the adequacy of the Asset Lifecycle review process.	London Underground	London Underground	Reprioritisation – will be considered for next year's plan
ER13 – Governance and controls suitability	TfL's Management System	Provide assurance on the adequacy and effectiveness of TfL's Management System.	General Counsel	Information Governance	Reprioritisation – Will be brought forward if an opportunity arises
	Business Ethics	Provide assurance on the adequacy and effectiveness of controls supporting business ethics across TfL, with a particular focus on conflicts of interest and gifts and hospitality.	General Counsel	Secretariat	Reprioritisation – Will be brought forward if an opportunity arises
	Risk Management Framework	Provide assurance on the adequacy and effectiveness of TfL's Risk Management Framework.	General Counsel	Risk and Assurance	Reprioritisation – will be considered for next year's plan
ER13 – Governance and controls suitability	Decision-making process for the selection of joint venture partners	Provide assurance over the adequacy and effectiveness of Commercial Development's decision-making process to ensure the most appropriate route to market is followed when selecting joint venture partners.	Finance	Commercial Development	Being reviewed by IIPAG and Project Assurance

Risk	Audit title	Audit Objective	Business Area	Business Area	Notes
	Commercial Development Sustainable Development Framework for residential and commercial properties	Provide assurance that the Commercial Development Sustainable Development Framework is being used as intended to support the Mayor's sustainable development goals, including the validity of reported outputs and alignment with TfL's Sustainability policies.	Finance	Commercial Development	Reprioritisation – will be considered for next year's plan
ER14 – Opening of the Elizabeth Line	Readiness for Trial Operations	To provide assurance over the operational readiness of the operators to commence Trial Operations.	Crossrail	Crossrail	Rescheduled to 2021/22 due to slippage in Programme dates
	Management of compensation events	To provide assurance over the adequacy and effectiveness of the approach to managing compensation events.		Finance	No longer required because the form of the NEC contracts have been changed and application of compensation events no longer apply.
	Information Transfer	To review the effectiveness of controls around information transfer from CRL to TfL (including MTR).	Crossrail	Crossrail	Subsumed into the audit of the transfer of Crossrail into TfL.

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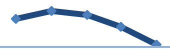
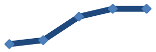
Appendix 6

Control Environment – Trend Indicators

Audit indicators – rolling average	Q1 19/20	Q2 19/20	Q3 19/20	Q4 19/20	Q1 20/21	Q2 20/21	Q3 20/21	Q4 20/21	Trend
Poorly Controlled	8.7%	11.8%	10.0%	6.3%	0.0%				
Requires Improvement or Poorly Controlled	34.8%	37.3%	38.0%	45.8%	50.0%				

Technology	Q1 19/20	Q2 19/20	Q3 19/20	Q4 19/20	Q1 20/21	Q2 20/21	Q3 20/21	Q4 20/21	Trend
Internal system availability	99.85%	99.95%	99.95%	99.95%	99.99%				

Information Governance	Q1 19/20	Q2 19/20	Q3 19/20	Q4 19/20	Q1 20/21	Q2 20/21	Q3 20/21	Q4 20/21	Trend
Number FOI requests	3055	3147	3163	3169	2687				
On time FOI responses	96.7%	97.1%	98.8%	99.4%	99.4%				

Audit and Assurance Committee

Date: **11 September 2020**

Item: **Pan-TfL Revenue Protection Programme**

This paper will be considered in public

1 Summary

1.1 This paper provides an update on our pan-TfL Revenue Protection Programme to tackle fare evasion and ticket fraud.

1.2 A paper is included on Part 2 of the agenda which contains exempt supplemental information and documentation. Subject to the decision of the Committee, this paper is exempt and is therefore not for publication to the public or press by virtue of paragraph 7 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to action which might be taken in relation to prevention, investigation or prosecution of a crime.

2 Recommendation

2.1 **The Committee is asked to note the paper**

3 Background

3.1 Survey estimates prior to Covid-19 indicate the vast majority of our customers continue to pay their fares (over 97 per cent). We remain committed to taking a robust approach to tackling fare evasion and ticket fraud to ensure fairness to all our customers.

3.2 Lost revenue from unpaid fares is money that could and should be reinvested in services for our customers. Failure to tackle fare evasion is a frustration for all fare paying passengers and for staff. Visible prevention helps protect our reputation and reassure customers and frontline staff we are doing all that we can to maintain a safe and secure transport environment.

3.3 The impact of Covid-19 on ridership levels and fares income has been severe. This makes it even more important that we do all we can to protect revenue and ensure all our customers pay the correct fare.

3.4 We set ourselves the ambitious target of reducing our revenue losses by £10m in 2019/20. To achieve this, we established a pan-TfL Revenue Protection Programme which brings together expertise from across TfL to tackle fare evasion and ticket fraud.

3.5 The programme is supported by complementary activities on a separate Revenue Assurance Programme which aims to ensure we collect the appropriate revenue from all our customers.

4 Performance Against 2019/20 Target

4.1 Since the Revenue Protection Programme was launched in early 2019/20, we have made good progress in introducing new measures to tackle fare evasion and ticket fraud. Most of these interventions are 'good housekeeping' – tidying up our existing policies, processes and procedures to ensure they support customers paying the correct fare. Others – such as reverting to front-door only boarding on New Route Masters – have required more radical change to our operations and for our customers.

