Audit and Assurance Committee

Date: **7 June 2018**

Item: **TfL Statement of Accounts for the Year Ended 31 March 2018**

This paper will be considered in public

1 Summary

1.1 This paper presents the draft TfL Group Statement of Accounts for the year ended 31 March 2018 to the Committee for consideration. The current draft of the Statement of Accounts is attached to this paper and will be presented to the TfL Board for approval on 25 July 2018.

2 Recommendation

2.1 The Committee is asked to:

(a) note the draft Statement of Accounts 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;
(xii) London Bus Services Limited;
(xiii) London River Services Limited;
(xiv) Transport for London Finance Limited;
(xv) TTL Properties Limited;
(xvi) TTL Earls Court Properties Limited; and
(xvii) Victoria Coach Station Limited.

(c) recommend that the Board confirm its approval in respect of the provision of a guarantee to the following subsidiary companies with effect from the financial period ended 31 March 2018:

(i) TTL Blackhorse Road Properties Limited;
(ii) TTL Landmark Court Properties Limited;
(iii) TTL Kidbrooke Properties Limited; and
(iv) TTL Southwark Road Properties Limited.

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 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 will be considered and approved by the Board.

3.5 The Statement of Accounts was certified by the Statutory Chief Finance Officer on 30 May and published on TfL's website together with the Annual Governance Statement on that day. Appropriate notices have been placed on TfL's website, and media briefings have been held. The period for exercise of public rights consequently commenced on 31 May and will conclude on 11 July. Following the conclusion of the period it is planned that the Board should consider the accounts at the Board meeting on 25 July 2018.

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 For the second successive year, operating costs have reduced on a like-for-like basis, after adjusting for one-off items and the increased costs of the Elizabeth line as it ramps up towards full opening. This reduction in operating costs has offset inflationary pressures.

4.2 There are significant differences in the basis of preparation of the Group Comprehensive Income Statement compared with management reports (see section 11) and the Income Statement shows a deficit on the provision of services of £176mThe adverse movement from 2016/17 is due to a combination of increased one-off items, higher depreciation (non-cash), lower central government grant funding and higher pension costs (non-cash).

4.3 As at 31 March 2018, the Group has usable reserves of £1,790m, £672m of which represents funding for the Crossrail project which has been received but not yet spent and is held within the "unapplied capital grants account". Of this balance £617m was held as cash within the Crossrail Sponsor Funding account, with a further £55m represented by Community Infrastructure Levy debtors and other cash amounts held by TfL. The balance in the unapplied capital grants account arises because the funding schedule agreed with the Department for Transport at the inception of the project doesn't match the actual spending profile and funding has therefore been received ahead of need. The project remains on track to complete in 2018.

4.4 The majority of the balance of £1,118m is "earmarked reserves", set aside specifically to fund the Investment Programme. As is the case for unapplied capital grants, earmarked reserves arise because the Group has received funding in advance of incurring costs and completing projects. Government funding, which from 2017/18 has been replaced by a share of Business Rates Retention income retained by the GLA, is received (and is expected to continue to be received) in line with the agreed schedule, and is fully allocated to the Investment Programme, including delivery of a number of strategically important projects to specified milestones, details of which are set out in Annex B of the 2017 Funding Agreement letter from the Department for Transport. Borrowing is also undertaken to fund investment, within annual limits agreed with DfT, and this can be in advance of incurring project costs, resulting in temporary surpluses of cash and earmarked reserves. Earmarked reserves form part of the overall funding pot for the Investment Programme and are already allocated in TfL's Business Plan to be spent on delivering investment projects to improve transport in London, including upgrades of the Northern and Jubilee lines, the Bank station upgrade, and the Healthy Streets portfolio. Since these sums are fully allocated to transport improvements as part of the Investment Programme, they are not available to spend on additional projects.

4.5 The residual General Fund balance at 31 March 2018 was £150m (2016/17 £150m). A balance of around £150m is maintained to cover risks that may arise, and is determined to be appropriate given the scale of the Group's operations. A transfer was made from Earmarked reserves to maintain the General Fund at this level.

5 Accounting Policies

5.1 The 2017/18 Code contains only minor changes from 2016/17. Additional disclosure has been added to the borrowings note 23 to show changes in liabilities arising from financing activities as required by amendments to IAS 7.

5.2 The Code for 2018/19 adopts the requirements of IFRS 9 Financial Instruments (as revised in 2014) and IFRS 15 Revenue from Contracts with Customers. The Statement of Accounts for 2017/18 includes disclosure of the estimated impact of implementing these standards, neither of which has a material impact on TfL.

5.3 With the exception of the above no other changes to the Code have had a material impact on the financial statements.

6 Remuneration Disclosure

6.1 The requirements for producing the various elements of the disclosure are unchanged from earlier years. However to aid understanding and following the format adopted last year, the required disclosures have been made in an extended Remuneration Report, presented outside the financial statements in the front section of the Annual Report. Audited disclosures have been clearly identified and are cross-referenced in the notes to the financial statements.

7 Disclosure of Pension Fund Deficit

7.1 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 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 reduced from £5.4bn in the prior year to £4.7bn.

7.2 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 Fund. The last such valuation was at 31 March 2015 and revealed a deficit of £396m for the Public Sector section. Employer's contributions for 2017/18 for the Public Sector section were 31 per cent of pensionable pay. The next valuation is at as 31 March 2018 and is currently underway.

7.3 Under IAS 19, the assets of a pension fund are valued at fair value at the balance sheet date, and the liabilities are discounted at the AA corporate bond rate at that date. The deficit arising is shown in the balance sheet under "Pension and other post retirement liabilities", and is highly volatile due to the variation in the market value of the fund's assets from year to year and the sensitivity of the liabilities to the market yield on AA corporate bonds at the balance sheet date.

7.4 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, where the pension fund Trustees are required to adopt "prudent" assumptions whereas IAS 19 requires "best estimate".

Public Sector Section	£bn
Deficit on funding basis (estimated at 31 March 2018)	(0.1)
Lower discount rate used for IAS 19 valuation	(6.2)
Impact of "best estimate" assumptions rather than "prudent"	1.8
Deficit at 31 March 2018 under IAS 19	(4.5)

7.5 There has been a significant increase in the current service cost in 2017/18 compared with the prior year. The current service cost is based on the start of year assumptions and the discount rate fell from 3.60 per cent per annum at 31 March 2016 to 2.35 per cent at 31 March 2017, leading to a higher current service cost. The current service cost does not affect employer pension contributions paid nor does it impact on usable reserves (see 7.6 below). As this is simply an accounting adjustment it is not considered to be a matter of concern.

7.6 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.

8 Borrowings

8.1 Incremental borrowing for the year was £619m, taking the nominal value of TfL's total borrowing at 31 March 2018 to £10.4bn. Of the £950m incremental borrowing for 2017/18 originally agreed in the 2017 Funding Agreement from the Secretary of State for Transport, £31m related to a project no longer being pursued and £300m has been deferred to 2018/19 to optimally align borrowing with forecasted liquidity requirements.

8.2 Of the new borrowings drawn down in the year, £800m relates to drawdowns under facilities with the European Investment Bank. £150m relates to drawdowns under an Export Development Canada loan facility due in 2037. £12m short term commercial paper was issued.

8.3 Offsetting these, were a £300m scheduled repayment of a Bond at maturity and scheduled repayments of European Investment Bank debt totalling £43m in the year.

9 Derivatives and Hedging

9.1 TfL, through a wholly owned subsidiary, holds a portfolio of derivatives to hedge interest rates on its issued and future borrowings. As at 31 March 2018, the Group has in place interest rate swaps to fix the interest rate on £475m of floating rate borrowings currently in issue. The Group also holds three interest rate swaps to hedge the interest rate risk in leases of rolling stock.

9.2 At 31 March 2018, the Group held forward foreign derivative contracts in Euros, US Dollars, Canadian Dollars, Swiss Francs, Swedish Krona and Chinese Yuan Renminbi to hedge planned foreign currency capital expenditure payments with a net nominal value of £220m.

9.3 TfL has adopted hedge accounting for the above derivatives. The effect of this is that movements in the fair value of the derivatives are initially deferred in reserves rather than flowing through the income and expenditure statement. Gains or losses ultimately realised on derivatives are subsequently recognised in the income statement as the hedged items are recognised. In 2017/18 this has resulted in the recognition as a financing expense of £8.2m previously deferred in respect of gilt locks, as net losses incurred in previous years were released over the terms of the debt issuances to which they related.

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

10 Property Valuations

10.1 This year has seen an overall increase in property valuations, with investment properties seeing a net increase in fair value of £41m, reflecting primarily valuation increases at Harrow on the Hill, Liverpool Street and Victoria Street (from higher rentals on retail units) and also increases in some car park assets. Office buildings currently occupied by the Group and included on the Balance Sheet in “property, plant and equipment” :- saw a net increase in value of £20m. All valuations were undertaken by external professionally qualified valuers. The valuations were prepared in accordance with the appropriate sections of the Royal Institution of Chartered Surveyors -Valuation Professional Standards UK January 2014 (revised April 2015) (the "Red Book") and are compliant with International Valuation Standards.

10.2 All revenue raised from property transactions is reinvested in the transport network. However, the valuation gains on property are unrealised and therefore do not represent resources available to TfL.

11 Reconciliation between the Finance Report and Profit and Loss

11.1 Net cost of operations as reported in the Finance Report – Preliminary Results Report for 2017/18 was £(1,223)m. The deficit on provision of services before tax in the Group Comprehensive Income and Expenditure Statement is £(176)m. Some of the differences relate to items not included in the Finance Report but required to be included in the Income and Expenditure Statement, and other differences arise from differing treatment of items explained below and summarised in the table in 11.4.

11.2 Items not included in net cost of operations in the Finance Report but included in the Income and Expenditure Statement:

(a) all grant income, whether capital or revenue in nature, is required to be included in the Income and Expenditure Statement, whereas in the Finance Report only general grants and other revenue grants are included.

(b) gains and losses on the disposal of fixed assets;

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

(d) share of gains or loses from associated undertakings

11.3 Items where the treatment is different:

(a) the capital repayments relating to certain PFI contracts are included in operating costs within the Finance Report but they are not included in the surplus on provision of services; and

(b) the cost of retirement benefits in the Finance Report is based on cash flows rather than the IAS 19 service cost and financing cost;

(c) Borrowing costs capitalised into the cost of construction of property, plant and equipment are shown within financing costs in net cost of operations in the Finance Report, but as capital additions in the Statement of Accounts.

11.4 **Reconciliation from Finance Report to accounts**

	£m
Net cost of operations as reported in the Finance Report	(1,223)
Capital grant income	1,313
Valuation gains on investment property	42
Capital repayments on PFI	43
Pensions differences	(363)
Capitalisation of interest	94

Share of loss of associated undertaking	(63)
Other	(19)
Deficit on provision of services before tax in the Accounts	(176)

12 Subsidiary Companies Audit Exemption

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

12.2 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.

12.3 For the year ended 31 March 2018, the majority of TTL's subsidiaries will again claim exemption from audit.

List of appendices to this report:

Appendix 1 – Draft Statement of Accounts

List of Background Papers:

None

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Appendix 1

DRAFT

Transport for London

Annual Report and Financial Statements
Year ended 31 March 2018

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.

Contents

Narrative Report and Financial Review

Highlights

2017/18 saw strong performance despite challenging external headwinds and we continue to make good progress against our long-term objective of turning an operating deficit into a surplus. It is also the second successive year we have reduced like for like operating costs – offsetting both a reduction in central government grant and inflation.

This strong performance keeps us firmly on track to achieve our break even on day to day costs and a net operating surplus by 2021/22 – after operating, renewals, maintenance and financing costs. This net operating surplus, coupled with capital discipline and making smart investment decisions aligned to the Mayor's Transport Strategy, will ensure we maximise our cash flow to reinvest in transport infrastructure that benefits Londoners every day.

On the London Underground and on TfL Rail, we have seen passenger journeys reduce reflecting the overall trend experienced across the transport network in London and the south east. The reduction in 2017/18 for the Underground was 1.5 per cent and 4.3 per cent for TfL Rail. On an underlying basis bus performance has reversed the downward trajectory noted in 2016/17, with underlying passenger journey growth of 0.8 per cent. However on a reported basis our result is impacted by Easter timing and one less day in Quarter 1, leading to a reduction in reported passenger income of £21million (1.4 per cent decrease).

We continued to invest record amounts in new and improved infrastructure despite the reduction in operating grant funding. Steady and sustained capital investment is essential to ensure that transport can support greater productivity and new jobs and housing across the country.

The significant investment programme across the network has continued to deliver safety, reliability and capacity improvements as we maintain, improve and extend services across London. Major projects included Crossrail, infrastructure and signalling and station upgrades on the London Underground, congestion relief projects and modernisation of the road network. During the year, a number of delivery milestones were achieved:

- In October 2017 multiple test trains ran on the new signalling system between Hammersmith and Latimer Road for the first time in London. This will lead to customers seeing improved reliability and information on the Hammersmith and City line. We invested almost £350m on the vital digital upgrade to signalling our network needs on the Circle, District, Hammersmith and City, and Metropolitan lines – when complete this programme will improve capacity on these lines by 33 per cent.

- The completion of the Bond Street station upgrade, one of the busiest stations in London, to allow an increased capacity of 30 per cent.

- On the Northern line extension 3.2km tunnel bores from Battersea Power Station to Kennington via Nine Elms were completed in November as well as the permanent link between the new extension and the existing Northern line.

- New pedestrian tunnels linking Cardinal Place and the District and Circle lines in Victoria station were opened in May allowing a more direct route for customers and improving the flow through the station. Escalator refurbishments at Angel, Chancery Lane, Westminster, Holborn and North Greenwich were completed on schedule and within budget.

- The Crossrail project is now over 90 per cent complete and is scheduled to open December 2018, bringing a 10 per cent increase in rail capacity to central London.

Narrative Report and Financial Review (continued)

Financial performance

On the Underground passenger income decreased by1.4 per cent from £2,669 million in 2016/7 to £2,632 million in 2017/18 reflecting the downward trend in passenger volumes. Demand was lower than in 2016/17, largely a result of the external macro-economic climate. Underlying demand has shown some signs of improvement towards the end of the year.

Bus passenger income was partly affected by Easter timing, and one less day in Quarter 1, resulting in fewer fare-paying passenger journeys and a fall in passenger revenue from £1,474 million in 2016/17 to £1,453 million in 2017/18. Adjusting for these adverse conditions our underlying performance is improving year-on-year (0.8 percent) which is testament to the improvements made from our 2016/17 results. Both the introduction of the Hopper fare and an improvement in bus speeds (particularly in central London), have helped support the underlying growth of our Bus division.

Gross expenditure increased 3.8 per cent from £7,234 million to £7,512 million in 2017/18 resulting from higher inflationary pressures, business rates, utility costs and costs to run new services.

The level of capital works undertaken remained high reflecting the continued investment in Crossrail and new Tube infrastructure and rolling stock. Capital expenditure during the year was £3,626 million (2016/17 £3,585 million).

Funding sources

TfL's activities are funded from six main sources:

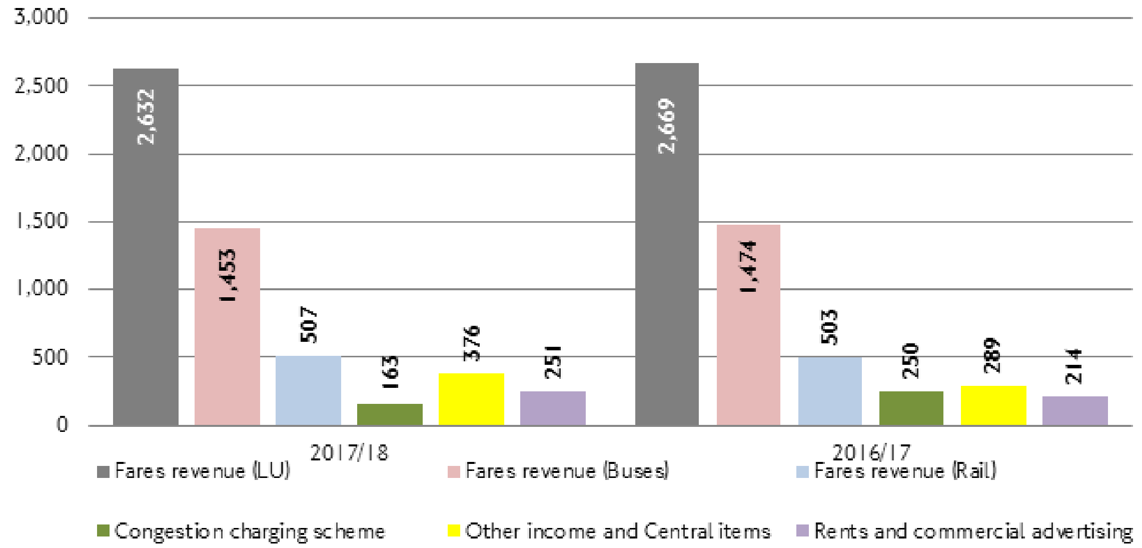
- Passenger income and income from the Congestion Charging scheme;
- A proportion of London's business rates;
- Central government funding;
- Prudential borrowing (the amount and profile of which has been agreed to 2020/21 with central government in the March 2017 Funding Agreement);
- Commercial development in TfL's estate, including advertising and property rental and development; and
- Third-party funding for specific projects

TfL's 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 TfL's cash reserves.

Narrative Report and Financial Review (continued)

Gross income

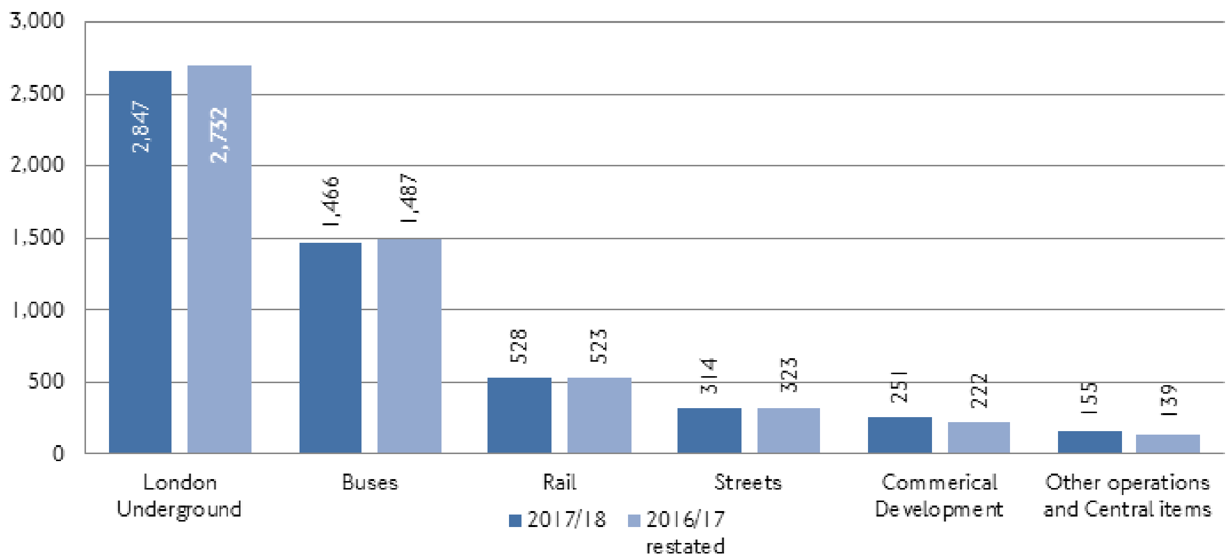
Gross income breakdown by type (£m)



Total gross income decreased by 0.3 per cent from £5,399 million in 2016/17 to £5,382 million in 2017/18.

TfL's primary source of gross income comes from passenger income on the London Underground ('LU'), Rail and Bus networks. This represents 86.1 per cent of all revenue generated. TfL fares decisions are taken annually by the Mayor and he has frozen all TfL fares until 2020.

Total gross income by operating division (£m)



Total gross income in LU was £2,668 million, 1.4 per cent down on 2016/17. Underlying demand is just under one per cent lower than the same period last year. Overall demand is down for rail travel in London.

Narrative Report and Financial Review (continued)

Underlying passenger income per journey has improved compared with the equivalent period last year. This is partly due to the impact of the National Rail average fares increase in January 2018 which increases a proportion of TfL's tickets e.g. travelcards. Rail passenger income ended 1 per cent above previous financial year driven by the impact of the annual Travelcard fare increase, despite a slight fall in passenger numbers.

In the Buses division, total network income fell to £1,466 million, 1.4 per cent below the prior year total of £1,487 million. This was due to the full year impact of the bus hopper ticket and a slight dip in absolute passenger numbers. The introduction of the popular bus hopper ticket contributed to the stabilisation of passenger numbers, along with a year-on-year improvement in bus speeds, and in ticket machine reliability following software improvements. These factors contributed to underlying improvement in bus journeys of 0.8 per cent, with the absolute reduction in passenger numbers solely due to seasonal factors and one offs.

Streets operating income has reduced mainly as a result of lower volumes of chargeable vehicles entering the Congestion Charging zone, with revenues falling 8 per cent from £250 million in 2016/17 to £230 million in 2017/18.

Commercial development income increased by 13 per cent to £251million, reflecting increased media contract income, higher property income from the rental portfolio including back dated rent charges, and a one off income recognition on a Crossrail site.

Other income increased 11.5 per cent from £139 million in 2016/17 to £155 million in 2017/18. Other income comprises a broad range of revenue streams including taxi licensing, Dial-a-Ride services, London River Services, cycle hire and the Victoria Coach station.

Government grants and other funding

The main source of grant income for 2017/18 was a share of Business Rate Retention received from the Greater London Authority ('GLA'), which is classified as resource grant. Other sources of grant income include specific capital grants from the DfT and the GLA for the Crossrail project and other projects such as the Northern Line Extension.

As part of the Government's devolution strategy the Chancellor announced a trial in the 2016 Budget whereby the Department of Transport will not pay any Investment Grant to TfL from April 2017. Instead the GLA receives an equivalent amount through the retention of a larger proportion of London's business rates, and takes on responsibility for funding TfL's capital projects. Next year will also be the first year that TfL receives no general grant funding for operations from central Government.

The total of general and capital grants receivable by TfL in 2017/18, excluding specific Crossrail funding, amounted to £2,477 million (2016/17 £2,660 million).

