Audit and Assurance Committee

Date: 6 June 2022

Item: TfL Statement of Accounts for the Year Ended 31 March 2022

This paper will be considered in public

1 Summary

1.1 This paper presents the draft TfL Group Statement of Accounts, together with the Remuneration Report for the year ended 31 March 2022, to the Committee for consideration. The current drafts of the Statement of Accounts (attached) and Remuneration Report (to follow) and will be presented to the Board for approval on 27 July 2022.

2 Recommendations

2.1 The members of the Committee are asked to:

(a) note 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;

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

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

(xvii) TTL Blackhorse Road Properties Limited;
(xviii) TTL Earls Court Properties Limited;
(xix) TTL Landmark Court Properties Limited;
(xx) TTL Kidbrooke Properties Limited;
(xxi) TTL Northwood Properties Limited;
(xxii) TTL South Kensington Properties Limited;
(xxiii) TTL Southwark Road Properties Limited;
(xxiv) TTL Build to Rent Properties Limited;
(xxv) TTL FCHB Properties Limited; and
(xxvi) TTL Wembley Park Properties Limited;

(c) note that:

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

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

3 Background

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

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

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

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

3.5 The unaudited Statement of Accounts will be certified by the Statutory Chief Finance Officer and published on TfL's website together with the Annual Governance Statement. Appropriate notices have been placed on TfL's website. Following the conclusion of the period it is planned that the Board should consider the accounts at the Board meeting on 27 July 2022.

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

4 Results for the Year

4.1 There are significant differences in the basis of preparation of the Group Comprehensive Income Statement compared with management reports (see section 11 below). The Income Statement shows a surplus in the provision of services after tax of £504m, up from a deficit of £911m in 2020/21. The favourable movement is primarily due to our recovering fares revenue whilst still receiving extraordinary revenue grant funding from the Department for Transport (DfT). Total passenger fares doubled for the year to £3.2bn. Passenger journeys recovered to 68 per cent of pre-pandemic levels as at 31 March 2022.

4.2 Our reliance on fares revenue necessitated the provision of extraordinary grant funding from the Government. This support peaked in 2020/21 when we received a total of £2.5bn. In the current year this reduced to £1.7bn.

4.3 Continued tight cost control and progressing our long-term savings programme enabled us to keep operating costs consistent year to year. Our gross expenditure increased by £366m primarily from the increase of £210m in current service pension costs mostly associated with the TfL Pension Fund, which are reflected in staff costs.

4.4 As at 31 March 2022, the Group had usable reserves of £681m, down from £887m at 31 March 2021.

4.5 The General Fund balance of £500m represents the majority of the Group's usable reserve balance as at 31 March 2022. This reserve is held to ensure sufficient cash-backed reserves are maintained by the Group to cover risks that may arise. The level was reviewed during 2019/20, following a benchmarking exercise, and uplifted to a level determined to be the minimum level appropriate given the scale of the Group's operations.

4.6 Earmarked reserves of £156m represent where the Group has received funding in advance of incurring costs and completing capital projects. This has decreased from £362m at 31 March 2021. Due to our current financial situation an element of earmarked reserves held as at 31 March 2021 was applied to General Fund to maintain the minimum appropriate level of £500m.

4.7 These reserves form part of the overall funding pot for the Investment Programme and are allocated in TfL’s Budgets and Business Plans to be spent on delivering investment projects to improve transport in London, including not only Crossrail, but also the Northern line and Barking Riverside extensions, the Deep Tube Upgrade, and major station upgrades.

5 Funding

5.1 During 2021/22, under a series of funding agreements from the DfT, TfL received Extraordinary grant totalling £1,717m (2020/21 £2,457m). On 25 February 2020, the latest in this series, being a four month funding settlement with Government to 24 June 2022, was put in place. The funding arrangements agreed during the year with the DfT currently cover the period until 24 June 2022. It guarantees that we can continue to operate and maintain essential transport services in London in a safe way, enabling us to continue our vital contribution to the economic recovery of the capital and the country as a whole. Without providing details of the quantum of future funding, the latest funding letter contained assurances of the DfT’s continued support beyond 24 June 2022, and an acknowledgement that, over the longer term, TfL cannot be expected to cover the cost of major capital enhancements from its own operating incomes. It is on the basis of these assurances that the Statement of Accounts for 2020/21 continue to be prepared on a going concern basis.

5.2 The Auditor's Report for 2020/21 contained a paragraph on material uncertainty relating to the availability of funding to deliver current operational and capital plans. As described in the going concern note to the Accounting Policies section of the financial statements, this set out that there was significant uncertainty as to the level of future funding to be received from the Government. This continues to be the case at the date of this report. These uncertainties cast doubt over TfL's ability both to continue operating the level of services currently provided and to continue with all projects currently included in the capital investment plan. £68m (2020/21 £63m) of assets were either written off or impaired during the year as a result of a prioritisation review undertaken of our capital programme. Discussions regarding levels of future funding are ongoing with the DfT and the impact on our accounts and disclosures of any developments between the date of this report and the date of final approval by the TfL Board of the Statement of Accounts in July will be kept under review.