4.2 Reduced levels of ridership in March 2020 due to the impact of Covid-19 caused a reduced level of savings for the last month of the year. It also led to us pausing the conversion of New Route Master buses to front-door boarding after approximately one third of the fleet had been converted. This activity has since resumed and will be completed in September 2020.

4.3 We devised a new methodology to quantify the revenue benefit and loss avoidance that can be attributed to each intervention on the programme. Revenue benefit is additional revenue generated by fare evaders reverting to paying the correct fare. Loss avoidance is a reduction in uncollected fares that has no direct impact on profit and loss but frees up capacity and increases customer confidence. It is the result of an intervention causing fare evaders to seek alternative means of travel or cease travel altogether.

4.4 Internal Audit undertook an Assurance Review of the programme. The review confirmed governance arrangements are, on the whole, effective and the assumptions and estimates used to calculate benefits are reasonable, adequate and credible.

4.5 Using this new approach, we estimate that the Revenue Protection Programme (and the associated Revenue Assurance Programme) achieved savings of £11m in 2019/20[1] against a target of £10m. This consisted of £7.3m in revenue gains and £3.7m in losses avoided across a range of different interventions.

List of appendices to this paper:

None

Supplementary information is included in Part 2 of the agenda.

List of Background Papers:

None

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[1] Due to the impact of Covid-19 on levels of bus ridership from March 2020, we are unable to confirm actual savings attributable to the changes to boarding practices on New Route Masters (NRMs) which took place during January and February 2020. The figures quoted include estimated savings of £415k from NRM changes.

Audit and Assurance Committee

Date: **11 September 2020**

Item: **TfL International Benchmarking During Covid-19**

This paper will be considered in public

1 Summary

1.1 This paper sets out how TfL has sought to learn from and share with others best practice in responding to the COVID -19 crisis and planning for recovery. TfL have proactively sought to learn from the experience of other cities and to think through what it means for us. We have sought to share our experience and learnings.

2 Recommendation

2.1 **The Committee is asked to note the paper and the work to date.**

3 Overall Approach

3.1 Throughout the COVID-19 crisis TfL has maintained a watching brief as to what is happening in other countries and liaised with international as well as national contacts (on an institutional and individual level) in ensuring we are learning and sharing best practice in responding to the crisis and planning for recovery.

3.2 Regular reports on developments are collated by teams within TfL and the Greater London Authority.

3.3 TfL set up a daily Senior Executive Team meeting (made up of Managing Directors and operational Golds) early on in the crisis, to coordinate and agree actions. Michèle Dix, Managing Director Crossrail 2, was tasked with scanning international experience and reporting back issues of interest/relevance for the operational directors, so that their teams could follow up if they hadn't been made aware through other sources.

3.4 The main published sources of information for 'maintaining a watching brief/benchmarking' in this regard have been:

(a) International Updates (GLA International Relations);
(b) Global Transport Updates (TfL Government Relations); and
(c) COVID-19 EU Daily Update (GLA European Office).

3.5 These are collated by the teams within the GLA and TfL reviewing what is in the news, home and abroad and on social media. They have tracked information since lockdown and now on the road to recovery, initially providing daily updates but latterly weekly ones.

3.6 Other invaluable sources have been information published by professional bodies, in particular global organisations, that TfL are members of (further details set out in Appendix 1). Key organisations are

(a) UITP; and
(b) CoMET & Nova metro international benchmarking groups.

3.7 These organisations have members from across the globe, from whom they have been collating data on their initial COVID responses, impacts on their transport systems, on their revenues and finances, ways in which they have responded, how they are recovering, their cleaning regimes, what they are planning for the future etc and sharing all this with members through regular reports and webinars.

3.8 The necessary use of technology for virtual meetings has enabled a much greater/faster level of sharing, benchmarking, and learning than happened pre-COVID.

3.9 Webinars and roundtable discussions have covered a vast variety of topics from detailed safety regimes, travel demand measures, staff engagement during changing times to financial implications and responses to plans for post COVID (eg response to remote working and avoiding a car led recovery).

3.10 Within Finance, staff have been tracking the financial impact of COVID on other authorities in comparison with our own, and what different authorities are asking for in help from government.

3.11 Through membership of global organisations we have also had direct individual access to other senior people in PTAs (public transport authorities) and PTOs (public transport operators) across the world to hear first-hand of their experience, share details such as the grade of masks they are using, how they are fitting screens in trains and buses, their financial positions and so on.

3.12 We also have strong relationships with other transport authorities across the UK, and with representation on national bodies have shared and compared approaches with Network Rail and other rail and bus operators and with other city region transport authorities through the Urban Transport Group. We have also engaged with the Department of Transport (DfT) in knowledge sharing sessions covering a range of issues e.g. in forecasting future demand and co-ordinating the implementation of policy changes.

3.13 From the start of the COVID period it became clear that close liaison with the national rail industry in the UK was essential given many customers use both national rail and TfL services. These included:

(a) A number of senior representatives from national rail joined the TfL team at the weekly No 10 briefings to ensure there was a read across the transport system for London.

(b) There was a twice weekly call chaired jointly by Network Rail and the Rail Delivery Group which included senior DfT officials, Transport Scotland, Transport for Wales, TfL and owning group Chief Executives within the rail industry, which jointly addressed urgent policy matters together

(c) TfL was instrumental in setting up a 'Pan London' weekly call, chaired by Network Rail, to address policy matters and address any issues of consistency which included DfT, RDG, Network Rail, Train Operating Company (TOC) MD's and TfL senior managers.

(d) A large number of diverse workstreams fed into this structure led by individuals from key agencies including TfL to foster agreement in addressing the many challenges laid before us by COVID.