Narrative Report and Financial Review (continued)

Prudential borrowing

The table below summarises movements in the value of borrowings during the year. In addition to these sources of financing, other sources include the PFIs (notes 24 and 25 to the accounts).

Movement in borrowing £m	
Opening borrowing at 1 April 2017 per the accounts	9,795
European Investment Bank (EIB) loans - £150 million due in 2035; £150 million due in 2036; £250 million due in 2037; £250 million due in 2038	800
Export Development Canada (EDC) loans - £150 million due in 2037	150
Issuance of rolling short- term commercial paper debt	12
Repayment of Bond at maturity and scheduled repayments on EIB loan	(343)
Fair value movements, issue premia/discounts and fee adjustments	1
Closing borrowing at 31 March 2018 per the accounts	10,415

The Authorised borrowing limit for the Corporation set by the Mayor for 2017/18 was £11,154.7 million.

At 31 March 2018, TfL had three committed facilities with the EIB and Export Development Canada. Funds under these facilities will be drawn down in multiple tranches over the next three years.

Narrative Report and Financial Review (continued)

Uses of funding

Gross expenditure

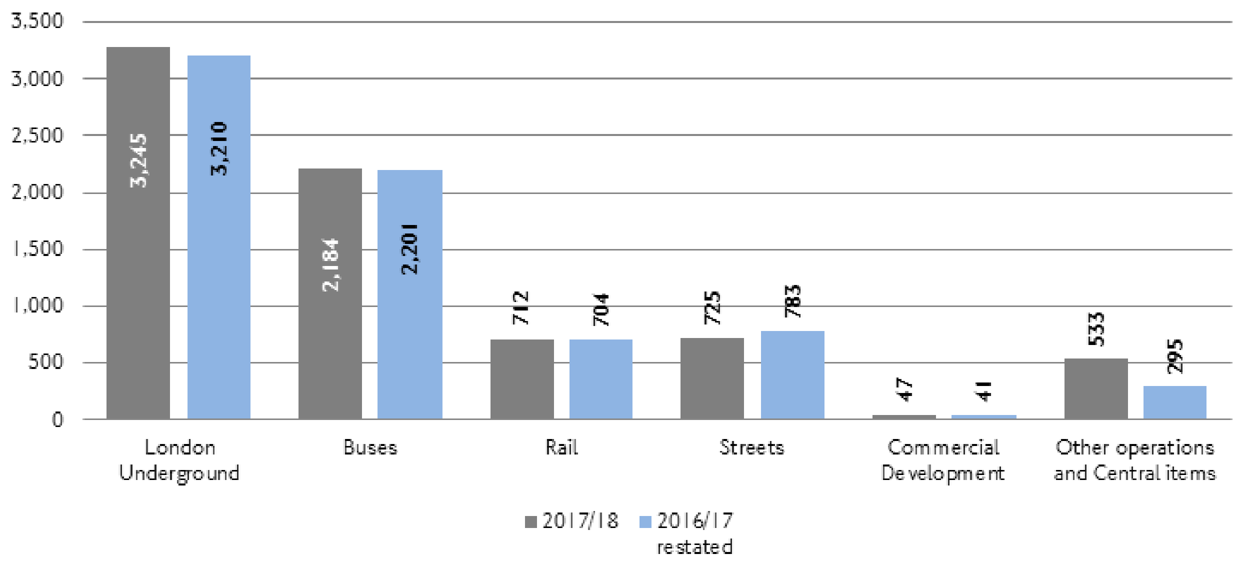
Last year, for the first time since TfL began in 2000, there was a reduction of £153 million in the day-to-day operating costs. We have reduced like-for-like operating costs again in 2017/18, offsetting both a reduction in central government grant and inflationary pressures.

Year-on-year costs of operations

	2018	2017
Cost of operations per internal management reports	(7,354)	(7,259)
Adjust for depreciation	1,114	1,087
Cost of operations excluding depreciation	**(6,240)**	**(6,172)**
Adjust for one-off items incurred	138	39
Adjust for Elizabeth line operating cost increases	14	19
Cost of operations (like-for-like basis)	**(6,088)**	**(6,114)**
Year-on-year savings	26	

One off items include costs relating to TfL's transformation programme and a £48 million pension recovery plan payment.

Gross expenditure by operating division £m



Gross expenditure, which includes day-to-day operating costs, depreciation and amortisation of our assets and Central statutory reporting items, has increased by 3.8 per cent from £7,234 million in 2016/17 to £7,512 million in 2017/18. The increase in other operations is largely due to an increase in the pension costs compared to prior year. Excluding these central items, expenditure increased by 1.6 per cent.

Narrative Report and Financial Review (continued)

Despite an overall increase in costs in the current year of £278 million, operating costs are under budget and there are ongoing cost reduction initiatives including a reduction in management layers, reduced numbers of non-permanent labour and eliminating duplication to make transport safer, more reliable and efficient.

On the Underground, costs rose by £67 million in the current year. There are a number of cost saving initiatives including reducing the number of non-operational staff, delivering maintenance more efficiently and re-profiling certain projects and maintenance costs into future years, but offsetting this has been one off costs associated with the ongoing modernisation programme. Excluding both of these, the underlying cost base has fallen as inflationary pressures have been more than offset by effective cost control. LU successfully achieved target of 'the £2bn railway' on LU in 2017/18. This means our direct core operating costs, excluding indirect and project costs, and depreciation, came in under £2bn. This is an outstanding achievement and sets us up for strong continued performance.

Streets' operating costs saw an 11.1 per cent year-on-year reduction, from £644 million in 2016/17 to £572 million in 2017/18 due to delivery of the transformation programme reducing headcount, plus lower congestion charging costs from penalty credit for service failures and lower bad debt from falling charge volumes.

TfL continued to support Borough schemes that prioritise health and wellbeing, with the overall objective of delivering a transport system where everyone can travel safely by the healthiest and most resource and space-efficient modes. TfL has provided financial assistance to Boroughs to implement measures to improve bus speeds and reliability as well as to deliver TfL's major investment in cycling on Borough roads, including a Mini-Hollands programme.

In the Rail division, operating costs reduced 2.8 per cent from £424 million in 2016/17 to £412 million in 2017/18 due to one-off London Overground contractual savings, partly offset by bonus payments made for improved performance on the DLR.

In the Buses division, operating costs increased by 0.5 per cent to £2,076 million. This was driven principally by the annual contracted price inflation (average of 2.5%) within the bus operator's contracts and the roll out of cleaner vehicles, offset by savings that have been delivered with a target of maintaining our cost base broadly flat year-on-year.

In the Commercial Development division, operating costs increased to £47m from £41m in 2016/17, largely due to a one off cost related to Crossrail activities.

Other expenditure is primarily centralised management overheads, the cost of specialist and shared services and the cost of running other operations including London River Services, Taxi & Private Hire, Santander Cycles and the Victoria Coach Station. Also included are accounting policy adjustments, including the difference between employer contributions paid and the IAS 19 service costs of the TfL defined benefit pension scheme.

Net interest and finance charges

Total financing and investment expenditure for the year was £485 million, £52 million above the prior year.

Within this overall total, interest payable on direct borrowings increased by 4.9 per cent from £371 million to £389 million. The increase in interest payable reflects a full year of interest costs on borrowings of £609 million raised in 2016/17 coupled with the increase in the nominal value of borrowings during the 2017/18 year of £619 million. As at 31 March 2017, TfL had a nominal £9.828 billion of debt, of which approximately £0.8 billion was short-term borrowing under the Commercial Paper Programme. The weighted average interest rate was 3.56 per cent and the borrowings had a weighted average remaining life to maturity of 19.5 years. As at 31 March 2018, the nominal value of debt outstanding had increased to £10.447 billion, of which £0.8 billion was short-term Commercial Paper. The weighted average interest rate was 3.63 per cent and the borrowings had a weighted average life to maturity of 19.2 years.

Narrative Report and Financial Review (continued)

Interest payable on direct borrowings is offset to a degree by the amount of interest capitalised into the cost of qualifying property, plant and equipment. Interest capitalised in 2017/18 is £94 million (£109 million in 2016/17). Interest payable on finance leases, including contingent rentals in respect of Private Finance Initiatives, fell from £58 million in 2016/17 to £52 million in 2017/18 as the remaining capital balance of lease liabilities continued to be paid down.

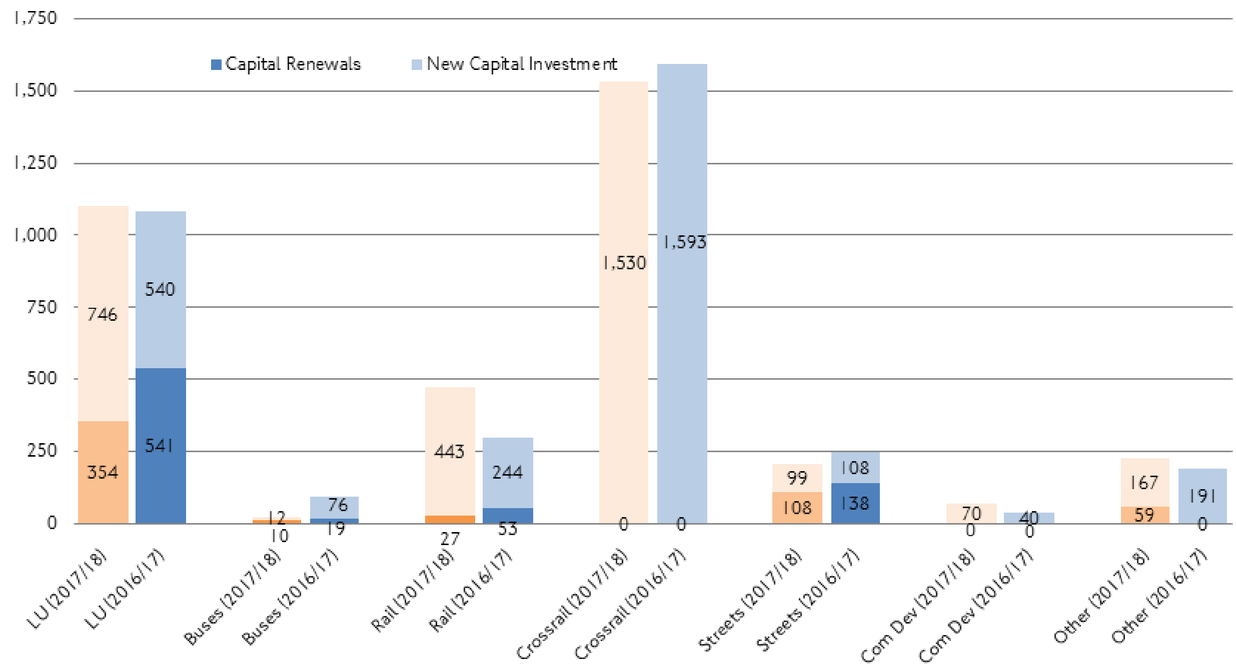
The Group's net interest expense in respect of its defined benefit pension scheme obligations increased from £111 million in 2016/17 to £137 million in 2017/18.

Financing and investment income totalled £69 million, an increase of £22 million from 2016/17. This was due to increased gains on the revaluation of investment properties from £30 million in 2016/17 to £42 million in 2017/18 and an increase of £11 million in gains realised on the disposal of investment properties. Investment returns during 2017/18 fell from £9 million in the prior year to £8 million in 2017/18 as cash balances were utilised to fund planned investment in capital renewals and infrastructure.

Narrative Report and Financial Review (continued)

Capital expenditure

Capital expenditure by business area (£m)



Total capital expenditure for the year was £3,626 million (2016/17 £3,585 million).

On the Underground capital expenditure totalled £1,100 million in 2017/18, including £746 million of new capital investment.

In addition there is increased expenditure on the Central Line Improvement Programme and refurbishment of the Jubilee line.

We unveiled the completed upgrade of Bond Street station, one of the busiest stations in central London. We increased capacity by 30 per cent following the opening of the new entrance and ticket hall on the north side of Oxford Street in November.

On the Northern line extension we achieved a major milestone in November, completing the two 3.2km tunnel bores from Battersea Power Station to Kennington via Nine Elms. We also successfully completed the permanent link between the new extension and the existing Northern line.

We achieved a significant step forward in October when multiple test trains ran on the new signalling system between Hammersmith and Latimer Road for the first time in London. In 2018, customers will see improvements to reliability and customer information on sections of the Hammersmith & City line.

At Victoria, new pedestrian tunnels linking Cardinal Place and the District and Circle line platforms opened in May. These tunnels provide a more direct route for customers, improving the flow through the station and reducing interchange times. And after being closed for five years, the Victory Arch in the Network Rail station re-opened to customers on 25 January, together with a new entrance on Wilton Road and an enlarged south ticket hall.

We completed escalator refurbishments at Angel, Chancery Lane, Westminster, Holborn and North Greenwich on schedule and within budget. At Chancery Lane, we also replaced the central staircase, which marks the completion of a complex project that started in November 2016.

Narrative Report and Financial Review (continued)

Within the Streets division, £207 million was spent on capital works. Capital renewals are lower than the prior year, primarily because of reduced activity arising from more targeted investment to achieve value for money. New investment is also lower this year; 2016/17 saw major construction activity on the Cycle Superhighways programme, in particular the first phase of the East-West route. We continue to invest in replacement of the Woolwich ferries as the current ferries approach the end of their useful economic life.

Capital expenditure of £470m million was incurred by Rail in 2017/18. A public inquiry into the Barking Riverside extension scheme, which will serve the development site at Barking Riverside, was held in October 2016. After receiving the inspector's report, the Secretary of State for Transport granted powers for the extension on 4 August 2017. This scheme adds 4 km to the London Overground Gospel Oak to Barking line, and takes it from Barking to a new station at Barking Riverside. Construction is expected to begin in 2018, with train services starting during 2021.

During the year, £1,530 million was spent on the Crossrail project. By the end of the year, the Crossrail project was over 90 per cent complete including completion of both track concrete and track installation. The new Elizabeth line central stations are 93 per cent complete with installation of platform screen door panels, escalators and lifts nearing completion. At Paddington station, installation of the impressive glass cloud canopy marked the first of the completed art works for the Elizabeth line,

Stage 1 operational services between Shenfield and Liverpool Street (mainline) was achieved when the first Class 345 train, operating as TfL Rail, entered passenger service departing from Liverpool Street station for Shenfield. Ongoing electrification works have allowed dynamic testing to commence in the central section, with the Class 345 train travelling under its own power between Abbey Wood and Connaught Tunnel.

Principal testing, integration testing of rail systems, and the functional set up of the Route Control Centre to support signalling testing have all now commenced to prepare for Stage 2 operational services between Paddington and Heathrow (mainline), and the Stage 3 central section opening. The directors continue to be confident that the project will be delivered successfully and fully completed in 2019.

Total capital expenditure within the Buses division of £22 million in 2017/18 represents a reduction in spend compared to 2016/17, as the programme to purchase new Routemaster buses, introduced by the previous Mayor, was completed in June 2017. There are no plans to expand this programme.

Within Commercial Development, the increase in capital expenditure included installation of digital media equipment to upgrade the advertising estate, which will protect and grow revenue streams into the future. In 2015/16, the Group invested £447 million investment in its associated undertaking, Earls Court Partnership Limited. Despite some delivery challenges, progress was made during the year in land assembly and proposals for planning. There was a small additional capital investment in the development of £1.4 million during the year.

Other capital expenditure of £149 million in 2017/18 included investment in Santander cycles and on London River Services. Also included within this sub-heading was £94 million of interest on borrowings capitalised into the cost of fixed assets during the year.

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 2018 amounted to £1,932 million, down from £1,961 million as at 31 March 2017. The average yield from TfL's cash investments for 2017/18 was 0.33 per cent, 0.42 per cent in 2016/17. The low investment yields reflect low interest rates environment and the conservative nature of TfL's investment strategy. Earmarked reserves for TfL's future Investment Programme at 31 March 2018 amount to £948 million, with an additional £672 million being set aside for Crossrail.

Treasury risk management

The Board approves treasury policies that have regard to both the principles of the CIPFA Prudential Code and the revised investment guidance (effective 1 April 2010) issued by the Department for Communities and Local Government.

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 and its financial activities (financial costs and investment returns on cash balances). TfL's objective under the 2017/18 borrowing strategy was to manage its borrowings in a manner that is affordable and sustainable and combines value for money, flexibility, security of access to funds, and diversity of funding sources. TfL's investment strategy continues to reflect a low risk appetite consistent with the good stewardship of public funds and prioritises security and liquidity over yield.

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

Counterparty credit

The Group's exposure to credit-related losses, i.e. non-performance by counterparties on financial instruments, is mitigated by setting a minimum required credit rating and applying financial limits based on credit ratings. For 2017/18, 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, these included investments in Euros, which were swapped back into Sterling as a matter of course, and Canadian Dollars. The amounts that can be invested with the UK Government and its 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 ratings agencies and are kept under constant review.

Narrative Report and Financial Review (continued)

Funding and liquidity

To ensure continuity of affordable funding, debt maturities are spread over a range of dates that broadly equate to the lives of assets purchased with the proceeds of debt. The maturity profile of debt outstanding at 31 March 2018 is set out in Note 31 to the accounts. Diverse sources of funding available include: capital markets, bank loans and direct access to the UK Debt Management Office via the Public Works Loan Board. These diverse sources significantly mitigate funding and liquidity risk.

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 probably exposures with a highly certain risk profile, including entering into derivative contracts.

Interest rates

The Board has approved parameters of a minimum of 75 per cent fixed-rate on existing and forecast debt. The proportion of fixed-rate debt borrowings (including Commercial Paper swapped to fixed through the use of interest rate derivatives) at the year end was 97.1 per cent; the remaining 2.9 per cent constituted unhedged Commercial Paper debt 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 2018, the majority of TfL's employees were members of the TfL Pension Fund. Over the past year, as a result of a change in financial assumptions, the actuarial value of future liabilities recorded by the Group in respect of this scheme decreased slightly by £190.6 million. This was accompanied by an increase in the fair value of the assets recorded, which rose by £468.1 million. As a consequence, the deficit of pension scheme assets to future liabilities recognised in respect of the TfL Pension Fund decreased by a total of £658.7 million to £4,535.2 million.

The total deficit recognised in respect of all funded and unfunded pension arrangements at 31 March amounted to £4,707 million (2016 £5,364 million).

The latest available full actuarial valuation of the TfL Pension Fund was carried out as at 31 March 2015. The 2015 valuation showed a combined deficit on the Public Sector and Tube Lines Sections for funding purposes of £396 million, and as a result of this the employers agreed a revised Schedule of Contributions with the Pension Fund.

Narrative Report and Financial Review (continued)

Prospects and outlook

In December 2017, TfL published an updated Business Plan for the next five years to 2022/23. The activities and investment outlined in the Business Plan are designed to deliver the Mayor's Transport Strategy, making commuting in London and travelling around the city more affordable and creating a fairer, greener, healthier, more prosperous London.

The core financial objective of the Business Plan is to achieve break-even on the cost of day-to-day operations, including financing by 2021/22. Our investment programme will continue at pace in 2018 with the introduction of the Elizabeth line this financial year delivering a significant step up in operating costs as this service comes into operation - whilst also providing opportunity for increased passenger income and commercial revenues

In order to make sure that our services are able to meet the demands of a growing London, the following projects and initiatives are in progress:

- The opening of the Elizabeth line is the largest milestone in the Business Plan. The first new railway to pass through central London in decades, it will fully open in 2019. Serving 41 stations and stretching more than 60 miles it will increase rail capacity in London by 10 per cent and provide a safe, reliable, accessible public transport option for more than 200 million passenger journeys each year. Services between Paddington and Heathrow terminals 2,3 and 4, and the central section from Paddington through central London to Abbey Wood will begin in 2018, along with the continuation of services between Liverpool Street and Shenfield in the east. The Elizabeth line is expected to boost TfL's passenger income by £900m per annum by 2022/23.

- Continued investment in our accessibility programme which includes delivering on our ambitious target of making more than 40 per cent of Tube stations step-free by 2022.

- Tunnelling work was completed in 2017 on the Northern line extension from Kennington to Battersea Power Station. This extension will significantly improve services and support regeneration in the local area, which includes 25,000 new jobs and more than 20,000 homes, and services will start running in 2020.

- Major upgrades to improve stations, like Victoria, which will be completed in 2018 providing 40 per cent more capacity and Bank due to be finished in 2022 and towards the end of the plan, Camden Town and Holborn.

- Delivery of the 'Four Lines' modernisation programme to upgrade the Metropolitan, District, Hammersmith & City and Circle lines adding 33 per cent more capacity by 2023. These lines make up 40 per cent of the Underground network and the investment will improve reliability and ensure a world-class service on these lines.

- DLR rolling stock replacement will deliver 43 new full-length trains by early 2020s, increasing total capacity on the DLR network by around 30 per cent. The first stage of the Piccadilly Line Upgrade is to procure 94 new trains and associated enabling works. This will be approved later this year. These new trains will be delivered in the mid 2020s and will increase capacity from the current 24 to 27 trains per hour by the end of 2026. The second stage of the project is to deliver new signalling which will have the capacity to increase the number of trains per hour to 36.

- The Barking Riverside extension will provide an additional 4.5km of London Overground line to connect Barking Riverside, supporting the creation of new homes and jobs in the area, with services beginning in 2021.

Narrative Report and Financial Review (continued)

- Working with Westminster City Council and Camden Council to make Oxford Street a more pleasant, healthier and accessible place. Making it easier and safer to walk and cycle, improve air quality, reduce noise pollution and create one of the world's finest public spaces for years to come through the Oxford Street transformation programme.

- Modernising our bus fleet so it is among the least polluting in the world and introducing Low Emission Bus Zones in areas with the poorest air quality and from 2018, only hybrid or zero-emission double-decker buses will be purchased.

- The Healthy Streets portfolio aims to create far-reaching improvements on London's roads such as improving safety, increasing walking and cycling and public transport use and creating pleasant environments. As part of the Mayor's Transport Strategy this will also reduce road danger, improve air quality and enhance freight services.

- Subject to consultation, the ULEZ (Ultra Low Emission Zone) will be introduced in central London in 2019 and expanded across greater London by 2021, reducing bus fleet emissions and licensing requirements for zero emission capable (ZEC) taxis and private hire vehicles.