6 Accounting Policies

6.1 There have been no changes to the Code for 2021/22 that have had an impact on the financial statements.

7 Remuneration Disclosures

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

8 Disclosure of Pension Fund Deficit

8.1 The Group Balance Sheet includes the deficit on the Public Sector section of the TfL Pension Fund, TfL's share of the deficit on the Local Government Pension Scheme, the deficit on the Crossrail Shared Cost Section of the Railways Pension Scheme, and the liability in respect of unfunded pension obligations, all calculated in accordance with IAS 19 Employment Benefits. The total deficit on TfL's defined benefit pension schemes, calculated in accordance with IAS 19, has decreased from £5.6bn at 31 March 2021 to £3.2bn at 31 March 2022. The main reasons for this decrease are the change in the financial assumptions adopted. The rise in gilt yields (discount rate), partly offset by the increase in expected inflation, resulted in a net decrease on the liabilities over the accounting period. The return on assets also improved the net liability position albeit lesser returns than in the previous financial year.

8.2 The IAS 19 basis of valuation is different to that used by the Fund Actuary in the triennial valuations which determine the level of contributions that TfL is required to make to the TfL Pension Fund. The last such valuation was at 31 March 2021 and revealed a surplus of £179m for the Public Sector section. Employer's contributions for 2021/22 for the Public Sector section were 33.3 per cent of pensionable pay, comprising the future service contributions of 27.3 per cent for employers and 5 per cent for members.

8.3 The difference between the funding valuation and the IAS 19 valuation is due to the different rules applying to the two valuation bases, particularly the different discount rate. The discount rate for the IAS 19 valuation is required to be based on AA corporate bond yields, but the discount rate for the funding valuation is based on expected returns on the Scheme's assets. There are also differences in the other assumptions. The pension fund Trustees are required to adopt "prudent" assumptions whereas IAS 19 requires "best estimate". In the reconciliation below the most significant items in the £1.7bn "best estimates" adjustment figure are the effect of allowing for lower RPI inflation and the impact of allowing for a less prudent mortality assumption for IAS19.

Public Sector Section	**£bn**
Surplus on funding basis at 31 March 2022 (estimated for updated asset values)	0.6
Lower discount rate used for IAS 19 valuation	(5.3)
Impact of “best estimate” assumptions rather than “prudent”	1.7
Deficit at 31 March 2021 under IAS 19	(3.0)

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

9 Impairments and the impact of Coronavirus

9.1 The TfL Group and Corporation are required to follow the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (‘the Code’), which is based on International Reporting Standards (IFRS). Consequently, TfL Group follows the guidance under IAS 36 Impairment of Assets, IPSAS 21 Impairment of Non-cash generating Assets, IPSAS 26 Impairment of Cash generating Assets and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

9.2 As part of our annual impairment reviews, we have considered the impact of the pandemic and the funding deal and assessed which Capital Projects will be funded by the DfT. We have also considered whether our priorities have changed as a direct result of how we expect the future travel patterns to evolve after the pandemic.

9.3 Projects that have been completely abandoned have been accounted for as asset write offs which are reflected in the “Gross asset cost or valuation” section in the PP&E note. Currently £16.7m is considered as write offs at 31 March 2022 (2020/21 £57.7m).

9.4 Projects that have been treated as an impairment loss are those where the assets could potentially be used in the future if we secure funding, and the project is approved. This is reflected within “depreciation and impairment” section of the PP&E note. Currently £51.4m is considered for impairment loss at 31 March 2022 (2020/21 £6.3m).

9.5 For the impairments noted above, £33.6m is released from the Capital Adjustment Account (unusable reserve) to the Income Statement to offset these charges. This gives an overall net charge to the Income Statement of £34.5m.

9.6 Included in the impairments are Healthy Streets projects totalling £15.9m, which included Waterloo City Hub, Wandsworth Gyratory removal and Vauxhall Cross. In addition, various LU renewals and enhancements £13.9m, which included station accessibility and step free access.

10 Borrowings

10.1 The nominal value of TfL's total borrowings remains broadly unchanged at £12.966bn at 31 March 2022. A reduction of £2m from the prior year of £12.968bn.

10.2 Of the new direct borrowings drawn down in the year, £728m related to eight tranches drawn down from the Public Works Loan Board (PWLB), £74m was the final drawn down under a DfT facility. Offsetting these increases were £696m of scheduled PWLB and EIB repayments made in the year and repayment of short-term Commercial Paper of £108m.

11 Derivatives and Hedging

11.1 TfL, through a wholly owned subsidiary, holds a portfolio of derivatives to hedge future variability in expenditure arising from interest rate risk and foreign exchange rate risk.

11.2 Following Bank of England and Finance Conduct Authority regulation, the London Interbank Offered Rate (LIBOR) ceased to be published from 1 January 2022. Market participants accepted that Sterling Overnight Index Average (SONIA) was the preferred replacement as the market standard.