3.14 We have reached out to other bus colleagues through daily calls with the London operators as a channel into their wider operations in the UK and around the world, and via the Bus Group of the Urban Transport Group, and the national business association the Confederation of Passenger Transport.

3.15 Within London Underground and Surface Transport, the Business Strategy teams have been following up on detailed comparisons with other cities, dealing with social distancing measures, managing demand, cleaning regimes, train operator training, and within Compliance Policing and On-Street Operational Policy Team following up on enforcement approaches e.g. for mask wearing.

3.16 Across TfL Capital Delivery, we have worked collaboratively with our suppliers and Industry Groups to ensure both Safe Stop of our construction sites in March 2020 and the Phased Restart of our construction sites in June 2020was done so safely and efficiently whilst accommodating Government and Public Health England advice and social distancing measures. We have also established three knowledge sharing sessions with our suppliers aimed at sharing best practice and lessons learnt so we can proactively respond to the emerging risks but also to capitalise on any opportunities which can help us in delivering our commitments and forward plan.

3.17 Safety Health and the Environment have looked to ensure they were up to date with varying scientific and government sources of advice and their interpretations in handling the virus – whether World Health Organisation, European Centre for Disease or others. This was particularly important in providing a reference point for our own national guidance. The Safety, Sustainability and Human Resources Panel received a paper at its meeting on 10 June 2020, which set out how we responded to the pandemic.

3.18 The sharing of data has been phenomenal and has helped us enormously in formulating a considered response to the crisis in managing our networks and influencing key government, by reflecting practice elsewhere. Our own experience has been of huge interest to other cities, especially in our travel demand management and public communications.

4 Specific Benchmarking

4.1 Specific benchmarking undertaken is listed below and more detailed information is available on request:

(a) Social distancing measures;
(b) Mask wearing;
(c) Types of face coverings visors;

(d) Use of sanitisers;
(e) Public availability;
(f) Use of vending machines;
(g) Enforcement activities;
(h) Funding structures;
(i) Financial impacts; and
(j) Demand responses to initial COVID cases and subsequent phases of ‘unlocking’.

List of appendices to this report:

Appendix 1: Organisations with whom we share data

List of Background Papers:

None

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Appendix 1

CoMET SUMMARY

The Community of Metros (CoMET) is the world's largest metro benchmarking group with 42 member metros in 39 cities globally. The focus of CoMET has enabled London Underground to understand the effects and response to COVID-19 through information sharing to identify common issues, best practice and solutions. There is a continued evolution of synthesis, analysis, and information exchange in response to the changing conditions and needs as the pandemic progresses and this will continue throughout the remainder of 2020/21.

To summarise, activity to date has focused on the following;

CoMET and Nova Discussion Forum: Ability to raise and share best practice/questions with metros from around the world in a Q&A format. This allows us to gather an initial high level response to how other metros are dealing with COVID-19 prior to more detailed discussions and information exchange. At the beginning of the pandemic the focus was on specific, detailed operational or technical responses to the crisis but with the changing situation the focus of questions has become more on recovery.

CoMET Synthesis Report: Regular report are being compiled by the Transport Studies Centre (TSC) at imperial College for member metros providing detailed information and analysis on how metros are responding to the COVID-19 pandemic across areas such as strategic management, staffing, passenger/customer measures, operational changes and cleaning regimes. This report is based on metros' responses to questions posted on the CoMET and Nova Discussion Forum and supplementary detailed data provided by some metros to TSC. As of 9 July 2020 (Issue 10), 56 specific questions on Coronavirus had been posted and answered by the community. The report also includes a detailed section on the recovery of demand following the relaxation of local lockdown measures. These reports have been shared internally with TfL's SET group, LU's Executive team and those involved in and responsible for LU's operational response and Restart and Recovery planning.

Virtual Meetings:
Since the pandemic began the following CoMET meetings have been held between all metros involved in the group:-

- Annual Management Meeting held 15 April 2020: Focus on initial response to the pandemic, particularly approaches to managing customers, operational changes implemented, impacts on metro employees and cleaning.

- 4 June 2020: Focus on re-starting metro operations and experiences with demand levels.

- July 2020: Agenda currently being finalised but will focus on the latest pandemic-related status of metros and future implications.

More detailed 1:1 discussions and information sharing:

In addition, London Underground have also used CoMET to facilitate detailed information sharing to help inform our own responses to the pandemic but also to assist our international metro colleagues with their own plans. For example;

- We have explicitly used information provided by New York (NYCT) to help inform our approach to an enhanced cleaning regime on the Tube and Bus network.

- Since then following our trial and adoption of new anti-viral products, we have since shared details of the product and approach with a number of other metros e.g. Brussels and Berlin.

- Reviewed other metro's approaches to customer hand sanitization to inform our plans.

- Exchanged information with Berlin on approaches to operational training during COVID and shared information on face mask compliance and forecasting future ridership with New York.

- General information exchange with Sydney trains.

UITP SUMMARY
The International Association of Public Transport (UITP) is a global membership organisation with 1,800 member businesses in over 100 countries and a regional network of 16 offices. TfL is active in most of its 20 working committees, ranging from metro and bus operation to transport planning and EU affairs. During the current Covid-19 crisis all the association's resources have been redirected to supporting members through sharing best practice via reports and webinars.