- The Emissions Surcharge (T-Charge) was introduced in October 2017. Drivers of the oldest, most polluting vehicles pay £10 on top of the existing charge to enter the Congestion Charge zone.

- Subject to planning and consents, developing new river crossings, including the Silvertown Tunnel which could open by the early 2020s easing congestion on the Blackwall tunnel, and a new pedestrian and cycling crossing between Rotherhithe and Canary Wharf delivering reduced journey times and encouraging healthier travel.

- We will progress property development sites by 2021, providing over 10,000 homes half of which will be affordable and over a million square feet of commercial space.

- The development and sale of property is expected to generate over £500 million to support transport investment over the next five years.

Narrative Report and Financial Review (continued)

Key Risks

We have a risk policy and an enterprise risk management framework which enables a consistent approach to risk management across TfL. This includes identification, management and reporting of risks against the Mayor's Transport Strategy and our Corporate Strategy, and an enterprise-wide approach to risk tolerance and appetite. We manage a wide range of risks which includes potential impacts and benefits to our customers and stakeholders, health, safety and the environment, our finances and our licence to operate.

The key strategic risks we are currently managing and the strategic objectives to which they relate include:

Mayor's Transport Strategy: Healthy streets and healthy people

- TfL's activities could impact on the environment affecting the health and wellbeing of people;
- Safety systems might be inadequate or not complied with, resulting in loss of life or serious injury to customers and staff;
- Catastrophic events, ranging from accidents to deliberate actions could overwhelm our ability to respond;
- Technological failure or cyber security attack could result in loss of personal data, interruption to key business systems or interference with operational activities.

Mayor's Transport Strategy: New homes and jobs

- Externally driven events may result in commercial income streams not being able to meet revenue targets;
- London's population changes may lead to TfL networks being unable to respond to changing demand;
- Internal or external events may impact projects, possibly resulting in an inability to efficiently deliver our investment programme and achieve the associated benefits;
- Opening of the Elizabeth Line may be delayed partly due to testing and commissioning issues.

Mayor's Transport Strategy: A good public transport experience

- TfL might not meet operational targets and deliver less reliable services for customers and other users;
- Events related to the environment, such as the risk of extreme weather due to climate change could result in significant disruption.

Corporate Strategy: People and Stakeholders

- We may fail to attract and retain the skills and critical capabilities required;
- Governance structures at TfL may not provide enough support to meet the changing demands faced by the organisation;
- Changes in external stakeholder requirements may affect the best value delivery of TfL's strategic goals.

Narrative Report and Financial Review (continued)

Corporate Strategy: Finance

- A challenging macro-economic environment and externally driven events may affect our ability to maintain minimum cash levels or result in unexpected loss of income;
- A lack of strategic foresight might affect TfL’s ability to shape the future and adapt;
- Technological or market developments may outpace our ability to adapt, leading to an inability to deliver the expectations of stakeholders.

We are committed to improving the way strategic risks are identified, managed and reported, and we will continue to provide input to the Audit and Assurance Committee and other committees and panels as appropriate.

Narrative Report and Financial Review (continued)

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 Greater London Authority (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 and associated undertakings as set out in notes 14 and 15.

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 2017/18 (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.

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

The Statement of Accounts comprises:

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

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

Purposes of major schedules within the financial statements

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

Narrative Report and Financial Review (continued)

Comprehensive Income and Expenditure Statement

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

The Balance Sheet

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

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; and
- 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.

Sarah Bradley

Group Financial Controller and Statutory Chief Finance Officer

2018

Group Comprehensive Income and Expenditure Statement

Year ended 31 March	Note	**Gross income 2018 £m**	**Gross expenditure 2018 £m**	**Net expenditure 2018 £m**	Gross income 2017 restated £m*	Gross expenditure 2017 restated £m*	Net expenditure 2017 restated £m*
Operating segment							
London Underground		**2,668.0**	**(3,277.0)**	**(609.0)**	2,705.0	(3,210.0)	(505.0)
Buses		**1,466.0**	**(2,218.0)**	**(752.0)**	1,487.0	(2,201.0)	(714.0)
Rail		**528.0**	**(712.0)**	**(184.0)**	523.0	(704.0)	(181.0)
Streets		**314.0**	**(725.0)**	**(411.0)**	323.0	(783.0)	(460.0)
Commerical Development		**251.0**	**(47.0)**	**204.0**	222.0	(41.0)	181.0
Other operations		**166.0**	**(375.0)**	**(209.0)**	151.0	(320.0)	(169.0)
Net cost of operations per internal management reports	2	**5,393.0**	**(7,354.0)**	**(1,961.0)**	5,411.0	(7,259.0)	(1,848.0)
Central items	2	**(10.6)**	**(157.5)**	**(168.1)**	(11.8)	25.1	13.3
Net cost of services	2	**5,382.4**	**(7,511.5)**	**(2,129.1)**	5,399.2	(7,233.9)	(1,834.7)
Other net operating expenditure	6			**(47.3)**			(13.8)
Financing and investment income	7			**69.1**			46.7
Financing and investment expenditure	8			**(486.7)**			(433.3)
Grant income	9			**2,476.9**			2,660.0
Group share of (loss)/profit after tax of associated undertakings	15			**(62.7)**			(104.8)
Surplus on the provision of services before tax				**(179.8)**			320.1
Taxation income	10			**3.5**			6.5
Surplus on the provision of services after tax				**(176.3)**			326.6

Group Comprehensive Income and Expenditure Statement (continued)

Year ended 31 March	Note	**Gross income 2018 £m**	**Gross expenditure 2018 £m**	**Net expenditure 2018 £m**	Gross income 2017 restated £m*	Gross expenditure 2017 restated £m*	Net expenditure 2017 restated £m*
Surplus on the provision of services after tax				**(176.3)**			326.6
Other comprehensive income and expenditure							
Items that will not be subsequently reclassified to profit or loss							
Surplus/(deficit) on the revaluation of property, plant and equipment **	12			**20.3**			(3.8)
Net remeasurement gain/(losses) on defined benefit pension schemes **	32			**1,007.4**			(2,009.0)
				1,027.7			(2,012.8)
Items that may be subsequently reclassified to profit or loss							
Movement in the fair value of derivative financial instruments **	35			**15.5**			29.1
Derivative fair value loss recycled to income and expenditure **	35			**8.2**			7.8
				23.7			36.9
				1,051.4			(1,975.9)
Total comprehensive income and expenditure				**875.1**			(1,649.3)

* Figures for 2016/17 have been restated to show the split of net cost of services by 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 2018 or 2017 (note 10).

Group Balance Sheet

	Note	**31 March 2018 £m**	31 March 2017 restated £m
Long-term assets			
Intangible assets	11	**118.2**	140.1
Property, plant and equipment	12	**39,294.0**	36,838.9
Investment property	13	**537.2**	558.0
Equity accounted investment in associated undertakings	15	**319.0**	368.2
Derivative financial instruments	26	**11.7**	18.2
Long-term finance lease receivables	16	**17.4**	3.5
Long-term debtors	18	**27.7**	25.8
		40,325.2	37,952.7
Current assets			
Inventories	17	**64.2**	71.7
Short-term debtors	18	**540.6**	1,820.2
Assets held for sale	19	**83.2**	15.0
Short-term derivative financial instruments	26	**5.9**	12.3
Short-term finance lease receivables	16	**8.2**	0.9
Short-term investments	20	**696.8**	1,024.6
Cash and cash equivalents	21	**1,235.0**	936.8
		2,633.9	3,881.5
Current liabilities			
Short-term creditors	22	**(2,348.6)**	(2,146.6)
Short-term borrowings and overdrafts	23	**(846.2)**	(1,105.7)
Short-term finance lease liabilities	24	**(69.9)**	(76.7)
Short-term derivative financial instruments	26	**(1.5)**	(3.6)
Short-term provisions	27	**(334.1)**	(194.3)
		(3,600.3)	(3,526.9)
Long-term liabilities			
Long-term creditors	22	**(65.7)**	(56.5)
Long-term borrowings	23	**(9,569.4)**	(8,689.6)
Long-term finance lease liabilities	24	**(418.2)**	(488.1)
Long-term derivative financial instruments	26	**(52.0)**	(79.2)
Long-term provisions	27	**(84.3)**	(43.6)
Retirement benefit obligation	32	**(4,707.3)**	(5,363.5)
		(14,896.9)	(14,720.5)
Net assets		**24,461.9**	23,586.8
Reserves			
Usable reserves		**1,789.5**	1,860.5
Unusable reserves	35	**22,672.4**	21,726.3
Total reserves		**24,461.9**	23,586.8

The Expenditure and Funding Analysis on page XXX and the notes on pages XXX to XXX form part of these financial statements. These financial statements were approved by the Board on XXX 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 2016		150.0	1,275.1	**1,425.1**	13.9	1,794.2	**3,233.2**	22,002.9	**25,236.1**
Movement in reserves during 2016/17									
Surplus on the provision of services after tax		(40.5)	-	**(40.5)**	-	-	**(40.5)**	367.1	**326.6**
Other comprehensive income and expenditure		-	-	**-**	-	-	**-**	(1,975.9)	**(1,975.9)**
Total comprehensive income and expenditure		(40.5)	-	**(40.5)**	-	-	**(40.5)**	(1,608.8)	**(1,649.3)**
Adjustments between accounting basis and funding basis under regulations	36	(172.0)	-	**(172.0)**	4.1	(1,164.3)	**(1,332.2)**	1,332.2	**-**
Net (decrease)/increase before transfer to/from earmarked reserves		(212.5)	-	**(212.5)**	4.1	(1,164.3)	**(1,372.7)**	(276.6)	**(1,649.3)**
Transfer to/from earmarked reserves		212.5	(212.5)	**-**	-	-	**-**	-	**-**
(Decrease)/increase in 2016/17		-	(212.5)	**(212.5)**	4.1	(1,164.3)	**(1,372.7)**	(276.6)	**(1,649.3)**
Balance at 31 March 2017		**150.0**	**1,062.6**	**1,212.6**	**18.0**	**629.9**	**1,860.5**	**21,726.3**	**23,586.8**
Movement in reserves during 2017/18									
(Deficit)/surplus on the provision of services after tax		(53.9)	-	**(53.9)**	-	-	**(53.9)**	(122.4)	**(176.3)**
Other comprehensive income and expenditure		-	-	**-**	-	-	**-**	1,051.4	**1,051.4**
Total comprehensive income and expenditure		(53.9)	-	**(53.9)**	-	-	**(53.9)**	929.0	**875.1**
Adjustments between accounting basis and funding basis under regulations	36	(60.1)	-	**(60.1)**	1.4	41.6	**(17.1)**	17.1	**-**
Net (decrease)/increase before transfer to/from earmarked reserves		(114.0)	-	**(114.0)**	1.4	41.6	**(71.0)**	946.1	**875.1**
Transfer to/from earmarked reserves		114.0	(114.0)	**-**	-	-	**-**	-	**-**
(Decrease)/increase in 2017/18		-	(114.0)	**(114.0)**	1.4	41.6	**(71.0)**	946.1	**875.1**
Balance at 31 March 2018		**150.0**	**948.6**	**1,098.6**	**19.4**	**671.5**	**1,789.5**	**22,672.4**	**24,461.9**

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

Group Statement of Cash Flows

Year ended 31 March	Note	2018 £m	2017 restated £m
Surplus on the provision of services after tax		**(176.3)**	326.6
Adjustments to surplus after tax for non-cash movements	33 a	**956.0**	105.9
Net cash flows from operating activities		**779.7**	432.5
Investing activities	33 b	**(773.5)**	(1,950.9)
Financing activities	33 c	**291.9**	274.5
Increase in net cash and cash equivalents in the year		**298.1**	(1,243.9)
Net cash and cash equivalents at the start of the year		**936.8**	2,180.7
Net cash and cash equivalents at the end of the year	21	**1,234.9**	936.8

Corporation Comprehensive Income and Expenditure Statement

Year ended 31 March	Note	2018 £m	2017 £m
Highways and Transport Services			
Gross income		**388.8**	373.9
Gross expenditure	3	**(1,322.5)**	(1,059.5)
Net cost of services*		**(933.7)**	(685.6)
Other net operating expenditure	6	**(1.8)**	(1.3)
Financing and investment income	7	**356.5**	326.3
Financing and investment expenditure	8	**(515.6)**	(467.5)
Grant income	9	**2,440.2**	2,636.3
Grant funding of subsidiaries		**(1,399.5)**	(1,848.7)
(Deficit)/surplus on the provision of services		**(53.9)**	(40.5)
Other comprehensive income and expenditure			
Items that will not be subsequently reclassified to profit or loss			
Net remeasurement gains/(losses) on defined benefit pension schemes	32	**998.4**	(1,979.0)
		998.4	(1,979.0)
Total comprehensive income and expenditure		**944.5**	(2,019.5)

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

Corporation Balance Sheet

	Note	31 March 2018 £m	31 March 2017 restated £m
Long-term assets			
Intangible assets	11	**79.2**	99.4
Property, plant and equipment	12	**3,941.3**	3,829.9
Investment property	13	**11.0**	10.8
Investments in subsidiaries	14	**8,762.5**	8,562.5
Long-term debtors	18	**9,992.4**	9,372.3
		22,786.4	21,874.9
Current assets			
Inventories	17	**-**	0.8
Short-term debtors	18	**884.5**	809.0
Assets held for sale	19	**-**	1.5
Short-term investments	20	**669.8**	1,014.9
Cash and cash equivalents	21	**1,102.4**	808.4
		2,656.7	2,634.6
Current liabilities			
Short-term creditors	22	**(666.8)**	(639.2)
Short-term borrowings	23	**(846.1)**	(1,105.7)
Short-term finance lease liabilities	24	**(10.8)**	(11.4)
Short-term provisions	27	**(124.5)**	(113.4)
		(1,648.2)	(1,869.7)
Long-term liabilities			
Long-term creditors	22	**(16.9)**	(16.2)
Long-term borrowings	23	**(9,576.0)**	(8,696.8)
Long-term finance lease liabilities	24	**(131.3)**	(142.1)
Long-term provisions	27	**(25.1)**	(33.3)
Retirement benefit obligation	32	**(4,681.2)**	(5,331.5)
		(14,430.5)	(14,219.9)
Net assets		**9,364.4**	8,419.9
Reserves			
Usable reserves		**1,789.5**	1,860.5
Unusable reserves	35	**7,574.9**	6,559.4
Total reserves		**9,364.4**	8,419.9

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

These financial statements were approved by the Board on XXX 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 2016		150.0	1,275.1	**1,425.1**	13.9	1,794.2	**3,233.2**	7,206.2	**10,439.4**
Movement in reserves during 2016/17									
Deficit on the provision of services		(40.5)	-	**(40.5)**	-	-	**(40.5)**	-	**(40.5)**
Other comprehensive income and expenditure		-	-	**-**	-	-	**-**	(1,979.0)	**(1,979.0)**
Total comprehensive income and expenditure		(40.5)	-	**(40.5)**	-	-	**(40.5)**	(1,979.0)	**(2,019.5)**
Adjustments between accounting basis and funding basis under regulations	36	(172.0)	-	**(172.0)**	4.1	(1,164.3)	**(1,332.2)**	1,332.2	**-**
Net (decrease)/increase before transfer to/from earmarked reserves		(212.5)	-	**(212.5)**	4.1	(1,164.3)	**(1,372.7)**	(646.8)	**(2,019.5)**
Transfer to/from earmarked reserves		212.5	(212.5)	**-**	-	-	**-**	-	**-**
(Decrease)/increase in 2016/17		-	(212.5)	**(212.5)**	4.1	(1,164.3)	**(1,372.7)**	(646.8)	**(2,019.5)**
Balance at 31 March 2017		**150.0**	**1,062.6**	**1,212.6**	**18.0**	**629.9**	**1,860.5**	**6,559.4**	**8,419.9**
Movement in reserves during 2017/18									
Deficit on the provision of services		(53.9)	-	**(53.9)**	-	-	**(53.9)**	-	**(53.9)**
Other comprehensive income and expenditure		-	-	**-**	-	-	**-**	998.4	**998.4**
Total comprehensive income and expenditure		(53.9)	-	**(53.9)**	-	-	**(53.9)**	998.4	**944.5**
Adjustments between accounting basis and funding basis under regulations	36	(60.1)	-	**(60.1)**	1.4	41.6	**(17.1)**	17.1	**-**
Net (decrease)/increase before transfers to/from earmarked reserves		(114.0)	-	**(114.0)**	1.4	41.6	**(71.0)**	1,015.5	**944.5**
Transfer to/from earmarked reserves		114.0	(114.0)	**-**	-	-	**-**	-	**-**
(Decrease)/increase in 2017/18		-	(114.0)	**(114.0)**	1.4	41.6	**(71.0)**	1,015.5	**944.5**
Balance at 31 March 2018		**150.0**	**948.6**	**1,098.6**	**19.4**	**671.5**	**1,789.5**	**7,574.9**	**9,364.4**

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

Corporation Statement of Cash Flows

Year ended 31 March	Note	**2018 £m**	2017 restated £m
(Deficit)/surplus on the provision of services		**(53.9)**	(40.5)
Adjustments to (deficit)/surplus after tax for non-cash movements	33 a	**(38.6)**	(110.1)
Net cash flows from operating activities		**(92.5)**	(150.6)
Investing activities	33 b	**66.1**	(1,403.7)
Financing activities	33 c	**320.4**	314.5
Increase/(decrease) in net cash and cash equivalents in the year		**294.0**	(1,239.8)
Net cash and cash equivalents at the start of the year		**808.4**	2,048.2
Net cash and cash equivalents at the end of the year	21	**1,102.4**	808.4

Expenditure and Funding Analysis

For the year ended 31 March 2018	Net expenditure chargeable to the General Fund £m	Adjustments between accounting basis and funding basis under regulations (note 36) £m	Total per the Corporation Comprehensive Income and Expenditure Statement £m	Surplus on the provision of services after tax in subsidiaries (note 35) £m	Total per the Group Comprehensive Income and Expenditure Statement £m
Net cost of services					
London Underground	(337.0)	-	(337.0)	(272.0)	(609.0)
Buses	(39.0)	-	(39.0)	(713.0)	(752.0)
Rail	(22.0)	-	(22.0)	(162.0)	(184.0)
Streets	(246.9)	(141.1)	(388.0)	(23.0)	(411.0)
Commercial development	5.0	-	5.0	199.0	204.0
Other operations	(147.8)	(27.2)	(175.0)	(34.0)	(209.0)
Central items	357.1	(334.8)	22.3	(190.4)	(168.1)
Net cost of services	(430.6)	(503.1)	(933.7)	(1,195.4)	(2,129.1)
Other net operating expenditure	-	(1.8)	(1.8)	(45.5)	(47.3)
Financing and investment income	340.1	16.4	356.5	(287.4)	69.1
Financing and investment expenditure	(378.4)	(137.2)	(515.6)	28.9	(486.7)
Grant income	509.1	531.6	1,040.7	1,436.2	2,476.9
Group share of profit after tax of associated undertakings	-	-		(62.7)	(62.7)
(Deficit)/surplus on the provision of services before tax	40.2	(94.1)	(53.9)	(125.9)	(179.8)
Taxation income	-	-	-	3.5	3.5
(Deficit)/surplus on the provision of services after tax	40.2	(94.1)	(53.9)	(122.4)	(176.3)
Employer's pension contributions and direct payments to pensioners payable in the year	(123.7)	123.7	-		
Minimum Revenue provision	(18.7)	18.7	-		
Amortisation of premium on financing	(11.8)	11.8	-		
Net (decrease)/increase in 2017/18	(114.0)	60.1	(53.9)		
Balance of General Fund and Earmarked Reserves at 1 April 2017	1,212.6				
Balance of General Fund and Earmarked Reserves at 31 March 2018	1,098.6				

Expenditure and Funding Analysis (continued)

For the year ended 31 March 2017 (restated)	Net expenditure chargeable to the General Fund £m	Adjustments between accounting basis and funding basis under regulations (note 36) £m	Total per the Corporation Comprehensive Income and Expenditure Statement £m	Surplus on the provision of services after tax in subsidiaries (note 35) £m	Total per the Group Comprehensive Income and Expenditure Statement £m
Net cost of services					
London Underground	(301.0)	-	(301.0)	(204.0)	(505.0)
Buses	(42.0)	-	(42.0)	(672.0)	(714.0)
Rail	(17.0)	-	(17.0)	(164.0)	(181.0)
Streets	(305.5)	(129.5)	(435.0)	(25.0)	(460.0)
Commercial Development	4.0	-	4.0	177.0	181.0
Other operations	(104.8)	(35.2)	(140.0)	(29.0)	(169.0)
Central items	354.3	(108.9)	245.4	(232.1)	13.3
Net cost of services	(412.0)	(273.6)	(685.6)	(1,149.1)	(1,834.7)
Other net operating expenditure	-	(1.3)	(1.3)	(12.5)	(13.8)
Financing and investment income	324.7	1.6	326.3	(279.6)	46.7
Financing and investment expenditure	(357.4)	(110.1)	(467.5)	34.2	(433.3)
Grant income	337.3	450.3	787.6	1,872.4	2,660.0
Group share of profit after tax of associated undertakings	-	-	-	(104.8)	(104.8)
(Deficit)/surplus on the provision of services before tax	(107.4)	66.9	(40.5)	360.6	320.1
Taxation income	-	-	-	6.5	6.5
Surplus on the provision of services after tax	(107.4)	66.9	(40.5)	367.1	326.6
Employer's pension contributions and direct payments to pensioners payable in the year	(74.6)	74.6	-		
Minimum Revenue provision	(18.7)	18.7	-		
Amortisation of premium on financing	(11.8)	11.8	-		
Net (decrease)/increase in 2016/17	(212.5)	172.0	(40.5)		
Balance of General Fund and Earmarked Reserves at 1 April 2016	1,425.1				
Balance of General Fund and Earmarked Reserves at 31 March 2017	1,212.6				

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 2017/18 (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 2017/18 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.

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

Capital grants and contributions

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

FRS 102 The Financial Reporting Standard: Heritage assets

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

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.

Accounting Policies (continued)

b) Basis of preparation

The accounts are made up to 31 March. 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 assets and financial instruments.

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

c) Basis of consolidation

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

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

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

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

d) Going concern

The financial statements have been prepared on a going concern basis as it is considered by the Board that TfL will continue in operational existence for the foreseeable future and meet its liabilities as they fall due for payment. Under the Greater London Authority Act 1999, TfL has a legal requirement to produce a financially balanced Budget each year. As at 31 March 2018, the Group had usable reserves totalling £1,789.5m.