11.3 For TfL, interest rate risk arises primarily on issued floating rate borrowing, planned future borrowing and lease contracts where there is a floating rate component.

11.4 TfL agreed with counterparties that contacts of impacted lease arrangements to be amended to reference SONIA. Simultaneously, three interest rate swaps hedging the variability in rolling stock lease contracts due to GBP LIBOR were terminated at a fair value loss of £15m. Under IFRS9 hedge accounting rules this loss was recognised directly in Reserves and will be amortised to the Income Statement over the lease contract.

11.5 Two new float to fixed interest rate swaps referencing SONIA were executed two mitigate the interest rate risk on the rolling stock lease contracts. The nominal value of interest rate swap derivative contracts is £216m as at 31 March 2022.

11.6 As at 31 March 2022, the Group did not hold derivatives to fix the interest cost on floating rate borrowings which constitute 8.7% of the total borrowing balance. In advance of LIBOR ceasing to exist, three interest rate swaps (with a nominal value of £125m and short tenor remaining) referencing GBP LIBOR were terminated at a fair value loss of £5m. Hedge accounting was discontinued and this loss was recognised in the 2021/22 Income and Expenditure Statement.

12 Property Valuations

12.1 In 2019/20, the majority of TfL’s investment properties were consolidated into a commercial property portfolio created as a vehicle to support delivery of homes under the Mayor’s Transport Strategy, and grow a sustainable income stream. In the last two financial years there have been further minor phases of other properties transferred.

12.2 For the TfL Group, there was a net fair value gain of £93.4m during the year (2021/22 loss of £83m) in relation to our investment property portfolio (including those classified as “held for sale”). A further £52.7m gain, was recognised directly in reserves, to reflect newly classified investment assets which had previously been recorded at nil or nominal historical cost values.

12.3 All valuations were undertaken by external professionally qualified valuers in accordance with the appropriate sections of the Red Book, RICS Valuation – Global Standards published by the Royal Institute of Chartered Surveyors and are compliant with International Valuation Standards.

13 Reconciliation between the Quarterly Performance Report and Profit or Loss

13.1 The net cost of operations as reported in the Quarterly Performance Report for 2020/21 was £416m. The surplus on provision of services after tax in the Group Comprehensive Income and Expenditure Statement was £504m. A difference of £877m. Some of the differences relate to items not included in the Quarterly Performance Report but which are required to be included in the Income and Expenditure Statement. Some differences relate to items not included in the Income and Expenditure Statement, but included in the Quarterly Performance Report. Other differences arise from differing treatment of items explained below and summarised in the table in 13.4.

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

(a) depreciation, amortisation and impairment charges;

(b) defined benefit pension service costs;

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

(d) capital grant;

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

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

(g) interest payable on lease and PFI liabilities;

(h) capitalised interest;

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

(j) taxation;

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

(k) cash payments under PFI and lease arrangements;

(l) pension payments charged to operating costs;

(m) capital renewals;

13.3 The net cost of operations as reported in the Quarterly Performance Report for Items where the treatment is different comprise:

(n) grant income adjustments (primarily the difference in Business Rate Retention (BRR) grant badged “Capital BRR” by the Mayor, and the amount actually applied to fund capital spend in the year).

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

	£m
Net cost of operations as reported in the Operating Account of the Quarterly Performance Report	**(416)**
Depreciation, amortisation and impairments	(1,410)
BRR revenue grant treatment	(367)
Difference between defined benefit pension service costs under IAS19 and pension payments charged to the operating account	(274)
Taxation	(86)
Net interest on the defined benefit pension obligation	(106)
Interest payable on lease and PFI liabilities	(60)
Share of net profit from joint ventures and associates	32
Gains and losses on the disposal of fixed assets and investment property	69
Valuation gains on the revaluation of investment property	93
Capitalisation of interest	115
Cash payments under PFI and lease arrangements	373
Capital renewals	551

Capital grant income	2,014
Other	(24)
Surplus on provision of services after tax in the Accounts	**504**

14 Audit Opinion

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

(a) whether the financial statements, in their opinion, give a true and fair view of the financial position of the Transport for London Corporation and Group as at 31 March 2022 and of its expenditure and income for the year then ended;

(b) whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting the United Kingdom 2021/22; and

(c) whether they are satisfied that, in all significant respects, Transport for London has put in place proper arrangement to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

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

15 Subsidiary Companies Audit Exemption

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

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

15.3 For the year ended 31 March 2022, the majority of TTL's subsidiaries will again claim exemption from audit.

15.4 In the next financial year it is expected that this guarantee will be withdrawn for TTL Properties Limited and its subsidiaries as the TTL Properties Limited Group will be subject to audit for the first time as at 31 March 2022.

15.5 TTL Properties Group will issue a similar guarantee in respect to it’s subsidiaries at the time of withdrawal.

List of appendices to this report:

Appendix 1: Draft TfL Financial Statements
Appendix 2: Template for annual letter of support from TfL to its subsidiary companies
Appendix 3: Remuneration Report (to follow – information subject to validation)

List of Background Papers:

None

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