UITP shared: immediate responses to COVID (eg on how systems shut down, implications of revenue losses); how systems can reopen safely (eg cleaning, customer reassurance, social distancing); and issues for recovery planning (avoiding car -led recoveries, capturing the environmental gains, potential impacts of remote working).

Webinars
UITP has held 20 webinars with global transport representatives. Summaries and slides from these events have been shared across TfL. We have also been panellists on six of these webinars to share our expertise including IT/ remote working, managing demand, cleaning regimes and recovery measures.

Detailed Reports
UITP has developed a global Covid-19 resource centre on its website and LinkedIn platform to share best practice across its membership. Its regular reports and statistical analysis on ridership and service levels have helped us benchmark our performance.

Working Committees
All the association's committees have developed work streams based on their expertise to capture how different operators and authorities have reacted. This has involved virtual meetings and surveys. For example, the Economics Committee has shared information

on the financial impact and support measures from central and local governments. This has helped inform our work into the review of TfL's finances.

Specific learning points:

- Cleaning regimes in both metro and bus environments including the experience of Hong Kong with UV.

- Social distancing regimes in other countries which vary from two metres to no minimum requirement within vehicles and the impact these differing regimes have on managing demand given limited ridership capacity.

- Mask/face covering use and enforcement plus ensuring customers have access to them for example through vending machines.

- Measures adopted by other operators to restore trust in using public transport and ensure a safe return to the network.

AMERICAN PUBLIC TRANSPORTATION ASSOCIATION (APTA)

APTA is a predominantly North American association of more than 1,500 public and private sector member organisations. More than 90 per cent of people using public transportation in the United States and Canada use APTA member networks. Its expertise ranges from funding, research and technical, partly through its 135 subject-matter working committees.

TfL's relationship with APTA

We are not members of APTA but historically we have strong links with the secretariat, participating in events and conferences prior to the current Covid-19 pandemic. Since the crisis began, we have used those links to understand the approaches of US transit agencies to tackling the crisis, particularly in relation to employee safety (many US agencies were early adopters of rear door entry), federal government support and restoring customer trust through enhanced cleaning regimes and marketing campaigns.

We have accepted an invitation to speak at an APTA conference in August: "From Response to Recovery: An International Perspective" to further develop the relationship, both with APTA and its members.

We have recently commenced a package of work to establish how we can restore confidence in public transport. APTA have provided useful insight into the actions they are undertaking to do similar.

RATP

RATP is the operator of the Paris public transport network. We have a strong relationship based on a long standing cooperation agreement and we have previously seconded staff. There have been several discussions with RATP to understand how it is responding to the crisis including:

- Policies around the use of face masks/coverings and exemptions;
- Managing social distancing requirements and meeting demand;
- Cleaning regimes and reassurance of passengers; and
- Funding and support from the Parisian transport authority.

ATM
ATM is the operator of the Milan public transport network. We built good relationship with the organisation at all levels and have shared information and experiences on many issues, most recently on e-scooters before the current pandemic. Having been one of the cities to be first hit by Covid-19 virus, Milan's experience has been especially useful. Discussions have focused on:

- Policies around the use of face masks (and gloves) and exemptions and the type of mask provided to staff.
- Travel advice to passengers to help spread demand.
- Measures to ensure social distancing in stations and vehicles.
- Human Resources strategy.
- Promotional campaigns aimed at restoring passenger confidence and a safe return to the network.

RATP also have a London bus operation, which has given us a secondary route into more detailed operational issues.

Urban Transport Group UTG
The group brings together city region transport authorities, representing Greater Manchester, Liverpool City Region, Greater London, Tyne and Wear, Sheffield City Region, West Midlands and West Yorkshire. It also has a wider professional network with associate members in Strathclyde, Bristol and the West of England, Tees Valley, Nottingham and Northern Ireland. They have held many virtual meetings to share experiences and learnings.

Audit and Assurance Committee

Date: **11 September 2020**

Item: **Freedom of Information Update**

This paper will be considered in public

1 Summary

1.1 The Freedom of Information (FOI) Act provides public access to information held by public authorities. This legislation is overseen by the Information Commissioner's Office (ICO), who is the independent regulator enforcing the effective processing of requests by public authorities. This paper provides an overview of our performance in processing FOI requests in 2019/20, as well as 2020/21 to date.

2 Recommendation

2.1 **The Committee is asked to note the paper.**

3 Background

3.1 The ICO currently expects public authorities to reply to at least 90 per cent of all FOI requests within the statutory deadline (usually 20 working days – the deadline can be extended in the event more time is required to assess whether the public interest favours using an exemption, to withhold information). TfL has exceeded this target on an annual basis since achieving this for the first time in 2017/18.

4 Current Performance

4.1 TfL ended 2019/20 having processed 3,149 requests within the statutory deadline from a total of 3,169 received. This provides a response rate of 99.4 per cent of replies being within the statutory deadline (including 124 replies which were on time but where the deadline was extended). This figure is the highest percentage of requests replied to on time within a financial year by TfL since the Act came fully into force in 2005, and a 3.7 per cent increase on the previous year, which was the previous highest. The overall number of requests received in 2019/20 showed a 4.7 per cent increase on the preceding year (3,169 compared to 3,027).

4.2 In each period across 2019/20, TfL achieved a response rate that exceeded its equivalent period in 2018/19 and no single period saw replies on time falling below 98 per cent, with just 20 cases exceeding the deadline all year.

4.3 Appendix 1 provides the response rate broken down by period since 2017/18, as well as the periods within 2020/21 for which we have complete figures so far.