Accounting Policies (continued)

e) The application of new and revised standards

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

- Amendments to IAS 7 Disclosure Initiative (mandatory for years beginning on or after 1 January 2017). The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (mandatory for years on or after 1 January 2017). The amendments clarify that (i) unrealised losses on a debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows. (ii) The carrying amount of an asset does not limit the estimation of probable future taxable profits. (iii) Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. (iv) An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.
- Amendments to IFRS 12 included in Annual Improvements to IFRS Standards 2014-2016 Cycle (mandatory for years beginning on or after 1 January 2017). IFRS 12 Disclosure of Interests in Other Entities states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these and any other standards, amendments or interpretations issued by the IASB and applicable for the first time to these financial statements has not had a material impact on the accounts.

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

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

- IFRS 9 Financial Instruments (as revised in 2014) (mandatory for years beginning on or after 1 January 2018). IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement. The new standard contains the requirements for three areas: a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology and c) general hedge accounting. With respect to classification and measurement, all recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value. The standard also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. With respect to impairment methodology, the revised model reflects expected credit losses as opposed to the incurred credit losses recognised under IAS 39. And with regards to hedge accounting, IFRS 9 (as revised in 2014) introduces greater flexibility to the types of transactions eligible, specifically broadening the types of instruments that qualify as hedging instruments.

Accounting Policies (continued)

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

TfL will apply IFRS 9 from 1 April 2018. The full impact of adopting IFRS 9 on TfL's consolidated financial statements will depend on the financial instruments that the Group has during 2018/19 as well as on economic conditions and judgements made as at the year end. TfL has performed a preliminary assessment of the potential impact of adopting IFRS 9 based on the financial instruments and hedging relationships as at the date of initial application of IFRS 9.

Following management review, the only area of significant though immaterial change identified arising from IFRS 9 relates to impairment. The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date.

The IFRS 9 impairment model will need to be applied to TfL's financial instruments. TfL expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables as permitted under IFRS 9. In relation to other financial instruments to which TfL is party, these are deemed to have low credit risk and there has not been not been a significant increase in credit risk since initial recognition. As such, although a loss allowance for 12 month expected credit losses will need to be recognised upon transition to IFRS 9, this is not expected to lead to a material impact on the TfL's financial statements;

- IFRS 15 Revenue from Contracts with Customers (mandatory for years beginning on or after 1 January 2018). IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede IAS 18 Revenue, IAS 11 Construction Contracts, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue-Barter Transactions Involving Advertising Services. The core principle of the new standard is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

  Detailed analysis of IFRS 15 has been undertaken and the introduction of this standard is not expected to have a material impact on the consolidated financial statements. Material revenue streams including passenger income, revenue in respect of free travel for the elderly, congestion charging and commercial advertising income have been assessed. Contracts with customers and service recipients in these areas are readily identifiable, performance obligations are clear, transaction prices can be determined and allocated under existing processes, and recognition criteria are materially unchanged from current policies;

- IFRS 16 Leases (mandatory for years beginning 1 January 2019). This standard replaces the current guidance in IAS 17 on leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting remaining substantially unchanged from the IAS 17 approach;

- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (mandatory for years beginning on or after a date yet to be determined). The amendments require gains and losses resulting from transactions involving assets that do not constitute a business between and investor and its associate or joint venture to be recognised to the extent of the unrelated investors' interest in the associate or joint venture. Gains or losses from downstream transactions involving assets that constitute a business between an investor and its associate or joint venture should be recognised in full in the investor's financial statements;

Accounting Policies (continued)

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

- Amendments to IAS 40 Transfers of Investment Property (mandatory for years commencing on or after 1 January 2018). The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (mandatory for years commencing on or after 1 January 2018). IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability. The interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.
- IFRIC 23 Uncertainty over tax treatments (not yet endorsed by the EU; effective for periods beginning on or after 1 January 2019). The interpretation clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments.

The Group does not consider that any other standards, amendments or interpretations issued by the IASB, but not yet applicable, 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.

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 32.

Useful economic life of property, plant and equipment

In determining the useful economic life of property, plant and equipment judgement needs to be exercised in estimating the length of time that the assets will be operational. During the year the expected useful lives of items of property, plant and equipment in London Underground Ltd were reviewed, resulting in a change in some of the asset lives. More details are given in note 12.

Accounting Policies (continued)

h) Uses of estimates and judgements (continued)

Determining whether an arrangement contains a lease

In determining whether an arrangement contains a lease, as required by the International Financial Reporting Interpretations Committee's ('IFRIC') IFRIC 4 Determining whether an Arrangement contains a Lease, judgement needs to be exercised in determining whether the arrangement conveys the right to use an asset. Given that this could result in additional finance leases being recognised on the balance sheet this can have a significant effect on the reported financial position of the Group.

Derivative financial instruments

The Group uses derivative financial 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 31 and the Accounting Policy on financial instruments (policy ah) 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.

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

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 held by the Group. Given that finance lease obligations are recognised as liabilities, and operating lease obligations are not, this can have a significant effect on the reported financial position of the Group.

Provisions

Judgement and 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 27.

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.

Office buildings

Office buildings held within property, plant and equipment are held at fair value (open market value), as estimated by external, professionally qualified surveyors in accordance with RICS Guidelines. Movements in the fair value of the property are taken to the revaluation reserve.

Accounting Policies (continued)

i) Revenue recognition

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

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

Fares revenue

Revenue from annual or periodic tickets and travel cards is recognised in the Comprehensive Income and Expenditure Statement on a straight line basis over the period of validity of the ticket or travel card. Revenue received in advance and not recognised in the Comprehensive Income and Expenditure Statement is recorded in the balance sheet and held within current liabilities - receipts in advance for travel cards, bus passes and Oyster cards. Oyster pay as you go revenue is recognised on usage and one day travel cards and single tickets are recognised on the day of purchase.

Revenue in respect of free and reduced fare travel for the elderly and disabled

Revenue from the London Borough Councils in respect of free travel for the elderly and disabled is recognised on a straight line basis 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 area.

Income from penalty charge notices is recognised, net of a provision for 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 they become due. Each increase in charge results in income being recognised in full at the date the increase is applied.

Taxi licensing

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

Commercial advertising

Commercial advertising revenue is recognised on an accruals basis as adverts are displayed in accordance with the detail of the relevant agreements.

Rental income

Rental income is recognised on a straight line basis over the term of the lease.

j) Segmental reporting

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

Accounting Policies (continued)

j) Segmental reporting (continued)

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

- London Underground – Provision of passenger rail services and refurbishment and maintenance of certain parts of the rail network including Elizabeth Line;
- Buses – Provision of bus services
- Rail – Provision of passenger rail services through contracted third party operators;
- Streets – Maintenance of London's roads and cycle routes;
- Commerical Development - Property investment and commercial advertising; and
- Other operations – Provision of other operations, including Dial-a-Ride, London River Services, Taxi and Private Hire, Santander Cycles and Victoria Coach Station.

k) Grants and other funding

The main source of grant funding is a share of Business Rate Retention received from the Greater London Authority, which is classified as a resource grant; and specific capital grants from the Department for Transport and the Greater London Authority 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 grants 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.

l) Overheads

Overheads are recognised in the Comprehensive Income and Expenditure Statement on an accruals basis. The total absorption costing principles of the CIPFA Service Reporting Code of Practice 2016/17 (SERCOP) are not applicable to TfL as it is a single service authority.

m) Financing and investment income and expenses

Financing and investment income comprises interest income on funds invested and premiums 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 finance lease liabilities and the net financing cost on defined benefit pension obligations. Also included are premiums 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 x) Borrowing costs).

n) 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.

o) 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.

p) 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.

q) 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.

Accounting Policies (continued)

q) Intangible assets (continued)

Other intangible assets

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

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

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

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

Software costs	Straight-line	3-5 years

r) Property, plant and equipment

Recognition and measurement

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

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

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

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

Accounting Policies (continued)

r) Property, plant and equipment (continued)

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

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

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

Depreciation

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

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

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

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

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

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

During the current year, a review of the estimated useful lives of assets within London Underground Ltd resulted in revised useful lives of certain asset classes. This is reflected above as an increase in the useful lives of civil works assets within Tunnels and embankments and Bridges and viaducts from 100 years to 120 years. Further details provided in Note 12.

Accounting Policies (continued)

s) 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 the 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.

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

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

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

u) Investment in associated undertakings

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

Accounting Policies (continued)

v) 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.

w) 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.

x) 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.

y) Provisions

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

z) 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 ah) below for hedging accounting policies).

Accounting Policies (continued)

aa) Leases (the Group as lessee)

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Group's balance sheet.

Lease payments

Payments made under operating leases are recognised in the Comprehensive Income and Expenditure Statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Determining whether an arrangement contains a lease

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.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

ab) Leases (the Group as lessor)

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases and initial direct costs are recognised on a straight line basis over the term of the relevant lease.

Accounting Policies (continued)

ac) Private Finance Initiative ('PFI') transactions and similar contracts

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

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

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

Services received

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

Assets

Assets are recognised as property, plant and equipment or intangible assets when they come into use. The assets are measured initially at fair value in accordance with IAS 17 Leases.

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 IAS 17.

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 aa) above.

ad) Impairment of non-financial assets

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

Accounting Policies (continued)

ad) Impairment of non-financial assets (continued)

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.

ae) Employee benefits

Defined benefit 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.

Defined benefit plans (continued)

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 they occur. Remeasurement recognised in other comprehensive income will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit obligation or asset. Defined benefit costs are categorised between; (a) Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), (b) Net interest expense or income, and (c) Remeasurement. The Group presents the first two components in profit or loss within the surplus on the provision of services before tax. Curtailment gains and losses are accounted for as past service costs.

Multi-employer exemption

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

Group schemes under common control

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

Accounting Policies (continued)

ae) Employee benefits (continued)

Unfunded pension schemes

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

Defined contribution plans

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

Other employee benefits

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

af) 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 Available for Sale Reserve, the Financial Instruments Adjustment Account, the Retained Earnings Reserve in subsidiaries and the fixed asset Revaluation Reserve.

ag) Expenditure and Funding Analysis

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

Accounting Policies (continued)

ah) Financial instruments

Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement ('IAS 39') are classified as:

- Financial assets at fair value through the Comprehensive Income and Expenditure Statement; or
- loans and receivables; or
- available for sale financial assets.

Financial liabilities within the scope of IAS 39 are classified as either financial liabilities at fair value through the Comprehensive Income and Expenditure Statement or financial liabilities measured at amortised cost.

The Group determines the classification of its financial instruments at initial recognition and re-evaluates this designation when circumstances dictate. 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 their classification as follows:

Financial assets at fair value through the Comprehensive Income and Expenditure Statement (held for trading)

Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Assets are carried in the balance sheet at fair value with gains or losses recognised in the Comprehensive Income and Expenditure Statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, do not qualify as trading assets and have not been designated as either 'fair value through the Comprehensive Income and Expenditure Statement' or 'available for sale'. Such 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 loans and receivables are derecognised or impaired, as well as through the amortisation process.

The fair value of loans advanced to third parties at nil interest rate or below the prevailing market rate of interest is estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument. The loan is subsequently amortised up to its repayment amount using the effective rate of interest.

Accounting Policies (continued)

ah) Financial instruments (continued)

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as such or are not classified in any of the other categories. 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 the Available for Sale Reserve until the investment is derecognised, or until the investment is deemed to be impaired at which time the cumulative gain or loss previously reported in reserves is included in the Comprehensive Income and Expenditure Statement.

Other investments

Other investments include short and long-term deposits with Government or financial institutions, including Money Market Fund investments and Repurchase Agreements. Short-term investments are classified as loans and receivables. Long-term investments quoted in an active market are classified as available for sale financial assets.

Trade and other receivables

Trade and other receivables are classified as loans and receivables financial assets and are recognised initially at fair value and subsequently at amortised cost. For trade receivables this is after an allowance for estimated impairment. The allowance is based on objective evidence that the Group will not be able to recover all amounts due, through a review of all accounts and prior experience of collecting outstanding balances. Changes in the carrying amount of the allowance are recognised in the Comprehensive Income and Expenditure Statement.

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an outstanding maturity, at the date of acquisition, of less than or equal to three months. Other investments with an outstanding maturity at the date of acquisition of less than or equal to three months are classified as short-term investments on the basis that they are not readily convertible to cash without penalty.

Cash equivalents are classified as loans and receivables financial instruments.

Financial liabilities at fair value through the Comprehensive Income and Expenditure Statement (held for trading)

Derivative liabilities are classified as held for trading unless they are designated as hedging instruments. They are carried in the balance sheet at fair value with gains or losses recognised in the Comprehensive Income and Expenditure Statement.

Accounting Policies (continued)

ah) Financial instruments (continued)

Financial liabilities measured at amortised cost

All non-derivative financial liabilities are classified as financial liabilities measured at amortised cost. Non-derivative financial liabilities are initially recognised at the settlement date at the fair value of the consideration received, less directly attributable issue costs. After initial recognition, non-derivative financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Comprehensive Income and Expenditure Statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

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 finance leases and PFI arrangements

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

Derivative financial instruments

The Group uses derivative financial 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 policies, approved by the Board. Such derivative financial 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.

Accounting Policies (continued)

ah) Financial instruments (continued)

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 objective and strategy for undertaking the hedge, identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness. In addition, an instrument is only designated as a hedge when it is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk as designated and documented and where effectiveness is capable of reliable measurement.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Derivatives qualify for hedge accounting if changes in the fair value or cash flows of the hedging instrument attributable to the hedged risk are expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedged item on a prospective basis and on a retrospective basis where actual results are within a range of 80 per cent to 125 per cent. 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 in profit or loss in the periods when the hedged items (the hedged asset or liability) are recognised in the Comprehensive Income and Expenditure Statement. However, 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 included in the initial measurement of the cost of the related asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging instrument relationship, or 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.

Accounting Policies (continued)

ah) Financial instruments (continued)

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 7.

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 7.

Impairment of financial assets

Financial assets are assessed at each balance sheet date to determine whether there is any objective evidence that they are impaired. Individually significant financial assets are tested for impairment on an individual basis. All impairment losses 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 their risks and characteristics are not closely related to those of the host contracts, and the host contracts are not carried at fair value. Embedded derivatives are 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	2018 £m	% of total	2017 £m	% of total
Passenger income	**4,319.4**	**80.3**	4,365.7	80.9
Revenue in respect of free travel for the elderly and disabled	**325.0**	**6.0**	328.2	6.1
Congestion Charging	**229.8**	**4.3**	249.6	4.6
Charges to London Boroughs and Local Authorities	**12.5**	**0.2**	13.1	0.2
Charges to transport operators	**11.8**	**0.2**	13.4	0.2
Road Network compliance income	**49.2**	**0.9**	42.6	0.8
Commercial advertising receipts	**152.1**	**2.8**	142.1	2.6
Rents receivable	**73.8**	**1.4**	71.4	1.3
Contributions from third parties to operating costs	**59.4**	**1.1**	26.6	0.5
Taxi licensing	**27.0**	**0.5**	26.6	0.5
Ticket and photocard commission income	**24.9**	**0.5**	25.6	0.5
ATM and car parking income	**18.1**	**0.3**	17.2	0.3
Museum income	**8.9**	**0.2**	9.7	0.2
Training and specialist services	**4.3**	**0.1**	4.7	0.1
Cycle hire scheme	**11.1**	**0.2**	11.3	0.2
Other	**55.1**	**1.0**	51.4	1.0
	5,382.4	**100.0**	5,399.2	100.0

1. Gross income (continued)

b) Corporation gross income

	2018 £m	**% of total**	2017 £m	% of total
Congestion Charging	**229.8**	**59.1**	249.6	66.8
Charges to London Boroughs and Local Authorities	**11.6**	**3.0**	11.4	3.0
Road Network compliance income	**49.2**	**12.7**	42.6	11.4
Commercial advertising receipts	**6.3**	**1.6**	5.3	1.4
Rents receivable	**1.6**	**0.4**	1.6	0.4
Contributions from third parties to operating costs	**25.8**	**6.7**	3.3	0.9
Taxi licensing	**27.0**	**6.9**	26.6	7.1
Other	**37.5**	**9.6**	33.5	9.0
	388.8	**100.0**	373.9	100.0

c) Congestion charging

	Group and Corporation 2018 £m	Group and Corporation 2017 £m
Income	**229.8**	249.6
Toll facilities and traffic management	**(57.5)**	(74.8)
	172.3	174.8
Administration, support services and depreciation	**(16.4)**	(10.9)
Net income from Congestion Charging	**155.9**	163.9

The net revenues from the Congestion Charge are spent on improving transport in line with the Mayor's Transport Strategy.

1. Gross income (continued)

d) Street works

	Group and Corporation 2018 £m	Group and Corporation 2017 £m
Income	**6.1**	8.1
Allowable operating costs of managing the lane rental scheme	**(1.9)**	(1.6)
Application of Street Works Reserve to projects reducing the adverse effects caused by street works	**(2.4)**	(1.6)
Net income recognised within net cost of services	**1.8**	4.9
Allowable capital costs of managing the lane rental scheme	**(0.4)**	(0.8)
Net income for the year transferred to the Street Works Reserve	**1.4**	4.1

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

2. Segmental analysis

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 2018

	London Underground £m	Buses £m	Rail £m	Streets £m	Commercial Development £m	Other operations £m	Total per internal management reports £m	Central items £m	Total £m
Passenger income	2,632.0	1,453.0	507.0	-	-	51.0	4,643.0	1.4	4,644.4
Other operating income	36.0	13.0	21.0	314.0	251.0	115.0	750.0	(12.0)	738.0
Gross income	2,668.0	1,466.0	528.0	314.0	251.0	166.0	5,393.0	(10.6)	5,382.4
Direct operating cost	(2,136.0)	(2,104.0)	(539.0)	(499.0)	(47.0)	(265.0)	(5,590.0)	(161.3)	(5,751.3)
Indirect operating cost	(445.0)	(67.0)	(34.0)	(84.0)	-	(20.0)	(650.0)	-	(650.0)
Depreciation and amortisation	(696.0)	(47.0)	(139.0)	(142.0)	-	(90.0)	(1,114.0)	3.8	(1,110.2)
Gross expenditure	(3,277.0)	(2,218.0)	(712.0)	(725.0)	(47.0)	(375.0)	(7,354.0)	(157.5)	(7,511.5)
Net cost of services	(609.0)	(752.0)	(184.0)	(411.0)	204.0	(209.0)	(1,961.0)	(168.1)	(2,129.1)

2. Segmental analysis (continued)

Year ended 31 March 2017 (restated*)

	London Underground £m	Buses £m	Rail £m	Streets £m	Commercial Development £m	Other operations £m	Total per internal management reports £m	Central items £m	Total £m
Passenger income	2,669.0	1,474.0	503.0	-	-	48.0	4,694.0	(0.1)	4,693.9
Other operating income	36.0	13.0	20.0	323.0	222.0	103.0	717.0	(11.7)	705.3
Gross income	2,705.0	1,487.0	523.0	323.0	222.0	151.0	5,411.0	(11.8)	5,399.2
Direct operating cost	(2,108.0)	(2,086.0)	(539.0)	(571.0)	(41.0)	(209.0)	(5,554.0)	21.1	(5,532.9)
Indirect operating cost	(423.0)	(70.0)	(33.0)	(78.0)	-	(14.0)	(618.0)	-	(618.0)
Depreciation and amortisation	(679.0)	(45.0)	(132.0)	(134.0)	-	(97.0)	(1,087.0)	4.0	(1,083.0)
Gross expenditure	(3,210.0)	(2,201.0)	(704.0)	(783.0)	(41.0)	(320.0)	(7,259.0)	25.1	(7,233.9)
Net cost of services per the Funding and Expenditure Analysis	(505.0)	(714.0)	(181.0)	(460.0)	181.0	(169.0)	(1,848.0)	13.3	(1,834.7)

*Prior year figures have been restated to include Commercial Development as a separate operating segment

2. Segmental analysis (continued)

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" and 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.
- The capital elements (i.e. capital repayment and financing costs) relating to certain PFI contracts are included in the management reports in net operating expenditure but they are not included in net cost of services 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 amounts reported per internal management reports to those included in these statutory financial statements is included in the analyses below.

Reconciliation of net cost of services per internal management reports to net cost of services per the Comprehensive Income and Expenditure Statement for the year ended 31 March 2018

	Gross income £m	Gross expenditure £m	Net cost of services £m
Net cost of services per internal management reports	**5,393.0**	**(7,354.0)**	**(1,961.0)**
Central items:			
Amounts included in the Comprehensive Income and Expenditure Statement not reported in management reports			
Pension service costs (note 32)	**-**	**(599.8)**	**(599.8)**
Other Central items	**(10.6)**	**25.2**	**14.6**
	(10.6)	**(574.6)**	**(585.2)**
Amounts included in management reports not reported in the Comprehensive Income and Expenditure Statement			
Capital and interest payments under the PFI schemes	**-**	**42.6**	**42.6**
Pension payments charged to operating costs	**-**	**374.5**	**374.5**
	-	**417.1**	**417.1**
Net cost of services per the Comprehensive Income and Expenditure Statement	**5,382.4**	**(7,511.5)**	**(2,129.1)**

2. Segmental analysis (continued)

Reconciliation of net cost of services per internal management reports to net cost of services per the Comprehensive Income and Expenditure Statement for the year ended 31 March 2017 (restated)

	Gross income £m	Gross expenditure £m	Net cost of services £m
Net cost of services per internal management reports	5,411.0	(7,259.0)	(1,848.0)
Central items:			
Amounts included in the Comprehensive Income and Expenditure Statement not reported in management accounts			
Pension service costs (note 32)	-	(364.6)	(364.6)
Other Central items	(11.8)	23.9	12.1
	(11.8)	(340.7)	(352.5)
Amounts included in management reports not reported in the Comprehensive Income and Expenditure Statement			
Capital and interest payments under the PFI schemes	-	49.5	49.5
Pension payments charged to operating costs	-	316.3	316.3
	-	365.8	365.8
Net cost of services per the Comprehensive Income and Expenditure Statement	5,399.2	(7,233.9)	(1,834.7)

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 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.

3. Gross expenditure

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

	Note	**Group 2018 £m**	Group 2017 £m	**Corporation 2018 £m**	Corporation 2017 £m
Staff costs:					
Wages and salaries *		**1,494.4**	1,436.6	**324.8**	331.5
Social security costs		**161.8**	161.7	**33.2**	34.2
Pension costs	32	**594.4**	365.6	**326.6**	101.1
		2,250.6	1,963.9	**684.5**	466.8
Other service expenditure **		**4,150.7**	4,187.0	**468.3**	423.9
Depreciation	12	**1,042.6**	1,017.5	**127.7**	131.7
Amortisation of software intangibles	11	**67.5**	65.5	**42.0**	37.1
		7,511.4	7,233.9	**1,322.5**	1,059.5

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

** Included in the Corporation's other service expenditure is £183.4m (2016/17 £195.2m) relating to financial assistance to London Boroughs and other third parties (see note 39 for detailed analysis). Other service expenditure also includes payments made under operating leases for the year of £96.3m for the Group (2016/17 £104.1m) and of £26.9m (2016/17 £24.5m) for the Corporation.

The average number of persons employed in the year was:

	Group 2018 Number	Group 2017 Number	**Corporation 2018 Number**	Corporation 2017 Number
Permanent staff (including fixed term contracts)	**26,994**	27,131	**5,704**	5,810
Agency staff	**1,735**	2,679	**621**	861
	28,729	29,810	**6,325**	6,671

4. External audit fees

External audit fees are made up as follows:

	Group 2018 £m	Group 2017 £m	**Corporation 2018 £m**	Corporation 2017 £m
Auditor's remuneration:				
for statutory audit services	**0.9**	1.0	**0.2**	0.2
for non-statutory audit services	**-**	0.1	**-**	0.1
for non-audit services *	**-**	0.2	**-**	-
	0.9	1.3	**0.2**	0.3

* 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 of the Annual Report and Financial Statements.

6. Other operating expenditure

	Group 2018 £m	Group 2017 £m	Corporation 2018 £m	Corporation 2017 £m
Net loss on disposal of property, plant and equipment	**(46.7)**	(13.8)	**(1.2)**	(1.3)
Net loss on disposal of intangibles	**(0.6)**	-	**(0.6)**	-
Total other operating expenditure	**(47.3)**	(13.8)	**(1.8)**	(1.3)

7. Financing and investment income

	Note	Group 2018 £m	Group 2017 £m	Corporation 2018 £m	Corporation 2017 £m
Interest income on bank deposits and other investments		**7.5**	9.4	**7.3**	9.2
Interest income on loans to subsidiaries		**-**	-	**332.8**	315.5
Change in fair value of investment properties	13, 19	**41.7**	29.5	**0.6**	0.7
Net gain on disposal of investment properties		**19.0**	7.7	**15.8**	0.9
Interest receivable on finance lease debtors		**0.6**	0.1	**-**	-
Other investment income		**0.3**	-	**-**	-
		69.1	46.7	**356.5**	326.3

8. Financing and investment expenditure

	Note	**Group 2018 £m**	Group 2017 £m	**Corporation 2018 £m**	Corporation 2017 £m
Interest payable on loans and derivatives		**389.0**	371.4	**361.2**	340.3
Interest payable on finance lease liabilities		**35.4**	41.3	**6.8**	7.3
Contingent rentals on PFI contracts		**16.8**	17.1	**9.3**	8.7
Net interest on defined benefit obligation	32	**138.0**	110.5	**137.2**	110.1
Other financing and investment expenditure		**1.8**	1.6	**1.1**	1.1
		581.0	541.9	**515.6**	467.5
Less: amounts capitalised into qualifying assets	12	**(94.3)**	(108.6)	**-**	-
		486.7	433.3	**515.6**	467.5

9. Grant income

	Group 2018 £m	Group 2017 £m	Corporation 2018 £m	Corporation 2017 £m
Non ring-fenced resource grant from the DfT used to fund operations	**255.1**	311.2	**255.1**	311.2
Non ring-fenced Business Rates Retention from the GLA used to fund operations	**1,036.5**	854.3	**1,036.5**	854.3
Other revenue grant received	**50.8**	19.6	**50.8**	19.6
Council tax precept	**6.0**	6.0	**6.0**	6.0
Total grants allocated to revenue	**1,348.4**	1,191.1	**1,348.4**	1,191.1
Non ring-fenced resource grant from the DfT used to fund capital	**-**	163.2	**-**	163.2
Investment grant from the DfT used to fund capital	**-**	944.0	**-**	944.0
Non ring-fenced Business Rates Retention from the GLA used to fund capital	**777.8**	-	**777.8**	-
Community Infrastructure Levy used to fund capital expenditure	**100.4**	148.3	**100.4**	148.3
Other capital grants and contributions received	**250.3**	213.4	**213.6**	189.7
Total grants allocated to capital	**1,128.5**	1,468.9	**1,091.8**	1,445.2
Total grants	**2,476.9**	2,660.0	**2,440.2**	2,636.3

Allocation of capital grants

	Group 2018 £m	Group 2017 £m	Corporation 2018 £m	Corporation 2017 £m
Capital grant funding of subsidiaries	**-**	-	**560.2**	994.9
Applied capital grants (note 35)	**1,086.9**	2,633.2	**490.0**	1,614.6
Transfer to/(from) unapplied capital grants (note 36)	**41.6**	(1,164.3)	**41.6**	(1,164.3)
Total capital grants	**1,128.5**	1,468.9	**1,091.8**	1,445.2

10. Taxation

TfL Corporation is exempt from Corporation Tax but its subsidiaries are assessable individually to taxation in accordance with current tax legislation. All companies, with the exception of Crossrail Limited, are able to claim group relief.

a) Corporation Tax

The Group tax income for the year, based on the rate of Corporation Tax of 19 per cent (2016/17 20 per cent) comprised:

	Group 2018 £m	Group 2017 £m
UK Corporation Tax - current year charge	**-**	0.1
UK Corporation Tax - adjustments in respect of prior years	**(3.5)**	(6.6)
Total tax income for the year	**(3.5)**	(6.5)

Reconciliation of tax income

	Group 2018 £m	Group 2017 £m
Surplus on the provision of services before tax	**(179.8)**	320.1
Surplus on the provision of services before tax multiplied by standard rate of Corporation Tax in the UK of 19% (2016/17 20%)	**(34.2)**	64.0
Effects of:		
Non-taxable income / non-deductible expenses	**44.8**	(41.9)
Permanent difference in TfL Corporation	**10.2**	8.1
Amount charged to current tax for which no deferred tax was recognised	**(16.1)**	1.9
Utilisation of tax losses carried forward for which no deferred tax was recognised	**(5.7)**	(33.7)
Overseas earnings	**1.0**	1.7
Adjustments in respect of prior years	**(3.5)**	(6.6)
Total tax income for the year	**(3.5)**	(6.5)

10. Taxation (continued)

b) Unrecognised deferred tax assets

The Group has a potential net deferred tax asset of £1,467.3m (2017 £1,443.1m) in respect of the following items:

	Group 2018 £m	Group 2017 £m
Deductible temporary differences	**1,467.3**	572.0
Tax losses	**-**	871.1
Unrecognised deferred tax asset	**1,467.3**	1,443.1

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 of the 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 2018	Balance at 1 April 2017 £m	Movement in period £m	**Balance at 31 March 2018 £m**
Deferred tax assets			
Property, plant and equipment	57.2	22.8	**80.0**
Derivative financial instruments	23.2	(4.2)	**19.0**
Total	80.4	18.6	**99.0**
Deferred tax liabilities			
Investment properties	(78.1)	(6.8)	**(84.9)**
Assets held for sale	(2.3)	(11.8)	**(14.1)**
Total	(80.4)	(18.6)	**(99.0)**
Net deferred tax asset/(liability)	-	-	**-**

10. Taxation (continued)

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

For the year ended 31 March 2017	Balance at 1 April 2016 £m	Movement in period £m	Balance at 31 March 2017 £m
Deferred tax assets			
Property, plant and equipment	42.6	14.6	57.2
Derivative financial instruments	35.3	(12.1)	23.2
Total	77.9	2.5	80.4
Deferred tax liabilities			
Investment properties	(77.9)	(0.2)	(78.1)
Assets held for sale	-	(2.3)	(2.3)
Total	(77.9)	(2.5)	(80.4)
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 uplift recognised during the year.
- 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 and investment properties is the deferred tax movement on revaluation gains of £20.3m recognised in Other Comprehensive Income.
- The deferred tax asset arising in respect of derivative financial instruments has fallen due to movement in the fair value of derivatives.

10. Taxation (continued)

The Corporation Tax rate was reduced from 21 per cent to 20 per cent on 1 April 2015. On 18 November 2015, further legislation was enacted setting the Corporation Tax rate at 19 per cent for the years starting 1 April 2017, 2018 and 2019. In September 2016, the main rate of Corporation Tax was further reduced to 17 per cent from 1 April 2020. As the Group's deferred tax balances are not expected to be settled until after April 2020 deferred tax balances at 31 March 2018 have been calculated at the enacted rate of 17 per cent.

No deferred tax asset has been recognised on the Corporation's pension deficit of £4,799.8m 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 31March 2018, no deferred tax assets have been recognised in these entities.

11. Intangible assets

a) Group intangible assets

	Note	Software costs £m	Intangible assets under construction £m	Goodwill £m	Total £m
Cost					
At 1 April 2016		390.3	3.3	349.2	742.8
Additions		26.5	2.0	-	28.5
Net transfers from property, plant and equipment	12	14.8	39.5	-	54.3
Transfers between asset classes		41.9	(41.9)	-	-
Disposals		(15.0)	-	-	(15.0)
At 31 March 2017		458.5	2.9	349.2	810.6
Additions		**23.7**	**1.1**	**-**	**24.8**
Acquisitions		**-**	**-**	**2.6**	**2.6**
Net transfers from property, plant and equipment	12	**19.0**	**(0.2)**	**-**	**18.8**
Disposals		**(44.7)**	**-**	**-**	**(44.7)**
At 31 March 2018		**456.5**	**3.8**	**351.8**	**812.1**
Amortisation and impairment					
At 1 April 2016		270.8	-	349.2	620.0
Amortisation charge for the year	3	65.5	-	-	65.5
Disposals		(15.0)	-	-	(15.0)
At 31 March 2017		321.3	-	349.2	670.5
Amortisation charge for the year	3	**67.5**	**-**	**-**	**67.5**
Disposals		**(44.1)**	**-**	**-**	**(44.1)**
At 31 March 2018		**344.7**	**-**	**349.2**	**693.9**
Net book value at 31 March 2018		**111.8**	**3.8**	**2.6**	**118.2**
Net book value at 31 March 2017		137.2	2.9	-	140.1

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

11. Intangible assets (continued)

b) Corporation intangible assets

	Note	Software costs £m	Intangible assets under construction £m	Total £m
Cost				
At 1 April 2016		216.4	0.4	216.8
Additions		21.1	0.2	21.3
Net transfers from property, plant and equipment	12	13.3	39.5	52.8
Transfers between asset classes		39.9	(39.9)	-
Disposals		(14.1)	-	(14.1)
At 31 March 2017		276.6	0.2	276.8
Additions		**16.3**	**0.2**	**16.5**
Net transfers from property, plant and equipment	12	**5.8**	**-**	**5.8**
Transfers between asset classes		**0.1**	**(0.1)**	**-**
Disposals		**(7.7)**	**-**	**(7.7)**
At 31 March 2018		**291.1**	**0.3**	**291.4**
Amortisation and impairment				
At 1 April 2016		154.3	-	154.3
Amortisation charge for the year	3	37.1	-	37.1
Disposals		(14.0)	-	(14.0)
At 31 March 2017		177.4	-	177.4
Amortisation charge for the year	3	**42.0**	**-**	**42.0**
Disposals		**(7.2)**	**-**	**(7.2)**
At 31 March 2018		**212.2**	**-**	**212.2**
Net book value at 31 March 2018		**78.9**	**0.3**	**79.2**
Net book value at 31 March 2017		99.2	0.2	99.4

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

12. Property, plant and equipment

a) Group property, plant and equipment at 31 March 2018 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 2017		31,613.1	5,243.8	1,863.6	13,838.8	52,559.3
Additions		**124.2**	**105.7**	**30.6**	**3,312.7**	**3,573.2**
Transfers to intangible assets	11	**(10.4)**	**-**	**-**	**(8.4)**	**(18.8)**
Disposals		**(102.5)**	**-**	**(14.9)**	**-**	**(117.4)**
Transfers to investment properties	13	**(1.0)**	**-**	**-**	**-**	**(1.0)**
Transfers between asset classes		**974.6**	**146.1**	**38.3**	**(1,159.0)**	**-**
Revaluation		**6.2**	**-**	**-**	**-**	**6.2**
At 31 March 2018		**32,604.2**	**5,495.6**	**1,917.6**	**15,984.1**	**56,001.5**
Depreciation						
At 1 April 2017		12,407.0	2,095.7	1,217.7	-	15,720.4
Depreciation charge for the year	3	**788.5**	**138.1**	**116.0**	**-**	**1,042.6**
Disposals		**(26.0)**	**-**	**(14.6)**	**-**	**(40.6)**
Transfers to investment properties	13	**(0.8)**	**-**	**-**	**-**	**(0.8)**
Revaluation		**(14.1)**	**-**	**-**	**-**	**(14.1)**
At 31 March 2018		**13,154.6**	**2,233.8**	**1,319.1**	**-**	**16,707.5**
Net book value at 31 March 2018		**19,449.6**	**3,261.8**	**598.5**	**15,984.1**	**39,294.0**
Net book value at 31 March 2017		19,206.1	3,148.1	645.9	13,838.8	36,838.9

12. Property, plant and equipment (continued)

b) Group property, plant and equipment at 31 March 2017 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 2016		30,263.9	5,210.6	1,742.1	12,064.0	49,280.6
Additions		205.2	4.9	95.7	3,235.1	3,540.9
Net transfers to intangible assets	11	-	-	(13.7)	(40.6)	(54.3)
Disposals		(138.4)	(3.9)	(42.6)	-	(184.9)
Transfers to investment property	13	(13.5)	-	-	-	(13.5)
Transfers between asset classes		1,305.4	32.2	82.1	(1,419.7)	-
Revaluation		(9.5)	-	-	-	(9.5)
At 31 March 2017		31,613.1	5,243.8	1,863.6	13,838.8	52,559.3
Depreciation						
At 1 April 2016		11,846.0	1,963.3	1,068.7	-	14,878.0
Depreciation charge for the year	3	671.9	133.4	212.2	-	1,017.5
Disposals		(127.2)	(1.0)	(41.2)	-	(169.4)
Transfers between asset classes		22.0	-	(22.0)	-	-
Revaluation		(5.7)	-	-	-	(5.7)
At 31 March 2017		12,407.0	2,095.7	1,217.7	-	15,720.4

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

Borrowing costs are included in the costs of qualifying assets to the extent that the asset is funded by borrowings. As a result, the total borrowing costs capitalised during the year were £94.3m (2017 £108.6m). The cumulative borrowing costs capitalised are £506.2m (2017 £411.9m).

At 31 March 2018, the Group had capital commitments which are contracted for but not provided for in the financial statements amounting to £2,034.4m (2017 £2,854.6m).

12. 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 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**
Other leased assets	**-**	**407.7**	**-**	**407.7**
	976.6	**453.0**	**16.7**	**1,446.3**
Depreciation				
PFI assets	**471.6**	**41.4**	**16.7**	**529.7**
Other leased assets	**-**	**168.9**	**-**	**168.9**
	471.6	**210.3**	**16.7**	**698.6**
Net book value at 31 March 2018	**505.0**	**242.7**	**-**	**747.7**
Net book value at 31 March 2017	562.1	256.9	-	819.0

d) Depreciation charge

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

	2018 £m	2017 £m
Depreciation of owned assets	**960.1**	972.4
Depreciation of assets held under PFI	**70.6**	33.2
Depreciation of assets held under other leases	**11.9**	11.9
Total depreciation	**1,042.6**	1,017.5

During the year a review of the London Underground Limited asset register was performed with the objective of rationalising the current asset pools and reassessing their useful lives. As a result of this excercise, the estimated useful lives of certain assets were revised to better reflect the economic reality of the lifespan over which these assets will be used. This has been accounted for prospectively as a change in estimate, resulting in a increase in depreciation in the current year of £4.2m.

12. Property, plant and equipment (continued)

e) Group office buildings

The fair value of office buildings at 31 March 2018 has been arrived at on the basis of a valuation carried out at that date by Cushman & Wakefield, a property valuation company not connected with the Group, and by chartered surveyors working for TfL. Values are calculated under level 3 of the fair value hierarchy using a discounted cash flow approach and are based on current rental income plus anticipated uplifts at the next rent review, lease expiry or break option, taking into consideration lease incentives. Uplifts and the discount rate are derived from rates implied by recent market transactions on similar properties. In estimating fair value, the highest and best use of the properties is assumed to be their current use. There were no transfers of properties in or out of level 3 of the fair value hierarchy during the year (2016/17 none).

Properties are valued in accordance with the RICS Valuation – Professional Standards UK January 2014 (revised April 2015) 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 2018 was £318.3m (2017 £313.3m) and the depreciated historic cost value was £32.2m (2017 £32.5m). A related revaluation gain for the year of £20.3m (2016/17 a loss of £3.8m) 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 the 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. 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 2018, the latest available insurance value for the collection was £36.2m (2017 £36.5m). The net book value of these assets at 31 March 2018 was £nil (2017 £nil).

12 Property, plant and equipment (continued)

g) Corporation property, plant and equipment at 31 March 2018 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 2017		4,990.5	200.9	991.8	6,183.2
Additions		**76.0**	**0.9**	**169.2**	**246.1**
Net transfers to intangible assets	11	**-**	**-**	**(5.8)**	**(5.8)**
Transfers between asset classes		**84.2**	**2.2**	**(86.4)**	**-**
Disposals		**(1.2)**	**-**	**-**	**(1.2)**
At 31 March 2018		**5,149.5**	**204.0**	**1,068.8**	**6,422.3**
Depreciation					
At 1 April 2017		2,220.3	133.0	-	2,353.3
Depreciation charge for the year	3	**107.3**	**20.4**	**-**	**127.7**
At 31 March 2018		**2,327.6**	**153.4**	**-**	**2,481.0**
Net book value at 31 March 2018		**2,821.9**	**50.6**	**1,068.8**	**3,941.3**
Net book value at 31 March 2017		2,770.2	67.9	991.8	3,829.9

12 Property, plant and equipment (continued)

h) Corporation property, plant and equipment at 31 March 2017 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 2016		4,817.8	207.5	1,030.4	6,055.7
Additions		150.7	6.5	107.2	264.4
Transfers from intangible assets	11	-	(13.3)	(39.5)	(52.8)
Transfers between asset classes		66.1	40.2	(106.3)	-
Disposals		(44.1)	(40.0)	-	(84.1)
At 31 March 2017		4,990.5	200.9	991.8	6,183.2
Depreciation					
At 1 April 2016		2,158.7	145.9	-	2,304.6
Depreciation charge for the year	3	105.8	25.9	-	131.7
Disposals		(44.2)	(38.8)	-	(83.0)
At 31 March 2017		2,220.3	133.0	-	2,353.3

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 (2017 £nil). The cumulative borrowing costs capitalised are also £nil (2017 £nil).

At 31 March 2018, the Corporation had capital commitments which are contracted for but not provided for in the financial statements amounting to £65.3m (2017 £129.1m).

12. 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	**88.3**	**16.7**	**105.0**
Net book value at 31 March 2018	**120.8**	**-**	**120.8**
Net book value at 31 March 2017	123.4	-	123.4

j) Depreciation charge

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

	2018 £m	2017 £m
Depreciation of owned assets	**125.1**	129.0
Depreciation of assets held under PFI	**2.6**	2.7
Total depreciation	**127.7**	131.7

k) Corporation office buildings

The Corporation did not have any office buildings.

13. Investment properties

	Note	Group £m	Corporation £m
Valuation			
At 1 April 2016		517.7	13.0
Additions		16.0	-
Transfers to assets held for sale		(15.0)	(1.5)
Transfers from property, plant and equipment		13.5	-
Disposals		(3.7)	(1.4)
Fair value adjustments	7	29.5	0.7
At 31 March 2017		558.0	10.8
Additions		**0.4**	**-**
Acquired through business combinations	34	**11.5**	**-**
Transfers to assets held for sale	19	**(72.9)**	**-**
Transfers from property, plant and equipment	12	**0.2**	**-**
Disposals		**(1.0)**	**(0.4)**
Fair value adjustments	7	**41.0**	**0.6**
At 31 March 2018		**537.2**	**11.0**

The fair value of the Group's investment properties at 31 March 2018 has been arrived at on the basis of valuations at that date by Cushman & Wakefield, a property valuation company not connected with the Group, and by chartered surveyors working for TfL. Values are calculated under level 3 of the fair value hierarchy using a discounted cash flow approach and are based on current rental income plus anticipated uplifts at the next rent review, lease expiry or break option, taking into consideration lease incentives. Uplifts and the discount rate are derived from rates implied by recent market transactions on similar properties. In estimating fair value, the highest and best use of the properties is assumed to be their current use. There were no transfers of properties in or out of level 3 of the fair value hierarchy during the year (2016/17 none).

Properties are valued in accordance with the RICS Valuation – Professional Standards UK January 2014 (revised April 2015) 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 every three years. Properties with a value in excess of £100,000 but less than £250,000 are revalued every five years. Between formal valuations fair values are adjusted by the application of annual indexation.

14. Investments in subsidiaries

	Corporation 2018 £m	Corporation 2017 £m
At 1 April	**8,562.5**	7,262.5
Investments in year	**200.0**	1,300.0
At 31 March	**8,762.5**	8,562.5

During the year, the Corporation increased its investment in the ordinary share capital of Transport Trading Limited (TTL) by £200.0m (2016/17 £1,300.0m). TTL subsequently increased its investment in the ordinary share capital of Crossrail Limited by the same amount.