4.4 Appendix 2 shows the number of FOI requests received in each period since 2017/18, along with a breakdown of cases categorised as complex and non-complex. Requests are classed as 'complex' when they have potential to create media or political interest.

4.5 Appendix 3 provides a table comparing the status of overdue cases since 2017/18. As well as consistently reducing the total number of overdue requests significantly each year, there has also been a very large reduction in the length of time cases spend overdue before a response is issued.

4.6 Attention has also been placed on reducing the time it takes to respond to requests generally. Across 2019/20, over half (51.9 per cent) of all FOI requests were responded to within 14 working days. This has ensured that more resource and attention can be afforded to finalising the more complicated requests as they approach their deadline and therefore prevent them from going overdue.

4.7 Despite the challenges Covid-19 has placed on us across the organisation, we are currently on track to exceed our previous highest response rate from 2019/20. As at 24 August 2020, 518 cases have reached their deadline with every one of those cases being responded to within the statutory deadline.

5 Freedom of Information Caseload

5.1 FOI requests are made about the full range of TfL's responsibilities, and perhaps the most striking aspect of the caseload is its variety. In 2019/20 examples of notable clusters of requests include those around the closure of Hammersmith Bridge, performance issues on the Metropolitan line, air quality and the Ultra Low Emission Zone, Tube noise and the licensing of private hire operators.

5.2 In order to support TfL prioritise its operational resources on managing the Covid-19 response and then restart and recovery, since April 2020 we have been asking people to consider not making FOI requests. This messaging, along with the reduced passenger count across the network, has led to a significant drop in FOI request volumes.

5.3 As at 24 August 2020, we have received 657 requests across this financial year which represents a drop of 46 per cent from the volumes we processed over the same period last year. However, from a low in Period 1 of 100 requests (47.6 per cent of the equivalent period last year) the number of requests continues to rise each period towards previous levels in line with lockdown restrictions being lifted and passenger levels rising. In Period 5, 144 requests were received (54 per cent of the equivalent period last year).

5.4 Of those 657 requests, 94 (14.3 per cent) have been related to Covid-19 and our response to it. Requests related to Covid-19 have included subjects such as passenger volumes, Tube cleaning regimes, Streetspace schemes, the Government funding package and staff sickness as a result of the virus.

5.5 Replies to all requests received in 2019/20 were published on the TfL website, which supports the Transparency Strategy. We have been able to answer more requests by simply referring to previously published replies, or other information published on the website. Approximately 20 per cent of all exemptions applied are because the information is already published, or intended for future publication.

6 Reviews and Appeals

6.1 The progress made in achieving a consistently high response rate across all areas of TfL has required a sustained effort and we maintain a commitment and focus across the organisation on FOI legislation to keep this going.

6.2 Should a requester be unhappy with a response to their FOI request, they have the right to request an internal review into the handling of their request. As a result of the improvements highlighted above, we have reduced both the number and proportion of these complaints – 137 (4.5 per cent of 2018/19 caseload) to 123 (3.9 per cent of 2019/20 caseload).

6.3 Of the 123 internal review requests into the handling of an FOI request, 11 (8.9 per cent, or 0.34 per cent of the total caseload) were escalated to the ICO by the requester for further consideration. We received five Decision Notices from the ICO in 2019/20, recording their formal conclusion on our compliance.

6.4 Four Decision Notices were in our favour and one against. The Decision Notice against related to a late response regarding information relating to graffiti on our network. Five other cases were either resolved informally (three) or were withdrawn (two). One other case is still with the ICO awaiting a decision.

6.5 The volume of requests referred to the Information Commissioner in 2019/20 (11) is the same amount that was escalated to them in 2018/19, despite a 4.7 per cent increase in total requests. This, along with the reduction in internal review requests, shows that requesters are increasingly satisfied with the way TfL has approached their request and, specifically, complied with the legislation. This goes some way to improving how open and transparent TfL is considered to be.

List of appendices to this report:

Appendix 1: FOI response rate by period 2017/20
Appendix 2: FOI request volumes by period 2017/20
Appendix 3: Overdue FOI requests 2017/20

List of Background Papers:

None

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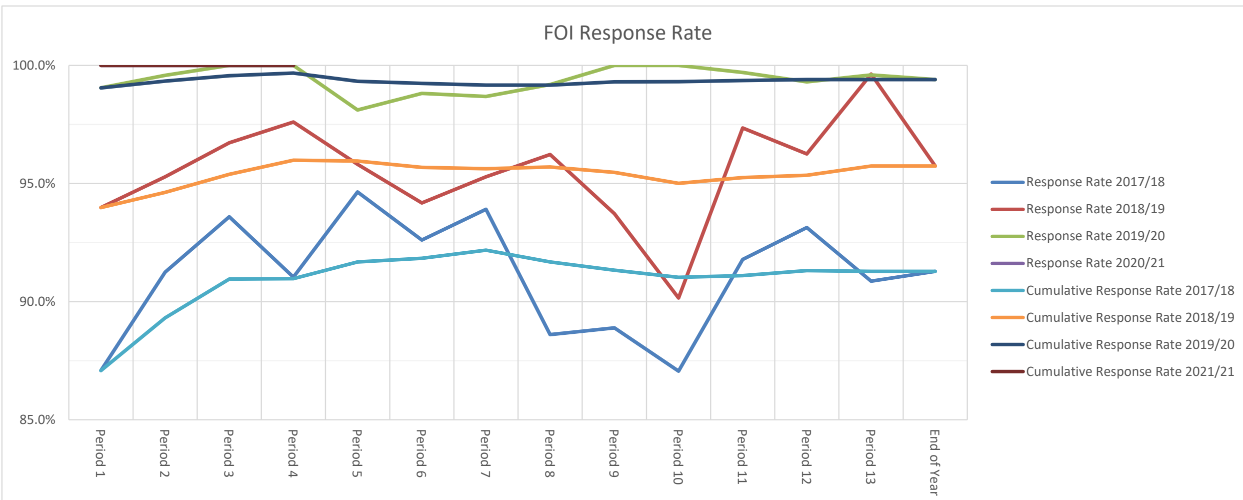
Appendix 1