14. 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	Maintenance of underground lines
LUL Nominee SSL Limited	Maintenance of underground lines
Rail for London Limited	Passenger transport by rail
Rail for London (Infrastructure) Limited	Maintenance of overground rail lines
TfL Trustee Company Limited	Pension Fund Trustee
Tramtrack Croydon Limited	Passenger transport by tram
Transport for London Finance Limited	Manages financial risk of the Group
Transport Trading Limited	Holding company
TTL Blackhorse Road Properties Limited*	Dormant company
TTL Earls Court Properties Limited	Holding company
TTL Kidbrooke Properties Limited*	Holding company
TTL Landmark Court Properties Limited*	Dormant company
TTL Properties Limited	Holding company
TTL Southwark Properties Limited**	Property investment
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

The Group holds 100 per cent of the share capital of all subsidiaries. All companies 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.

*Incorporated during the year

**Acquired during the year

15. 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.

In early 2015, ECP commenced trading and, on 2 April 2015, the Group granted a 999 year lease over land at Earl's Court into ECP. During 2015/16 the Group invested share capital and non-interest bearing loans totalling £447.1m 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. During 2017/18 the Group invested an additional £1.37m in loan notes of ECP.

The financial year end of Earls Court Partnership Limited is 31 December. For the purposes of applying the equity method of accounting, the financial statements of Earls Court Partnership Limited for the year ended 31 December 2017 have been used, and appropriate adjustments made for the effects of significant transactions between that date and 31 March 2018. Of the total £1.37m loan notes acquired during the year, £1.1m were issued after the entity's year end and have therefore been adjusted in the investment balance below.

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

Balance sheet of Earls Court Partnership Limited at the 100% level

	Group 2018 £m	Group 2017 £m
Short-term assets	**5.7**	5.9
Long-term assets	**890.5**	1,035.0
Short-term liabilities	**(8.4)**	(6.7)
Long-term liabilities	**(61.4)**	(39.1)

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

	Group 2018 £m	Group 2017 £m
Net assets at 100%	**826.4**	995.1
Percentage held by the TfL Group	**37%**	37%
TfL Group share of net assets	**305.8**	368.2
Acquisition of loan notes after 31 December 2017	**1.1**	-
Carrying amount of the Group's equity interest in Earls Court Partnership Limited	**306.9**	368.2

15. Investment in associates (continued)

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

	Group 2018 £m	Group 2017 £m
Group share of (loss)/profit from continuing operations	**(62.7)**	(104.8)
Group share of other comprehensive income	**-**	-
Total Group share of comprehensive income and expenditure for the year	**(62.7)**	(104.8)

b) Kidbrooke Partnership LLP

During the year the Group acquired a 49 per cent holding in the members' interest of Kidbrooke Partnership LLP (KP LLP), a property development partnership, for a cash consideration of £12.1m. The investment was purchased through a newly incorporated subsidiary of the Group, TTL Kidbrooke 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 KP LLP. The Group's investment is therefore accounted for using the equity method in these consolidated accounts.

In late January 2018, KP LLP commenced trading and the Group granted a 299 year lease over the land lying to the South East of Kidbrooke Park Road to KP LLP for a consideration of £17.0m. The financial year end of KP LLP is 31 March.

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

Balance sheet of Kidbrooke Partnership LLP at the 100% level

	Group 2018 £m
Short-term assets	**24.8**
Long-term assets	**-**
Short-term liabilities	**-**
Long-term liabilities	**-**

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

	Group 2018 £m
Net assets at 100%	**24.8**
Percentage held by the TfL Group	**49%**
Carrying amount of the Group's equity interest in Kidbrooke Properties LLP	**12.1**

There were no post-acquisition transactions in KP LLP and therefore no impact on Group consolidated profits relating to the associate.

16. 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.

	2018 £m	2017 £m
Principal outstanding		
Short-term	**8.2**	0.9
Long-term	**17.4**	3.5
	25.6	4.4

17. Inventories

	Group 2018 £m	Group 2017 £m
Raw materials and consumables	**63.3**	70.2
Goods held for resale	**0.9**	1.5
	64.2	71.7

	Corporation 2018 £m	Corporation 2017 £m
Raw materials and consumables	**-**	0.8

There is no material difference between the balance sheet value of inventories and their net realisable value.

17. Inventories (continued)

The movement on inventories was as follows:

	Group £m	Corporation £m
Balance at 1 April 2016	70.6	2.2
Purchases in the year	82.7	0.1
Recognised as an expense in the year:		
Consumed in the year	(80.5)	(1.5)
Goods sold in the year	(1.3)	-
Net write-backs in the year	0.2	-
Balance at 31 March 2017	71.7	0.8
Purchases in the year	**73.2**	**-**
Recognised as an expense in the year:		
Consumed in the year	**(80.0)**	**-**
Goods sold in the year	**(1.5)**	**-**
Net write-backs/(write-offs) in the year	**0.8**	**(0.8)**
Balance at 31 March 2018	**64.2**	**-**

18. Debtors

	Group 2018 £m	Group 2017 £m
Short-term		
Trade debtors	**125.3**	138.5
Capital debtors	**10.2**	9.8
Other debtors	**54.2**	1,319.2
Other tax and social security	**92.1**	81.2
Grant debtors	**69.4**	65.2
Interest debtors	**0.7**	0.3
Accrued income	**97.8**	85.4
Prepayments for goods and services	**90.9**	120.6
	540.6	1,820.2
Long-term		
Other debtors	**10.3**	8.9
Prepayments for goods and services	**17.4**	16.9
	27.7	25.8

Short and long-term other debtors for 2016/17 included funds totalling £1,268.2m advanced to Network Rail Infrastructure Limited to provide interim financing for the construction of assets related to the Crossrail project. The financing was fully repaid during year (£17.2m repaid in 2016/17). For 2016/17, this receivable was non- interest bearing and was discounted to its fair value of £1,264.8m using a discount rate of 0.633 per cent.

18. Debtors (continued)

	Corporation 2018 £m	Corporation 2017 £m
Short-term		
Trade debtors	**30.3**	18.0
Amounts due from subsidiary companies	**674.4**	618.8
Capital debtors	**10.2**	4.6
Other debtors	**5.0**	2.6
Other tax and social security	**11.9**	8.7
Grant debtors	**66.2**	60.5
Interest debtors	**0.6**	0.3
Accrued income	**66.2**	72.5
Prepayments for goods and services	**19.7**	23.0
	884.5	809.0
Long-term		
Loans made to subsidiary companies	**9,988.0**	9,369.3
Other debtors	**0.2**	0.2
Prepayments for goods and services	**4.2**	2.8
	9,992.4	9,372.3

Long-term loans made to subsidiary companies accrue market rates of interest reflecting rates achieved on debt issued to third parties by the Corporation. The average rate of interest accruing on loans outstanding at 31 March 2018 was 3.9 per cent (2017 3.9 per cent).

19. Assets held for sale

	Note	Group £m	Corporation £m
Balance at 1 April 2016		-	-
Investment properties		15.0	1.5
Disposals:		-	-
Investment properties		-	-
Balance at 31 March 2017		15.0	1.5
Assets newly classified as held for sale:			
Investment properties	13	**72.9**	**-**
Revaluation gains/(losses)	7	**0.7**	**-**
Disposals:			
Investment properties		**(5.4)**	**(1.5)**
Balance at 31 March 2018		**83.2**	**-**

As at 31 March 2018, certain development sites and surplus land were being actively marketed for sale. Disposals are expected to complete within the next 12 months.

20. Other investments

	Group 2018 £m	Group 2017 restated £m*
Short-term		
Investments held at amortised cost	**696.8**	1,024.6

	Corporation 2018 £m	Corporation 2017 restated £m*
Short-term		
Investments held at amortised cost	**669.8**	1,014.9

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

*Certain short term investments have been reclassified to cash and cash equivalents in the current year as they have a maturity of less than three months. Prior year figures have been restated for comparability.

21. Cash and cash equivalents

	Group 2018 £m	Group 2017 restated £m*
Cash at bank	**162.7**	187.1
Short term investments with maturity less than three months	**1,045.6**	726.6
Cash in hand and in transit	**26.7**	23.1
	1,235.0	936.8

	Corporation 2018 £m	Corporation 2017 restated £m*
Cash at bank	**56.8**	81.8
Short term investments with maturity less than three months	**1,045.6**	726.6
	1,102.4	808.4

* Short term investments are largely comprised of money market funds. These have been reclassified to cash and cash equivalents in the current year as they have a maturity of less than three months. Prior year figures have been restated for comparability.

22. Creditors

	Group 2018 £m	Group 2017 £m
Short-term		
Trade creditors	**132.2**	157.0
Accrued interest	**187.3**	98.4
Capital works	**818.8**	650.1
Retentions on capital contracts	**4.8**	6.3
Capital grants received in advance	**36.5**	99.1
Wages and salaries	**94.5**	99.9
Other taxation and social security creditors	**43.8**	44.0
Receipts in advance for travelcards, bus passes and Oyster cards	**402.3**	426.1
Other deferred income	**63.1**	57.9
Accruals and other payables	**565.3**	507.8
	2,348.6	2,146.6
Long-term		
Trade creditors	**0.2**	8.0
Capital grants received in advance	**4.0**	3.8
Retentions on capital contracts	**17.2**	13.2
Other deferred income	**36.7**	23.6
Accruals and other payables	**7.6**	7.9
	65.7	56.5

22. Creditors (continued)

	Corporation 2018 £m	Corporation 2017 £m
Short-term		
Trade creditors	**46.5**	28.3
Accrued interest	**184.3**	93.6
Capital works	**71.7**	71.4
Capital grants received in advance	**36.5**	93.4
Amounts due to subsidiary companies	**71.9**	162.0
Wages and salaries	**20.4**	19.2
Other taxation and social security creditors	**1.6**	2.9
Other deferred income	**19.0**	14.2
Accruals and other payables	**214.9**	154.2
	666.8	639.2
Long-term		
Capital grants received in advance	**4.0**	3.8
Other deferred income	**12.9**	12.4
	16.9	16.2

23. Borrowings and overdrafts

	Group 2018 £m	Group 2017 £m
Short-term		
Borrowings	**846.1**	1,105.7
Bank overdraft	**0.1**	-
	846.2	1,105.7
Long-term		
Borrowings	**9,569.4**	8,689.6

	Corporation 2018 £m	Corporation 2017 £m
Short-term		
Borrowings	**846.1**	1,105.7
Bank overdraft	**-**	-
	846.1	1,105.7
Long-term		
Borrowings	**9,576.0**	8,696.8

Further information about the maturity and interest rate profiles of the Group and Corporation's borrowings is provided in note 31 (Funding and financial risk management).

We have a number of loan facilities with the European Investment Bank (EIB) and Export Development Canada (EDC), which contribute to the financing of a range of our projects. These facilities support contracts and projects including the Crossrail rolling stock and depot contract, Victoria and Bank station upgrades, cycling infrastructure and track replacements.

During the year, we signed a new £250 million 10 year corporate loan facility with EDC to finance part of the procurement of Automatic Train Control signalling for the District, Metropolitan, Circle and Hammersmith & City lines.

A total of £950 million was drawn under our EIB and EDC facilities at fixed interest rates during the year. A further £250m was fixed for drawdown in 2018/19 and a total of £200 million remains available for drawdown in future years. These borrowings are expected to form part of our incremental borrowing agreed with Government and have not been recognised as a liability in these financial statements in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

In addition to these loan facilities we continue to manage borrowings from a number of other sources, including the Public Works Loans Board (PWLB) and the capital markets. We use our active £2bn Commercial Paper programme throughout the year to manage our liquidity requirements.

23. Borrowings and overdrafts (continued)

Changes in liabilities arising from financing activities

	Group 2018 £m	Group 2017 £m
Balance at 1 April 2017		
Current	**1,182.4**	926.4
Non-current	**9,177.7**	8,845.8
	10,360.1	9,772.2
Additions	**961.3**	733.4
Repayment of borrowings	**(342.8)**	(53.0)
Repayment of finance leases	**(76.8)**	(94.3)
Other movements*	**1.8**	1.8
As at 31 March 2018	**10,903.6**	10,360.1
Current	**916.1**	1,182.4
Non-current	**9,987.5**	9,177.7
	10,903.6	10,360.1

	Corporation 2018 £m	Corporation 2017 £m
Balance at 1 April 2017		
Current	**1,117.1**	843.2
Non-current	**8,838.9**	8,442.3
	9,956.0	9,285.5
Additions	**961.3**	733.4
Repayment of borrowings	**(342.8)**	(53.0)
Repayment of finance leases	**(11.4)**	(11.1)
Other movements*	**1.1**	1.2
As at 31 March 2018	**10,564.2**	9,956.0
Current	**856.9**	1,117.1
Non-current	**9,707.3**	8,838.9
	10,564.2	9,956.0

*Other movements are non-cash relating to unwinding of discounts and fees

24. Finance lease liabilities

a) Group finance lease liabilities

The Group holds a proportion of its property, plant and equipment under finance lease arrangements as outlined in note 12.

Finance lease liabilities on the balance sheet are calculated as the present value of minimum lease payments outstanding.

	Minimum lease payments £m	Interest £m	Principal (present value of minimum lease payments) £m
At 31 March 2018			
Not later than one year	**100.5**	**(30.6)**	**69.9**
Later than one year but not later than two years	**96.4**	**(26.2)**	**70.2**
Later than two years but not later than five years	**150.4**	**(58.9)**	**91.5**
Later than five years	**316.3**	**(59.8)**	**256.5**
	663.6	**(175.5)**	**488.1**
At 31 March 2017			
Not later than one year	112.1	(35.4)	76.7
Later than one year but not later than two years	100.5	(30.7)	69.8
Later than two years but not later than five years	236.6	(67.6)	169.0
Later than five years	327.4	(78.1)	249.3
	776.6	(211.8)	564.8

	2018 £m	2017 £m
Principal outstanding		
Short-term	**69.9**	76.7
Long-term	**418.2**	488.1
	488.1	564.8

24. Finance lease liabilities (continued)

b) Corporation finance lease liabilities

The Corporation holds a proportion of its property, plant and equipment under finance lease arrangements as outlined in note 12.

Finance lease liabilities on the balance sheet are calculated as the present value of minimum lease payments outstanding.

	Minimum lease payments £m	Interest £m	Principal (present value of minimum lease payments) £m
At 31 March 2018			
Not later than one year	**17.0**	**(6.2)**	**10.8**
Later than one year but not later than two years	**16.7**	**(5.7)**	**11.0**
Later than two years but not later than five years	**43.7**	**(14.5)**	**29.2**
Later than five years	**104.9**	**(13.8)**	**91.1**
	182.3	**(40.2)**	**142.1**
At 31 March 2017			
Not later than one year	18.2	(6.8)	11.4
Later than one year but not later than two years	17.0	(6.2)	10.8
Later than two years but not later than five years	45.5	(15.8)	29.7
Later than five years	119.9	(18.3)	101.6
	200.6	(47.1)	153.5

	2018 £m	2017 £m
Principal outstanding		
Short-term	**10.8**	11.4
Long-term	**131.3**	142.1
	142.1	153.5

25. Private finance initiative contracts

Private Finance Initiative contracts

The Group is party to the following Private Finance Initiative (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 IFRIC 12 Service Concession Arrangements.

The Group therefore recognises PFI assets as items of plant, property and equipment together with a liability to pay for them (see note 12 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.

25. Private finance initiative contracts (continued)

Contract	Contract dates	Description
London Underground Limited (LU)		
Connect	1999 to 2019 with a voluntary break option on provision of 12 months' written notice	Design, installation, management and maintenance of an integrated digital radio system. The contract requires 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 with a voluntary break option on provision of 12 months' written notice	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.

25. Private finance initiative contracts (continued)

PFI finance lease liabilities

The following PFI finance lease liabilities are included within total finance lease liabilities in note 24.

	Group 2018 £m	Group 2017 £m	Corporation 2018 £m	Corporation 2017 £m
At 1 April	**292.5**	363.5	**152.6**	162.7
Payments	**(72.8)**	(90.3)	**(17.1)**	(17.2)
Interest	**15.2**	19.3	**6.6**	7.1
At 31 March	**234.9**	292.5	**142.1**	152.6

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 2018				
Less than 1 year	**11.9**	**55.3**	**71.0**	**138.2**
Between 2 to 5 years	**23.5**	**88.6**	**174.0**	**286.1**
Between 6 to 10 years	**13.1**	**78.4**	**156.2**	**247.7**
Between 11 to 15 years	**0.8**	**12.6**	**47.3**	**60.7**
	49.3	**234.9**	**448.5**	**732.7**
At 31 March 2017				
Less than 1 year	15.2	57.7	86.3	159.2
Between 2 to 5 years	31.0	133.1	210.2	374.3
Between 6 to 10 years	16.4	75.3	162.5	254.2
Between 11 to 15 years	1.9	26.4	76.0	104.3
	64.5	292.5	535.0	892.0

25. 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 2018				
Less than 1 year	**6.2**	**10.8**	**19.9**	**36.9**
Between 2 to 5 years	**20.2**	**40.3**	**104.5**	**165.0**
Between 6 to 10 years	**13.1**	**78.4**	**156.2**	**247.7**
Between 11 to 15 years	**0.8**	**12.6**	**47.3**	**60.7**
	40.3	**142.1**	**327.9**	**510.3**
At 31 March 2017				
Less than 1 year	6.6	10.5	18.9	36.0
Between 2 to 5 years	22.0	40.5	90.1	152.6
Between 6 to 10 years	16.4	75.2	161.8	253.4
Between 11 to 15 years	1.9	26.4	76.0	104.3
	46.9	152.6	346.8	546.3

26. Derivative financial instruments

Group cash flow hedges

	Fair value 2018 £m	Notional amount 2018 £m	Fair value 2017 £m	Notional amount 2017 £m
Long-term assets				
Interest rate swaps	**7.0**	**96.0**	5.7	96.0
Foreign currency forward contracts	**4.7**	**134.4**	12.5	92.1
	11.7	**230.4**	18.2	188.1
Short-term assets				
Foreign currency forward contracts	**5.9**	**502.2**	12.3	234.5
Short-term liabilities				
Interest rate swaps	**0.7**	**100.0**	2.9	250.0
Foreign currency forward contracts	**0.8**	**94.9**	0.7	201.6
	1.5	**194.9**	3.6	451.6
Long-term liabilities				
Interest rate swaps	**50.4**	**482.9**	77.2	581.5
Foreign currency forward contracts	**1.6**	**30.9**	2.0	93.5
	52.0	**513.8**	79.2	675.0

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

27. Provisions

a) Group provisions

	At 1 April 2017 £m	Payments in the year £m	Charge for the year £m	Releases in the year £m	**At 31 March 2018 £m**
Compensation and contractual	61.9	(8.1)	158.5	(8.9)	**203.4**
Capital investment activities	99.2	(21.9)	8.6	(4.9)	**81.0**
Environmental harm	1.4	-	-	-	**1.4**
Severance and other	75.4	(39.5)	113.5	(16.8)	**132.6**
	237.9	(69.5)	280.6	(30.6)	**418.4**

	2018 £m	2017 £m
Due		
Short-term	**334.1**	194.3
Long-term	**84.3**	43.6
At 31 March	**418.4**	237.9

27. Provisions (continued)

b) Corporation provisions

	At 1 April 2017 £m	Payments in the year £m	Charge for the year £m	Releases in the year £m	**At 31 March 2018 £m**
Compensation and contractual	19.3	(4.1)	7.5	(0.1)	**22.6**
Capital investment activities	99.2	(21.9)	8.6	(4.9)	**81.0**
Severance and other	28.2	(30.8)	59.8	(11.3)	**45.9**
	146.7	(56.8)	75.9	(16.3)	**149.5**

	2018 £m	2017 £m
Due		
Short-term	**124.5**	113.4
Long-term	**25.1**	33.3
At 31 March	**149.6**	146.7

27. 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 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.

28. 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.

29. Guarantees

Section 160 of the Greater London Authority Act 1999 (the 'GLA Act') sets out the conditions under which TfL 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.

TfL has given guarantees in respect of some of its subsidiary companies' contracts. The amount that could be payable by TfL 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 CityLink Telecommunications Ltd	502
Agreements with QW Rail Leasing Ltd	380
Agreement with London Rail Leasing Ltd	55
Agreement with Pittville Leasing Ltd	51
Agreement with Lombard North Central Plc	7
Agreement with TLD (Landmark Court) Ltd	6
Agreement with TLD Kidbrooke LLP	5
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 Crossrail Limited's payments to Canary Wharf Properties (Crossrail) Limited under a Development Agreement. 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. 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.

29. Guarantees (continued)

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 2018 is £39.4m (2017 £52.3m).

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 2018 the fair value of all financial guarantees granted has been recorded as £nil (2017 £nil).

30. Financial commitments

a) Operating leases – The Group as lessee

The Group operating lease agreements primarily relate to office space, motor vehicles and rail access. All leases have been entered into on commercial terms.

The Group is 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 2018					
Within one year	**52.4**	**12.5**	**3.3**	**26.9**	**95.1**
Between one and two years	**44.3**	**11.5**	**2.1**	**42.5**	**100.4**
Between two and five years	**122.0**	**22.1**	**3.1**	**119.9**	**267.1**
Later than five years	**620.3**	**24.7**	**-**	**342.4**	**987.4**
	839.0	**70.8**	**8.5**	**531.7**	**1,450.0**
At 31 March 2017					
Within one year	52.1	13.0	3.2	26.6	94.9
Between one and two years	42.2	11.8	2.2	40.6	96.8
Between two and five years	98.6	26.2	2.1	115.0	241.9
Later than five years	456.3	21.0	-	373.2	850.5
	649.2	72.0	7.5	555.4	1,284.1

30. 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	Motor vehicles £m	Total £m
At 31 March 2018				
Within one year	**64.0**	**9.8**	**-**	**73.8**
Between one and two years	**57.1**	**10.0**	**-**	**67.1**
Between two and five years	**128.6**	**22.8**	**-**	**151.4**
Later than five years	**690.7**	**8.9**	**-**	**699.6**
	940.4	**51.5**	**-**	**991.9**
At 31 March 2017				
Within one year	55.5	9.4	0.1	65.0
Between one and two years	49.3	5.1	0.1	54.5
Between two and five years	109.4	16.0	-	125.4
Later than five years	739.2	6.3	-	745.5
	953.4	36.8	0.2	990.4

30. Financial commitments (continued)

c) Operating leases – The Corporation as lessee

The Corporation's operating lease agreements primarily relate to office space. It also leases motor vehicles under operating leases from a subsidiary undertaking. All leases have been entered into on commercial terms.

The Corporation is 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 2018			
Within one year	**19.6**	**0.1**	**19.7**
Between one and two years	**19.1**	**0.1**	**19.2**
Between two and five years	**55.8**	**0.1**	**55.9**
Later than five years	**222.2**	**-**	**222.2**
	316.7	**0.3**	**317.0**
At 31 March 2017			
Within one year	19.7	0.1	19.8
Between one and two years	19.6	-	19.6
Between two and five years	56.5	-	56.5
Later than five years	240.7	-	240.7
	336.5	0.1	336.6

30. 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 2018		
Within one year	**4.8**	**4.8**
Between one and two years	**4.5**	**4.5**
Between two and five years	**9.9**	**9.9**
Later than five years	**8.4**	**8.4**
	27.6	**27.6**
At 31 March 2017		
Within one year	3.8	3.8
Between one and two years	3.7	3.7
Between two and five years	9.5	9.5
Later than five years	6.5	6.5
	23.5	23.5

31. Funding and financial risk management

Introduction

TfL is a statutory corporation established under the Greater London Authority Act 1999 (the 'GLA Act'). 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 Public Works Loan Board, the European Investment Bank and Export Development Canada (export credit agency), Medium Term Notes under the £5 billion TfL Euro Medium Term Note programme, and short-term Commercial Paper under the £2 billion TfL Euro Commercial Paper programme.

Treasury Management

TfL has a Treasury Management Policy, which requires the TfL Board to approve a Treasury Management Strategy on at least an annual basis, prior to the commencement of each financial year.

The Treasury Management Strategy for 2017/18 has been prepared having regard to the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended), as well as the key recommendations of the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (the Treasury Management Code) issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) in 2011, and the fully revised second edition of the Prudential Code for Capital Finance in Local Authorities (the Prudential Code) issued by CIPFA in 2011.

The revised Prudential Code for Capital Finance in Local Authorities (2017 Edition) and Treasury Management Code were published in December 2017 and have been reflected in the Treasury Management Strategy for 2018/19.

The Group's principal financial instruments comprise borrowings, investments, derivatives, finance lease liabilities, 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.

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.

31. 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 these limits, the Mayor and the Corporation are required by regulation to have regard to the Prudential Code. Accordingly, the TfL Board annually approves 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
- Liquidity risk
- Market risk
- Currency risk

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

Credit risk

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

31. Funding and financial risk management (continued)

(i) Trade and other receivables

The Group earns the majority of revenue through prepaid fares, and the receivables relate to penalty charges. The Group makes all reasonable attempts to recover penalty charges before providing against them. Other trade receivables include amounts due under contractual arrangements with suppliers, and include prepayments for work to be performed. These counterparties are assessed individually for their creditworthiness at the time of entering into contract and termination provisions are included to mitigate the Group's risk.

Age of trade debtors that are past due but not impaired

	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
Group – 2018					
Trade debtors	**16.6**	**2.7**	**0.6**	**1.1**	**21.0**
Group – 2017					
Trade debtors	11.5	5.1	1.2	0.2	18.0

	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
Corporation – 2018					
Trade debtors	**9.2**	**1.6**	**-**	**-**	**10.8**
Corporation – 2017					
Trade debtors	2.1	1.8	1.1	-	5.0

31. Funding and financial risk management (continued)

(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 Department for Communities and Local Government Guidance, 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 exposures are monitored against these limits on a regular basis. Investment limits per institution and the maximum term of such investments, are linked to the credit rating of the institution.

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, corporate instruments 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 2018, the fair value of the collateral held amounted to £nil (2017 £150.0m).

The centrally managed cash reserves at 31 March 2018 totalled £1,715.3m (2017 £1,593.5m).

31. Funding and financial risk management (continued)

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

	Amount £m	Credit Rating (S&P/ Moody's/ Fitch)	Weighted average days to maturity
At 31 March 2018			
UK Debt Management Office	**374.2**	**P-1 / A-1+**	**81**
Other Government Agencies	**155.4**	**P-1 / A-1+ / F1+**	**48**
Money Market Funds	**581.7**	**AAA / AAA / AAA**	**1**
Banks (including Gilt backed repos)	**351.2**	**P-1 / Minimum A-1 / Minimum F1**	**45**
Corporates	**252.9**	**P-1 / Minimum A-2 / Minimum F1**	**58**
Total	**1,715.4**		**40**
At 31 March 2017			
UK Debt Management Office	481.4	AA/Aa1/AA	57
Other Government Agencies	298.3	Minimum AA-/Aa3/AA	138
Money Market Funds	476.6	AAA/Aaa/AAA	1
Banks (including Gilt backed repos)	212.0	Minimum A+/Aa3/AA-	60
Corporates	125.2	Minimum A/A2/A	61
Total	1,593.5		56

31. 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 Instruments. 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 credit risk with regard to derivative financial instruments is limited because TfL has arrangements in place that limit the exposure with each bank to a threshold, which if breached, allow TfL to require 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 29, which are deemed necessary for the fulfilment of its policies. The Group's policy is to recognise financial guarantees at fair value initially and amortise this over the life of the guarantee. Where indications are that a payment is likely to occur under a guarantee, this is accounted for as a provision, in accordance with the Code. As at 31 March 2018, the fair value of the Corporation's financial guarantees has been assessed as £nil (2017 £nil).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Corporation manages liquidity risk by maintaining access to a number of sources of funding which are sufficient to meet anticipated funding requirements. As long as the affordable borrowing limit set by the Mayor is not exceeded, the Corporation is able to borrow from the Public Works Loan Board, raise debt on the capital markets through both its established Medium Term Note programme and Commercial Paper programme, borrow from commercial banks or utilise its overdraft facility and, subject to meeting the relevant criteria, borrow at competitive interest rates from the European Investment Bank and Export Development Canada. There is therefore no significant risk that it will be unable to raise finance to meet its planned capital commitments.

The contractual maturities of the Group and Corporation's financial liabilities are listed later in this note.

31. Funding and financial risk management (continued)

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 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 IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39), 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 2018 and 2017, 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.

Foreign exchange risk

During 2017/18, TfL held certain short term investments denominated in Euros and Canadian Dollars. Investments denominated in Canadian Dollars were placed where the currency was bought in advance of a payment in that currency. The Euro denominated investments were swapped back to GBP at the Group level 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 2018, the Group held foreign exchange contracts to hedge €514.0m future Euro receipts in relation to its Euro investments (2017 €430.0m). An unrealised exchange net loss of £0.8m was recognised on retranslation of these Euro investment balances as at 31 March 2018 (2016/17 a net loss of £21.7m). This loss (2017/18 loss) was offset by an unrealised fair value net gain of £0.9m (2016/17 a net gain of £22.6m) arising from the fair value movement of the related forward foreign exchange contracts. These derivative instruments mature in the period to August 2018.

31. Funding and financial risk management (continued)

For 2017/18, 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 probably and the risk profile highly certain. These exchange rate exposures were managed through the use of forward foreign exchange contracts. Hedge accounting is applied to these derivative instruments. For exposures not meeting these criteria, the exchange risk was passed on to the vendor.

At 31 March 2018, the Group held forward foreign derivative contracts in Euros, US Dollars, Canadian Dollars, Swiss Francs, Swedish Krona and Chinese Yuan Renminbi to hedge planned foreign currency capital expenditure payments with a nominal value of £219.5m (2017 £251.1m). At 31 March 2018, these contracts had a combined net fair value of £4.7m (2017 £19.5m). It is expected that the hedged purchases will take place in the period to 29 September 2023. The maturity of all these contracts is disclosed later in this note. All hedging relationships have been assessed as 100 per cent effective.

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.

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.

31. Funding and financial risk management (continued)

Sensitivity analysis on foreign exchange risk

	2018 Net nominal value £m	2018 Fair value £m	2018 Fair value after a 10% increase in GBP against other currency	2018 Fair value after a 10% decrease in GBP against other currency	2017 Net nominal value £m	2017 Fair value £m	2017 Fair value after a 10% increase in GBP against other currency	2017 Fair value after a 10% decrease in GBP against other currency
Net sell								
Euros	**372.5**	**4.7**	**38.1**	**(36.1)**	276.1	3.3	28.1	(27.0)
Net buy								
US dollars	**0.3**	**-**	**-**	**0.1**	0.7	0.2	0.1	0.3
Canadian dollars	**84.2**	**5.1**	**(3.0)**	**14.9**	116.4	19.4	7.0	34.4
Swiss Francs	**3.2**	**(0.3)**	**(0.6)**	**-**	3.2	(0.1)	(0.4)	0.3
Swedish Krona	**28.7**	**(1.5)**	**(3.9)**	**1.5**	23.6	(0.7)	(2.8)	1.8
Chinese Yuan Renminbi	**6.9**	**0.1**	**(0.5)**	**1.0**	7.1	-	(0.6)	0.8
Total asset/(liability)	**n/a**	**8.1**	**30.1**	**(18.6)**	n/a	22.1	31.4	10.6

The Group has no other material exposure to foreign exchange rate movements.

31. Funding and financial risk management (continued)

Interest rate risk

As at 31 March 2018, 97.1 per cent (2017 99.6 per cent) of the Group's borrowings were at fixed rates of interest after hedging. The remaining 2.9 per cent was unhedged Commercial Paper which, although having fixed rates of interest for the duration of the note, in practice behaves more like variable rate debt if used on a revolving basis.

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 invested in the transport system.

In order to achieve certainty over the cost of a portion of its planned borrowings, TfL employs a number of interest rate swaps and gilt locks, allowing additional funds to be allocated for investment in the transport infrastructure in the Business Plan. As at 31 March 2018, the Group, through its wholly owned subsidiary Transport for London Finance Limited, held 15 interest rate swaps at a total notional value of £678.9m (2017 20 interest rate swaps at a total notional value of £927.5m). The net fair value of these contracts at 31 March 2018 was a liability of £44.1m (2017 £74.4m). As the hedging was assessed as fully effective these unrealised losses have been recognised in the hedging reserve. Amounts held in the hedging reserve are expected to impact the Comprehensive Income and Expenditure Statement over the period to December 2042.

The maturity of these derivatives is disclosed later in this note.

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.

Sensitivity analysis on interest rate risk

(i) 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.

(ii) Fair value sensitivity analysis for derivative instruments

As at 31 March 2018, the Group holds interest rate derivative contracts with a combined notional value of £678.9m (2017 £927.5m) 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 £39.5m/£(35.8)m (2017 £48.2m/£(44.0)m).

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.

31. Funding and financial risk management (continued)

Maturity profile of derivatives

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

	2018 Average exchange rate	**2018 Fair value £m**	**2018 Notional amount £m**	2017 Average exchange rate	2017 Fair value £m	2017 Notional amount £m
Foreign currency forward contracts						
Buy euro						
Less than one year	**0.878**	**0.3**	**66.8**	0.807	1.7	25.9
Between one and two years	**0.881**	**0.2**	**10.8**	0.878	(0.3)	20.1
Between two and five years	**0.900**	**0.8**	**43.2**	0.896	(0.5)	39.5
After 5 years	**0.928**	**-**	**5.8**	0.923	(0.3)	11.9
Sell euro						
Less than one year	**0.886**	**3.4**	**499.1**	0.862	2.7	373.4
Total euro	**0.884**	**4.7**	**625.7**	0.864	3.3	470.8
Buy US Dollars						
Less than one year	**0.638**	**-**	**0.3**	0.640	0.1	0.4
Between one and two years	**-**	**-**	**-**	0.638	0.1	0.3
Total US Dollars	**0.638**	**-**	**0.3**	0.639	0.2	0.7
Buy Canadian Dollars						
Less than one year	**0.513**	**1.7**	**23.1**	0.500	7.0	35.5
Between one and two years	**0.515**	**1.7**	**25.7**	0.503	3.7	19.9
Between two and five years	**0.511**	**1.7**	**35.4**	0.513	8.7	60.9
Total Canadian Dollars	**0.513**	**5.1**	**84.2**	0.507	19.4	116.3

31. Funding and financial risk management (continued)

Maturity profile of derivatives (continued)

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

	2018 Average exchange rate	**2018 Fair value £m**	**2018 Notional amount £m**	2017 Average exchange rate	2017 Fair value £m	2017 Notional amount £m
Foreign currency forward contracts						
Buy Swiss Francs						
Less than one year	**0.839**	**-**	**0.4**	0.824	-	0.1
Between one and two years	**0.851**	**(0.1)**	**0.5**	0.839	-	0.4
Between two and five years	**0.873**	**(0.2)**	**2.0**	0.867	(0.1)	2.3
After five years	**0.905**	**-**	**0.3**	0.899	-	0.4
Total Swiss Francs	**0.868**	**(0.3)**	**3.2**	0.867	(0.1)	3.2
Buy Swedish Krona						
Less than one year	**0.092**	**(0.2)**	**2.6**	0.092	-	0.4
Between one and two years	**0.093**	**(0.2)**	**3.6**	0.093	(0.1)	2.1
Between two and five years	**0.093**	**(1.0)**	**20.0**	0.094	(0.4)	15.2
After five years	**0.093**	**(0.1)**	**2.5**	0.094	(0.2)	5.9
Total Swedish Krona	**0.093**	**(1.5)**	**28.7**	0.094	(0.7)	23.6
Buy Chinese Yuan Renminbi						
Less than one year	**0.113**	**0.1**	**6.7**	0.115	-	0.5
Between one and two years	**0.106**	**0.2**	**6.5**	0.109	-	6.2
Between two and five years	**0.101**	**-**	**0.4**	0.103	-	0.4
Sell Chinese Yuan Renminbi						
Less than one year	**0.109**	**(0.2)**	**6.2**	-	-	-
Between one and two years	**0.103**	**-**	**0.4**	-	-	-
Total Chinese Yuan Renminbi	**0.106**	**0.1**	**20.3**	0.109	-	7.1
Grand total	**n/a**	**8.1**	**762.4**	n/a	22.1	621.7

31. Funding and financial risk management (continued)

Maturity profile of derivatives (continued)

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

	2018 Average contracted fixed interest rate (%)	**2018 Fair value £m**	**2018 Notional amount £m**	2017 Average contracted fixed interest rate (%)	2017 Fair value £m	2017 Notional amount £m
Interest rate hedges						
Less than one year	**3.566**	**(0.8)**	**100.0**	3.273	(2.9)	250.0
Between one and two years	**3.849**	**(5.4)**	**150.0**	3.566	(3.9)	100.0
Between two and five years	**4.024**	**(21.4)**	**200.0**	3.815	(24.0)	250.0
After five years	**2.492**	**(16.5)**	**228.9**	3.036	(43.6)	327.5
Total	**3.401**	**(44.1)**	**678.9**	3.367	(74.4)	927.5

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.

31. 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 – 2018					
Derivatives settled gross					
Foreign exchange forward contracts:					
Amounts receivable	**507.0**	**48.3**	**102.4**	**8.5**	**666.2**
Amounts payable	**(501.8)**	**(46.6)**	**(101.0)**	**(8.6)**	**(658.0)**
Derivatives settled net					
Interest rate swaps	**(15.5)**	**(10.2)**	**(18.9)**	**(3.6)**	**(48.2)**
	(10.3)	**(8.5)**	**(17.5)**	**(3.7)**	**(40.0)**
Group – 2017					
Derivatives settled gross					
Foreign exchange forward contracts:					
Amounts receivable	445.0	52.5	126.0	17.7	641.2
Amounts payable	(433.5)	(49.1)	(118.4)	(18.2)	(619.2)
Derivatives settled net					
Interest rate swaps	(24.1)	(16.9)	(31.2)	(26.6)	(98.8)
	(12.6)	(13.5)	(23.6)	(27.1)	(76.8)

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 2018, the fair value of the interest rate derivatives was a net liability of £44.1m (2017 £74.4m). The fair value of forward foreign exchange derivatives was a net asset of £8.1m (2017 a net asset of £22.1m).

31. 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 - 2018					
Trade and other creditors	**1,846.6**	**25.1**	**-**	**-**	**1,871.7**
Borrowings - principal	**846.8**	**96.8**	**936.8**	**8,566.6**	**10,447.0**
Borrowings - interest	**375.1**	**455.1**	**1,079.7**	**5,697.4**	**7,607.3**
Finance lease liabilities	**100.5**	**96.4**	**150.4**	**316.3**	**663.6**
	3,169.1	**673.4**	**2,166.9**	**14,580.3**	**20,589.7**
Group - 2017					
Trade and other creditors	1,563.5	29.1	-	-	1,592.6
Borrowings - principal	1,106.3	71.6	374.5	8,275.8	9,828.2
Borrowings - interest	262.0	342.0	1,082.2	5,539.2	7,225.4
Finance lease liabilities	112.1	100.5	236.6	327.4	776.6
	3,043.9	543.2	1,693.3	14,142.4	19,422.8
Corporation - 2018					
Trade and other payables	**611.3**	**-**	**-**	**-**	**611.3**
Borrowings - principal	**846.8**	**96.8**	**936.8**	**8,566.6**	**10,447.0**
Borrowings - interest	**375.1**	**455.1**	**1,079.7**	**5,697.4**	**7,607.3**
Finance lease liabilities	**17.0**	**16.7**	**43.7**	**104.9**	**182.3**
	1,850.2	**568.6**	**2,060.2**	**14,368.9**	**18,847.9**
Corporation - 2017					
Trade and other payables	531.6	-	-	-	531.6
Borrowings - principal	1,106.3	71.6	374.5	8,275.8	9,828.2
Borrowings - interest	262.0	342.0	1,082.2	5,539.2	7,225.4
Finance lease liabilities	18.2	17.0	45.5	119.9	200.6
	1,918.1	430.6	1,502.2	13,934.9	17,785.8

31. 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 7
- 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 7:
    - 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.

31. Funding and financial risk management (continued)

Fair values (continued)

The fair values of the Group's financial assets and liabilities together with the carrying amounts recorded in the balance sheets are illustrated below:

	2018 Carrying value £m	**2018 Fair value £m**	2017 Carrying value restated £m	2017 Fair value restated £m
Cash and cash equivalents	**1,235.0**	**1,235.0**	936.8	936.8
Short-term investments	**696.8**	**696.8**	1,024.6	1,024.6
Trade and other debtors	**460.0**	**460.0**	1,708.5	1,708.5
Finance lease receivables	**25.6**	**25.6**	4.4	4.4
Derivative financial instruments	**17.6**	**17.6**	30.5	30.5
Total financial assets	**2,435.0**	**2,435.0**	3,704.8	3,704.8
Trade and other creditors	**1,871.8**	**1,871.8**	1,592.6	1,592.6
Borrowings	**10,415.6**	**14,443.3**	9,795.3	13,806.8
Finance lease liabilities	**488.1**	**488.1**	564.8	564.8
Derivative financial instruments	**53.5**	**53.5**	82.8	82.8
Total financial liabilities	**12,829.0**	**16,856.7**	12,035.5	16,047.0
Net financial liabilities	**(10,394.0)**	**(14,421.7)**	(8,330.7)	(12,342.2)

31. 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:

	2018 Carrying value £m	**2018 Fair value £m**	2017 Carrying value restated £m	2017 Fair value restated £m
Cash and cash equivalents	**1,102.4**	**1,102.4**	808.4	808.4
Short-term investments	**669.8**	**669.8**	1,014.9	1,014.9
Trade and other debtors	**10,853.0**	**10,853.0**	10,155.5	10,155.5
Total financial assets	**12,625.2**	**12,625.2**	11,978.8	11,978.8
Trade and other creditors	**611.3**	**611.3**	531.6	531.6
Borrowings	**10,422.1**	**14,443.3**	9,802.5	13,806.8
Finance lease liabilities	**142.1**	**142.1**	153.5	153.5
Total financial liabilities	**11,175.5**	**15,196.7**	10,487.6	14,491.9
Net financial assets	**1,449.7**	**(2,571.5)**	1,491.2	(2,513.1)

32. 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 Section of the Railways Pension Scheme or the Tube Lines defined contribution scheme.

a) Amount included in net cost of services

	Note	**Group 2018 £m**	Group 2017 £m	**Corporation 2018 £m**	Corporation 2017 £m
TfL Pension Fund		**575.8**	356.7	**316.2**	104.2
Local Government Pension Fund		**2.8**	1.3	**2.8**	1.3
Crossrail Section of the Railways Pension Scheme		**5.6**	3.3	**-**	-
Unfunded schemes provision		**15.6**	3.3	**15.6**	3.3
Total for schemes accounted for as defined benefit		**599.8**	364.6	**334.6**	108.8
Principal Civil Service Pension Scheme		**0.5**	0.6	**0.5**	0.6
Other schemes		**6.0**	11.6	**3.3**	2.9
Amounts included in net cost of services		**606.3**	376.8	**338.4**	112.3
Less: scheme expenses		**(11.9)**	(11.2)	**(11.8)**	(11.2)
Amount included in staff costs	3	**594.4**	365.6	**326.6**	101.1

32. 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 2015 by the Actuary, a partner of consulting actuaries 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.

Employer's contributions for the period from 1 April 2016 until 31 March 2022 will continue to be 31.0 per cent, and an additional lump sum payment of £47.6m was made during the year ended March 2018. The recovery plan states that the expectation is that the funding shortfall will be eliminated by March 2022.

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 for accounting purposes on an IAS 19 basis as at 31 March 2018. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, whilst 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 2015. 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 2017 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.

32. Pensions (continued)

b) Defined benefit schemes (continued)

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

The London Pension Authority Pension Fund is a funded multi-employer defined benefit scheme, administered by the London Pensions Fund Authority. The Corporation is able to identify its share of the assets and defined benefit obligation of the scheme and this scheme has therefore been accounted for as a defined benefit scheme under IAS 19. Employer's contributions were payable at the rate of 15.9 per cent for 2017/18 (2016/17 12 per cent) of pensionable pay. The Corporation's share of the underlying assets and defined benefit obligation resulted in a deficit of £48.2m (2017 £51.0m). The discounted scheme liabilities have an average duration of 20 years.

The last full actuarial valuation available was carried out at 31 March 2016. The annual report and financial statements for the whole scheme can be found on the London Pensions Fund Authority website (www.lpfa.org.uk). A separate valuation has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2018.

Crossrail Shared Cost Section of the Railways Pension Scheme ("Crossrail Section")

On 31 October 2016 Crossrail Limited ("CRL") transferred its participation in the Railways Pension Scheme from the Omnibus Section of the Railways Pension Scheme to a newly established Crossrail Section of the Railways Pension Scheme. From this date the Crossrail Section has been accounted for in these financial statements as a defined benefit pension scheme under IAS 19. The Group's share of the underlying assets and defined benefit obligation resulted in a deficit of £26.1m (2017 £32.0m). The discounted Crossrail Section liabilities have a duration of approximately 25 years.