	Response Rate				Cumulative Response Rate			
	2017/18	2018/19	2019/20	2020/21	2017/18	2018/19	2019/20	2021/21
Period 1	87.1%	94.0%	99.0%	100.0%	87.1%	94.0%	99.0%	100.0%
Period 2	91.3%	95.3%	99.6%	100.0%	89.3%	94.6%	99.3%	100.0%
Period 3	93.6%	96.7%	100.0%	100.0%	91.0%	95.4%	99.6%	100.0%
Period 4	91.0%	97.6%	100.0%	100.0%	91.0%	96.0%	99.7%	100.0%
Period 5	94.6%	95.8%	98.1%		91.7%	96.0%	99.3%	
Period 6	92.6%	94.2%	98.8%		91.8%	95.7%	99.2%	
Period 7	93.9%	95.3%	98.7%		92.2%	95.6%	99.2%	
Period 8	88.6%	96.2%	99.2%		91.7%	95.7%	99.2%	
Period 9	88.9%	93.7%	100.0%		91.3%	95.5%	99.3%	
Period 10	87.1%	90.2%	100.0%		91.0%	95.0%	99.3%	
Period 11	91.8%	97.3%	99.7%		91.1%	95.3%	99.4%	
Period 12	93.1%	96.3%	99.3%		91.3%	95.4%	99.4%	
Period 13	90.9%	99.6%	99.6%		91.3%	95.7%	99.4%	
End of Year	91.3%	95.7%	99.4%		91.3%	95.7%	99.4%	



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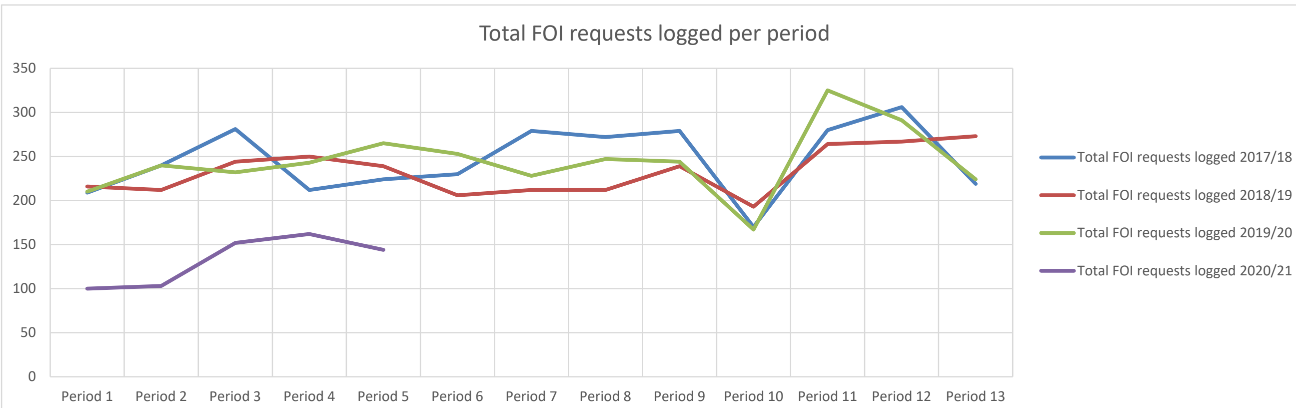
Appendix 2

	Total FOI requests logged				Complex logged				Non-complex logged			
	2017/18	2018/19	2019/20	2020/21	2017/18	2018/19	2019/20	2020/21	2017/18	2018/19	2019/20	2020/21
Period 1	**209**	**216**	**210**	**100**	55	47	82	19	154	169	128	81
Period 2	**240**	**212**	**240**	**103**	38	36	61	27	202	176	179	76
Period 3	**281**	**244**	**232**	**152**	42	40	57	33	239	204	175	119
Period 4	**212**	**250**	**243**	**162**	51	52	81	34	161	198	162	128
Period 5	**224**	**239**	**265**	**144**	90	40	74	28	134	199	191	116
Period 6	**230**	**206**	**253**		77	42	52		153	164	201	
Period 7	**279**	**212**	**228**		104	54	50		175	158	178	
Period 8	**272**	**212**	**247**		99	58	61		173	154	186	
Period 9	**279**	**239**	**244**		74	58	70		205	181	174	
Period 10	**170**	**193**	**167**		54	50	28		116	143	139	
Period 11	**280**	**264**	**325**		72	88	79		208	176	246	
Period 12	**306**	**267**	**291**		81	70	80		225	197	211	
Period 13	**219**	**273**	**224**		51	81	67		168	192	157	
End of Year	**3201**	**3027**	**3169**		**888**	**716**	**842**		**2313**	**2311**	**2327**	



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Appendix 3

	2017/18	2018/19	2019/20	2020/21
Average (Mean) days overdue	22	14	10	0
Total days overdue	6107	1828	193	0
Total cases overdue	279	129	20	0
No. of Cases 100+ days overdue	6	0	0	0
No. of Cases 50-99 days overdue	30	4	0	0
No. of Cases 20-49 days overdue	63	26	2	0
No. of Cases 10-19 days overdue	58	40	8	0
No. of Cases 1-9 days overdue	122	59	10	0

	2017/18	2018/19	2019/20	2020/21
Average (Mean) days overdue	22	14	10	0
Total (cumulative) days overdue	6107	1828	193	0
Total cases overdue	279	129	20	0
No. of Cases 100+ days overdue	2%	0%	0%	0%
No. of Cases 50-99 days overdue	11%	3%	0%	0%
No. of Cases 20-49 days overdue	23%	20%	10%	0%
No. of Cases 10-19 days overdue	20%	31%	40%	0%
No. of Cases 1-9 days overdue	44%	46%	50%	0%

	2017/18	2018/19	2019/20	2020/21
Number of Complex Overdues	146	68	11	0
Number of Non Complex overdues	133	61	9	0
% Overdues as Complex cases	52.3%	52.7%	55.0%	0%
% Overdues as Non Complex cases	47.7%	47.3%	45.0%	0%

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Agenda Item 16

Audit and Assurance Committee

Date: 11 September 2020

Item: Governance Improvement Plan 2020/21

This paper will be considered in public

1 Summary

1.1 At its meeting on 8 June 2020, the Committee approved the Annual Governance Statement, (which was subsequently included in the 2019/20 Annual Report and Accounts approved by the Board on 29 July 2020) and noted the progress against the Improvement Plan 2019/20. It was agreed that an Improvement Plan for 2020/21 would be submitted to this meeting.

1.2 The Improvement Plan for 2020/21 is set out in Appendix 1. The plan: rolls forward and updates measures from 2019/20; incorporates taking on the outcomes of the current financial and structure reviews arising from the impact of Covid-19 and the transition of the governance of the Crossrail project into TfL; and includes the implementation of any recommendations from Internal Audits into the governance and financial controls over procurement and contract management, as identified in the Internal Audit Opinion for the year ended 31 March 2020.

1.3 Members are invited to comment on and approve the Improvement Plan.

2 Recommendation

2.1 **The Committee is asked to note the paper and approve the Improvement Plan 2020/21, as set out in Appendix 1 of this paper.**

List of appendices to this report:

Appendix 1: Improvement Plan 2020/21

List of Background Papers:

8 June 2020 Committee paper on Governance Improvement Plan.

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Appendix 1

Improvement Plan 2020/21

Proposed Activity	Responsible Managing Director	Status Update
Board Effectiveness: Implement outstanding recommendations from the externally let 2019 Board Effectiveness Review and prepare for any changes to the Board arising from the May 2021 Mayoral Election.	General Counsel [Updated from 2019/20]	Further work is underway to refine paper summaries and content and to better reflect customer and other stakeholder views. Board appointments (including staggering terms) will be considered after the May 2021 Mayoral Election.
Subsidiary Entities: Annual reviews to be undertaken to simplify the structure and reduce unnecessary costs. Continued support to new and existing statutory directors on their duties and responsibilities.	General Counsel [Updated from 2019/20]	Ongoing. Annual reviews take place each May. Existing and new directors are offered advice and guidance as required.
Operating Model and Processes: Continue to develop TfL's operating model and processes in accordance with agreed organisational change programmes. Recommendations from the Government and Mayoral commissioned reviews in response to Covid-19 to be considered and agreed actions implemented.	Executive Committee [Updated / Continuous]	The transformation programme continued at pace during 2019/20. TfL's operating model and processes will be reviewed to reflect the outcomes of the current reviews into our finances and structure.
TfL Scorecards: Continue to develop TfL's Scorecard and effective operational and performance measurement processes. Review 2021/22 Scorecards to reflect requests from the Finance and Remuneration Committees for a simplified Scorecard with fewer priorities to help drive performance.	Executive Committee [Continuous]	The 2020/21 Scorecards are exceptional due to the impact of Covid-19: The H1 scorecard was agreed in July 2020 and a H2 scorecard will be agreed in September 2020. Work will commence later in the year to seek to simplify the 2021/22 Scorecards.
TfL Management System: Continue with the development of a TfL wide integrated system.	General Counsel [Continuous]	This work is ongoing.

Proposed Activity	Responsible Managing Director	Status Update
Safety, Health and Environment: To continue to implement and embed the TfL Safety, Health and Environmental management system.	MD London Underground/ Executive Committee [Continuous]	This work is ongoing and has benefitted from the establishment of the new integrated SHE function.
Audit, Assurance and Risk Management: Rebase the Audit and Assurance Plan considering the impact of Covid-19. Continue to develop our Risk Management processes and their oversight by Committees and Panels, addressing lessons learned from 2019/20 (as reported to the Audit and Assurance Committee in March 2020).	Chief Finance Officer/ General Counsel/ Director of Risk and Assurance / Executive Committee [Continues / Updated from 2019/20]	A new set of Enterprise Risks has been adopted for 2020/21, reflecting the impact of Covid-19, which will be embedded during the year. Lessons from 2019/20 are being addressed. A revised Integrated Assurance Plan for the remainder of 2020/21 is being presented to the September Audit and Assurance Committee meeting.
Crossrail: Transition governance for decision making and accountability into TfL, at the earliest opportunity. Continue to review and adapt governance arrangements, ensuring all previous KPMG review recommendations are addressed.	Executive Committee [Updated from 2019/20]	Plans for the transition are being developed and will be implemented shortly. The delivery of a safe and reliable operational railway, as soon as possible, is a priority for the Commissioner.
Crossrail 2: Continue to review and adapt governance arrangements for Crossrail 2. These arrangements will reflect lessons learned from the governance of the Crossrail 1 project.	General Counsel/ MD Crossrail 2 [Updated from 2019/20]	These will be reviewed once funding decisions are made. They will reflect lessons learned from the Crossrail 1 project.
Transparency: Continue to develop our proactive approach to transparency.	MD Customers, Communication and Technology/ General Counsel [Continuous]	We will continue to publish more information, with a focus on being proactive. We will seek to maintain the very good performance in responding to FOI requests achieved in 2019/20.

Proposed Activity	Responsible Managing Director	Status Update
Procurement and Contract Management: The 2020/21 Internal Audit Plan includes an audit of the ongoing transformation of Procurement and Supply Chain governance, highlighted in our Internal Audit Opinions for the years ended 31 March 2019 and 2020. Implementation of recommendations will be given a high priority and progress from these audits will be reported to the Audit and Assurance Committee.	Chief Finance Officer [Arising from Internal Audit Opinions in the years ending 31 March 2019 and 2020]	The audit is included in the revised plan for 2020/21, which along with an update on Procurement issues, is included on the agenda for the Audit and Assurance Committee in September 2020.

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Audit and Assurance Committee

Date: **11 September 2020**

Item: **Members' Suggestions for Future Discussion Items**

This paper will be considered in public.

1 Summary

1.1 This paper presents the current forward programme for the Committee and explains how this is put together. Members are invited to suggest additional future discussion items.

2 Recommendation

2.1 **The Committee is asked to note the forward programme and is invited to raise any suggestions for future discussion items.**

3 Forward Plan Development

3.1 The Board and its Committees and Panels have forward plans. The content of the plans arises from a number of sources:

(a) standing items for each meeting: minutes; matters arising and actions list; and any regular quarterly reports. For this Committee these include quarterly risk and assurance reports; Crossrail updates; and IIPAG quarterly updates;

(b) regular items (annual, half-year or quarterly) which are for review and approval or noting: examples include the legal compliance report, integrated assurance plan, and TfL annual report and accounts;

(c) matters reserved for annual approval or review: examples include those already mentioned above as well as annual audit fee; and

(d) items requested by Members: the Deputy Chair of TfL and the Chair of this Committee will regularly review the forward plan and may suggest items. Other items will arise out of actions from previous meetings (including meetings of the Board or other Committees and Panels) and any issues suggested under this agenda item.

3.2 The Committee is required to meet in private, on an annual basis, with the Director of Risk and Assurance, External Auditors and Chief Finance Officer. These discussions are scheduled after the following Committee dates:

2 December 2020: Director of Risk and Assurance
17 March 2021 Chief Finance Officer

4 Current Plan

4.1 The current plan is attached as Appendix 1. Like all plans, it is a snapshot in time and items may be added, removed or deferred to a later date.

List of appendices to this report:

Appendix 1: Audit and Assurance Committee Forward Plan

List of Background Papers:

None

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Audit and Assurance Committee Forward Planner 2020/21 **Appendix 1**

Membership: Anne McMeel (Chair), Dr Lynn Sloman (Vice Chair), Kay Carberry CBE, Dr Mee Ling Ng OBE and Dr Nelson Ogunshakin OBE

2 December 2020		
Risk and Assurance Quarterly Report	D. Risk and Assurance	Quarterly
EY Report on Non-Audit Fees	Chief Finance Officer	Six Monthly
External Audit Plan	Chief Finance Officer	Annual
Legal Compliance Report	General Counsel	Six Monthly
IIPAG Quarterly Report	Head of Project Assurance	Quarterly
Annual Tax Compliance Update	Chief Finance Officer	Annual
Enterprise Risk: ER4 - Cyber and Protective Security	Director Compliance and On- Street	Annual

17 March 2021		
Risk and Assurance Quarterly Report	D. Risk and Assurance	Quarterly
Integrated Assurance Plan	D. Risk and Assurance	Annual
IIPAG Quarterly Report	Head of Project Assurance	Quarterly
Personal Data Disclosure to the Police and Other Agencies	Director of Compliance and On-Street	Annual
Enterprise Risk: ER10 – Inability to Support New Ways of Working	MD Customer, Communications & Technology	Annual
Enterprise Risk: ER13 – Governance and Controls Suitability	General Counsel	Annual

Audit and Assurance Committee Forward Planner 2020/21

7 June 2021		
Risk and Assurance Quarterly Report	D. Risk and Assurance	Quarterly
Risk and Assurance Annual Report	D. Risk and Assurance	Annual
EY Report on Non-Audit Fees	Chief Finance Officer	Six Monthly
Annual Audit Fee	Chief Finance Officer	Annual
TfL Statement of Accounts	Chief Finance Officer	Annual
TfL Annual Report	MD CCT	Annual
Review of Governance and the Annual Governance Statement	General Counsel	Annual
EY Report to Those Charged with Governance	EY	Annual
EY Letter on Independence and Objectivity	EY	Annual
Legal Compliance Report	General Counsel	Six Monthly
IIPAG Quarterly Report	Head of Project Assurance	Quarterly
EY Report on Non-Audit Fees	EY	Six Monthly

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of the Local Government Act 1972.

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Agenda Item 22

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