A full actuarial valuation of the Scheme was carried out at 31 December 2016. A separate valuation has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2018.

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 2017 projections with a long term improvement rate of 1.25 per cent per annum.

Until 31 October 2016, Crossrail Limited contributed to the Omnibus Section of the Railways Pension Scheme ("RPS"). The RPS is a defined benefit arrangement for rail industry employees. The Omnibus Section is made up of 31 Participating employers. The Omnibus Section of the RPS is a multi-employer scheme and was valued as a whole. As a result of this, CRL was unable to identify its share of the underlying assets and defined benefit obligation. It was therefore accounted for as a defined contribution scheme under IAS 19. The pension charge for the period from 1 April 2016 to 31 October 2016 that was recognised as a defined contribution charge in respect of this scheme was £7.0m.

Notes to the Financial Statements (continued)

32. 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; and
- other unfunded defined benefit pensions accruing to certain employees.

Punter Southall, consulting actuaries, were instructed to report on the financial position of the unfunded pension defined benefit obligation as at 31 March 2018 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 2018 was £97.8m (2017 £86.6m), and is fully provided for in these financial statements.

32. 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 2018 %	IAS 19 valuation at 31 March 2017 %
RPI Inflation	**3.05-3.30**	3.35-3.60
CPI Inflation	**2.05-2.30**	2.35-2.70
Rate of increase in salaries	**3.05-3.80**	3.35-4.20
Rate of increase in pensions in payment and deferred pensions	**1.95-3.08**	2.25-3.30
Discount rate	**2.45-2.55**	2.65-2.80

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 £310.1m/(increase by £320.0m).
- If the expected salary growth were increased/(decreased) by 0.1 per cent, the defined benefit obligation would increase by £78.9m/(decrease by £77.7m).
- If life expectancy were increased/(decreased) by one year, the defined benefit obligation would increase by £493.0m/(decrease by £491.8m).
- If the inflation rate were 0.1per cent higher/(lower), the defined benefit obligation would increase by £290.3m/(decrease by £277.3m).

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.

32. Pensions (continued)

c) Accounting for defined benefit schemes

The total assets in the Schemes were:

	Value at 31 March 2018 £m	Value at 31 March 2017 £m
Equities and alternatives	**7,940.4**	7,713.2
Bonds	**2,283.6**	2,100.7
Cash and other	**155.7**	90.1
Total fair value of assets	**10,379.7**	9,904.0

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:

	31 March 2018 %	31 March 2017 %
Equities	**77**	78
Bonds	**22**	21
Cash and other assets	**1**	1
	100	100

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

32. Pensions (continued)

Total pension deficit at the end of the year

Group	2018 £m	2017 £m
Fair value of scheme assets	**10,379.7**	9,904.0
Actuarial valuation of defined benefit obligation	**(15,087.0)**	(15,267.5)
Deficit recognised as a liability in the balance sheet	**(4,707.3)**	(5,363.5)

Group	2018 £m	2017 £m
TfL Pension Fund	**(4,535.2)**	(5,193.9)
Local Government Pension Fund	**(48.2)**	(51.0)
Crossrail Section of the Railways Pension Scheme	**(26.1)**	(32.0)
Unfunded schemes provision	**(97.8)**	(86.6)
Deficit recognised as a liability in the balance sheet	**(4,707.3)**	(5,363.5)

Corporation	2018 £m	2017 £m
Fair value of scheme assets	**10,310.1**	9,839.1
Actuarial valuation of defined benefit obligation	**(14,991.3)**	(15,170.6)
Deficit recognised as a liability in the balance sheet	**(4,681.2)**	(5,331.5)

Corporation	2018 £m	2017 £m
TfL Pension Fund	**(4,535.2)**	(5,193.9)
Local Government Pension Fund	**(48.2)**	(51.0)
Unfunded schemes provision	**(97.8)**	(86.6)
Deficit recognised as a liability in the balance sheet	**(4,681.2)**	(5,331.5)

32. Pensions (continued)

Analysis of amounts included in the Comprehensive Income and Expenditure Statement

Analysis of amounts charged to net cost of services

	Group 2018 £m	Group 2017 £m	Corporation 2018 £m	Corporation 2017 £m
Current service cost	**572.1**	350.9	**566.6**	347.6
Less contributions paid by subsidiaries	**-**	-	**(259.6)**	(252.5)
Past service cost	**15.8**	2.5	**15.8**	2.5
Total included in staff costs	**587.9**	353.4	**322.8**	97.6
Scheme expenses	**11.9**	11.2	**11.8**	11.2
Total amount charged to net cost of services	**599.8**	364.6	**334.6**	108.8

Amounts charged to financing and investment expenditure

	Group 2018 £m	Group 2017 £m	Corporation 2018 £m	Corporation 2017 £m
Net interest expense on scheme defined benefit obligation	**138.0**	110.5	**137.2**	110.1

Amount recognised in other comprehensive income and expenditure

	Group 2018 £m	Group 2017 £m	Corporation 2018 £m	Corporation 2017 £m
Net deficit on Crossrail Section at initial recognition	**-**	30.3	**-**	-
Other net remeasurement losses recognised in the year	**(1,007.4)**	1,978.7	**(998.4)**	1979.0
Total net remeasurement losses recognised in the year	**(1,007.4)**	2,009.0	**(998.4)**	1,979.0

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

	Group 2018 £m	Group 2017 £m	Corporation 2018 £m	Corporation 2017 £m
Wholly unfunded schemes	**97.8**	86.6	**97.8**	86.6
Wholly or partly funded schemes	**14,989.2**	15,180.9	**14,893.5**	15,084.0
Total scheme defined benefit obligation	**15,087.0**	15,267.5	**14,991.3**	15,170.6

32. Pensions (continued)

Reconciliation of defined benefit obligation

	Group 2018 £m	Group 2017 £m	**Corporation 2018 £m**	Corporation 2017 £m
Actuarial value of defined benefit obligation at start of year	**15,267.5**	11,395.6	**15,170.6**	11,395.6
Current service cost	**572.1**	350.9	**566.6**	347.6
Interest cost	**400.6**	406.5	**398.0**	405.4
Employee contributions	**53.7**	52.4	**52.9**	52.1
Remeasurement gains on scheme liabilities:	**-**		**0.1**	
Obligation recognised at 31 October 2016 in respect of the Crossrail Section		91.8	**-**	-
Net remeasurement - financial	**(187.3)**	3,353.1	**(183.5)**	3,352.0
Net remeasurement - experience	**(396.6)**	(120.3)	**(393.1)**	(120.3)
Net remeasurement - demographic	**(286.0)**	103.7	**(284.6)**	103.7
Actual benefit payments	**(352.8)**	(368.7)	**(351.5)**	(368.0)
Past service cost	**15.8**	2.5	**15.8**	2.5
Actuarial value of defined benefit obligation at end of year	**15,087.0**	15,267.5	**14,991.3**	15,170.6

Reconciliation of fair value of the scheme assets

	Group 2018 £m	Group 2017 £m	**Corporation 2018 £m**	Corporation 2017 £m
Fair value of assets at start of year	**9,904.0**	8,187.4	**9,839.1**	8,187.4
Assets recognised at 31 October 2016 in respect of the Crossrail Section	**-**	61.5	**-**	-
Expected return on assets net of expenses	**262.6**	296.0	**260.8**	295.3
Scheme expenses	**(11.9)**	(11.2)	**(11.8)**	(11.2)
Return on assets excluding interest income	**137.6**	1,357.8	**137.3**	1,356.4
Actual employer contributions	**379.8**	324.2	**116.9**	70.0
Contributions paid by subsidiaries	**-**	-	**259.6**	252.5
Employee contributions	**53.7**	52.4	**53.0**	52.1
Actual benefits paid	**(346.1)**	(364.1)	**(344.8)**	(363.4)
Fair value of assets at end of year	**10,379.7**	9,904.0	**10,310.1**	9,839.1

32. Pensions (continued)

The expected return on scheme assets is set equal to the discount rate. The actual return on scheme assets in the year was a gain of £400.3m (2016/17 a gain of £1,653.8m).

Total contributions of £340.4m are expected to be made to the schemes in the year ending 31 March 2019.

d) Other pension arrangements

Principal Civil Service Pension Scheme

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. The Group is unable to identify its share of the underlying assets and defined benefit obligation on a consistent and reasonable basis and, as permitted by the multi-employer exemption in IAS 19, the Group treats contributions to the PCSPS as if they were contributions to a defined contribution plan. A full actuarial valuation was carried out at 31 March 2012. Details can be found in the Civil Service Superannuation Resource Accounts (www.civilservice.gov.uk/pensions).

From 1 April 2015 employers' contributions are payable to the PCSPS at one of four rates in the range 20.0 per cent to 27.9 per cent of pensionable pay, based on salary bands. Employer contributions are reviewed every four years. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Docklands Light Railway Pension Scheme

The Docklands Light railway Pension Scheme ("DLR") is a defined benefit scheme established under trust in the UK that provides both pensions in retirement and death benefits to members. The Trustees are responsible for the operation and governance of the DLR Scheme, including making decisions regarding funding and investment strategy in conjunction with Docklands Light Railway Limited ("DLR"), a subsidiary of the TfL Group, as the Principal Employer of the Scheme.

Actuarial valuations are carried out every three years with the last available valuation being carried out at 31 March 2015.

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. Under the franchise agreement between DLR and KAD, KAD is required to pay 35.7 per cent of pensionable salaries into the DLR Scheme, the PPF levy and additional contributions if actual pensionable salary increases exceed RPI + 1.5 per cent per annum. The previous franchisee, Serco Limited, ceased paying contributions towards future benefit and accrual and expenses from 7 December 2014, and its final deficit reduction contribution to the DLR Scheme, of £8.25m, was received on 2 January 2018.

32. Pensions (continued)

DLR, as the Principal Employer of the scheme, is responsible for meeting any further costs towards the cost of accruing benefits and removing the deficit, over and above contributions payable by KAD and Serco Limited, if necessary. Following the completion of the 2015 valuation, it was agreed that DLR will pay 12.8 per cent per annum of pensionable salaries towards future benefit accrual, plus additional contributions towards the deficit of £0.1 million per annum until 1 April 2020. In addition, it was agreed that DLR will pay additional contributions if actual pensionable salary growth exceeds RPI + 0.75 percent per annum (up to RPI + 1.5 per cent per annum). Under this clause DLR paid £695,000 by July 2017 in respect of salary growth in the year to 1 April 2016.

Over the year beginning 1 April 2018 the contributions payable to the DLR Scheme are expected to be around £6.2m from KAD and £2.3m from DLR.

The discounted DLR Scheme liabilities have a duration of approximately 25 years.

A valuation of the DLR Scheme has been prepared for accounting purposes by Punter Southall on an IAS 19 basis at 31 March 2018. This valuation showed a defined benefit obligation as at 31 March 2018 of £31.9m (2017 £47.6m). The scheme's funding arrangements outlined above, however, 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.

No contributions were paid by the Group in 2017/18 (2016/17 £nil).

Defined contribution schemes

The Group contributes to a number of defined contribution schemes, with total contributions, including contributions to the PCSPS and RPS schemes as outlined in the paragraphs above, amounting to £5.1m (2016/17 £12.2m).

33. Cash flow notes

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

	Group 2018 £m	Group 2017 £m	Corporation 2018 £m	Corporation 2017 £m
Depreciation of property, plant and equipment and amortisation of intangibles	**1,110.1**	1,083.0	**169.7**	168.8
Loss on disposal of property, plant and equipment and intangibles	**47.3**	13.8	**1.8**	1.3
Net gain on sale of investment properties	**(19.0)**	(7.7)	**(15.8)**	(0.9)
Movements in the value of investment properties	**(41.7)**	(29.5)	**(0.6)**	(0.7)
Reversal of unrealised losses/(gains) on retranslation of foreign currency investments	**0.8**	21.7	**0.8**	21.7
Reversal of fair value movements on derivatives not in hedging relationships for accounting purposes	**(0.9)**	(22.6)	**-**	-
Financing income	**(8.4)**	(9.7)	**(340.1)**	(324.7)
Financing expense	**486.7**	433.3	**515.6**	467.5
Capital grants received	**(1,128.5)**	(1,468.9)	**(1,091.8)**	(1,445.2)
Capital grants paid to subsidiaries	**-**	-	**560.2**	994.9
Reversal of share of losses/(profits) from associated undertakings	**62.7**	104.8	**-**	-
Reversal of defined benefit pension service costs	**599.8**	364.6	**334.6**	108.8
Reversal of taxation credit	**(3.5)**	(6.5)	**-**	-
Adjustments to net surplus/(deficit) for non-cash movements before movements in working capital	**1,105.4**	476.3	**134.4**	(8.5)
(Decrease)/increase in creditors	**13.2**	(84.7)	**(5.9)**	22.7
Decrease/(increase) in debtors	**14.2**	45.1	**(65.2)**	(79.6)
(Increase)/decrease in inventories	**7.5**	(0.9)	**0.8**	1.4
(Decrease)/increase in provisions	**198.7**	(7.8)	**21.0**	28.5
Adjustments to net surplus/(deficit) for non-cash movements after movements in working capital	**1,339.0**	428.0	**85.1**	(35.5)
Net cash payments for employers' contributions to defined benefit pension funds and direct payments to pensioners	**(386.5)**	(328.6)	**(123.7)**	(74.6)
Taxation received	**3.5**	6.5	**-**	-
Total adjustments to net surplus/(deficit) for non-cash movements	**956.0**	105.9	**(38.6)**	(110.1)

33. Cash flow notes (continued)

b) Investing activities

	Group 2018 £m	Group 2017 £m	**Corporation 2018 £m**	Corporation 2017 £m
Interest and other investment income received	**7.4**	11.6	**339.8**	326.8
Capital grants received	**1,061.9**	1,506.5	**1,029.4**	1,489.0
Capital grants paid to subsidiaries	**-**	-	**(560.2)**	(994.9)
Purchase of property, plant and equipment and investment property	**(3,420.6)**	(3,561.2)	**(269.8)**	(305.9)
Purchase of intangible assets	**(24.7)**	(28.5)	**(16.5)**	(21.3)
Proceeds from the sale of property, plant and equipment and intangible assets	**30.0**	1.7	**-**	(0.4)
Net sales of other investments*	**327.0**	87.4	**344.3**	81.1
Repayment/(advance) of interim funding to third parties in respect of the Crossrail project	**1,268.2**	17.2	**-**	-
Issue of loans to subsidiaries (net of repayments)	**-**	-	**(618.7)**	(680.5)
Finance leases granted in year	**(20.6)**	(4.4)	**-**	-
Proceeds from sale of investment property	**25.4**	18.8	**17.8**	2.4
Investment in equity loan notes of associated undertakings	**(1.4)**	-	**-**	-
Investment in share capital of associated undertakings	**(12.1)**	-	**-**	-
Investment in share capital of subsidiaries	**(1.4)**	-	**(200.0)**	(1,300.0)
Shareholder loan repaid on acquisision of subsidiary	**(12.6)**	-	**-**	-
Net cash flows from investing activities	**(773.5)**	(1,950.9)	**66.1**	(1,403.7)

* Proceeds from sale of short term investments has been restated in the prior year to include items previously included in short term investments that has been reclassified to cash and cash equivalents in the current year. Refer to Note 21 for further details.

c) Financing activities

	Group 2018 £m	Group 2017 £m	**Corporation 2018 £m**	Corporation 2017 £m
Cash payments for reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI arrangements	**(76.8)**	(94.3)	**(11.4)**	(11.1)
Net proceeds from new borrowing	**961.3**	733.4	**961.3**	733.4
Repayments of borrowings	**(342.8)**	(53.0)	**(342.8)**	(53.0)
Interest paid	**(249.8)**	(311.6)	**(286.7)**	(354.8)
Net cash flows from financing activities	**291.9**	274.5	**320.4**	314.5

34. Acquisitions

Development Securities (Southwark) Limited

On 21 March 2018, the acquisition of Development Securities (Southwark) Limited ("DSSL") was completed, with 100 per cent of the shares acquired for a cash consideration of £1.36m.

DSSL owns land interests adjacent to Southwark Station including four residential flats in Styles House, one residential unit in the "Chalet" building fronting The Cut and Algarve House (rebranded as the "Platform" building). The TfL group purchased DSSL for the purpose of further developing this land together with land surrounding Southwark Station that is already owned by TfL. The development is subject to conclusion of a land swap agreement with London Borough of Southwark in order to create a uniform plot for a viable development site.

As part of the sale and purchase agreement, the Group was required to repay loans amounting to £12.6m which were advanced by the seller to DSSL.

In accordance with IFRS 3, adjustments are made to identifiable assets and liabilities on acquisition to reflect their fair value. As a result, the property in DSSL is reflected at a Group level at £11.5m, resulting in a downwards fair value adjustment of £0.5m. All other assets and liabilities were founds to be reflective of their fair values. As part of the exercise, management have reviewed DSSL's activities and concluded that there are no intangible assets to be recognised in the fair valued acquisition balance sheet.

The fair value of the net liabilities acquired was £1.22m, which resulted in goodwill of £2.6m. This premium is reflective of the potential to unlock the additional value as a result of the land swap agreement.

34. Acquisitions (continued)

The assets and liabilities acquired are set out below:

	20 March 2018 Book value £m	20 March 2018 Fair value adjustments £m	20 March 2018 Fair value total £m
Investment property	12.0	(0.5)	11.5
Trade and other payables	(12.7)		(12.7)
Net liabilities acquired	(0.7)	(0.5)	(1.2)
Cash			(1.4)
Total consideration			(1.4)
Goodwill			2.6

Reconciliation to Group Statement of Cash Flows	Note	£m
Cash consideration paid for acquisition for DSSL		(1.4)
Total payments to acquire subsidiaries per Group Statement of Cash Flows	**33b**	**(1.4)**

Subsequent to the acquisition, the entity has been renamed TTL Southwark Properties Limited.

In accordance with the purchase agreement, the shareholder loan was repaid immediately after acquisition. There were no post-acquisition transactions impacting the Group's consolidated profits.

35. Unusable reserves

	2018 £m	2017 £m
Group		
Capital adjustment account	**25,812.6**	25,617.4
Pension reserve	**(4,681.2)**	(5,331.5)
Accumulated absences reserve	**(7.5)**	(7.3)
Retained earnings reserve in subsidiaries	**1,066.1**	1,009.3
Revaluation reserve	**302.7**	294.2
Hedging reserve	**(115.4)**	(139.1)
Available for sale reserve	**-**	-
Financial instruments adjustment account	**(171.0)**	(182.8)
Merger reserve	**466.1**	466.1
At 31 March	**22,672.4**	21,726.3

	2018 £m	2017 £m
Corporation		
Capital adjustment account	**12,434.6**	12,081.0
Pension reserve	**(4,681.2)**	(5,331.5)
Accumulated absences reserve	**(7.5)**	(7.3)
Available for sale reserve	**-**	-
Financial instruments adjustment account	**(171.0)**	(182.8)
At 31 March	**7,574.9**	6,559.4

35. 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 2018 £m**	Group 2017 £m	**Corporation 2018 £m**	Corporation 2017 £m
Balance at 1 April		**25,617.4**	23,826.1	**12,081.0**	10,616.2
Charges for depreciation and impairment of non-current assets		**(169.7)**	(168.8)	**(169.7)**	(168.8)
Gain on disposal of investment properties		**15.8**	0.9	**15.8**	0.9
Movements in the market value of investment properties		**0.6**	0.7	**0.6**	0.7
Capital grants and contributions	9	**1,086.9**	2,633.2	**490.0**	1,614.6
Minimum revenue provision		**18.7**	18.7	**18.7**	18.7
Loss on disposal of non-current assets		**(1.8)**	(1.3)	**(1.8)**	(1.3)
Adjustments between Group and Corporation financial statements	*	**(755.3)**	(692.1)	**-**	-
Balance at 31 March		**25,812.6**	25,617.4	**12,434.6**	12,081.0

* 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.

35. 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 2018 £m	Group 2017 £m	**Corporation 2018 £m**	Corporation 2017 £m
Balance at 1 April	**(5,331.5)**	(3,208.2)	**(5,331.5)**	(3,208.2)
Net remeasurement losses on pension assets and defined benefit obligations	**998.4**	(1,979.0)	**998.4**	(1,979.0)
Reversal of charges relating to retirement benefits	**(737.8)**	(471.4)	**(471.8)**	(218.9)
Employer's pension contributions, contributions from subsidiaries and direct payments to pensioners payable in the year	**389.7**	327.1	**123.7**	74.6
Balance at 31 March	**(4,681.2)**	(5,331.5)	**(4,681.2)**	(5,331.5)

35. 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 2018 £m	Group 2017 £m	**Corporation 2018 £m**	Corporation 2017 £m
Balance at 1 April	**(7.3)**	(7.2)	**(7.3)**	(7.2)
Settlement or cancellation of accrual made at the end of the preceding year	**7.3**	7.2	**7.3**	7.2
Amounts accrued at the end of the current year	**(7.5)**	(7.3)	**(7.5)**	(7.3)
Balance at 31 March	**(7.5)**	(7.3)	**(7.5)**	(7.3)

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 2018 £m	Group 2017 £m
Balance at 1 April	**1,009.3**	985.9
Surplus on the provision of services after tax	**(122.4)**	367.1
Transfer of capital grants and contributions to the Capital Adjustment Account	**(596.9)**	(1,018.6)
Transfer of adjustments between Group and Corporation financial statements to the Capital Adjustment Account	**755.3**	692.1
Remeasurement (losses)/gains on defined benefit pension plan assets and liabilities	**9.0**	(30.0)
Release of revaluation reserve relating to the difference between historic cost of disposal and fair value cost of disposal	**11.8**	12.8
Balance at 31 March	**1,066.1**	1,009.3

35. 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; or
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are transferred to retained earnings.

	Note	**Group 2018 £m**	Group 2017 £m
Balance at 1 April		**294.2**	310.8
Revaluation of assets	12	**20.3**	(3.8)
Release of revaluation reserve relating to the difference between fair value depreciation and historic cost depreciation		**(11.8)**	(12.8)
Balance at 31 March		**302.7**	294.2

The Corporation does not have a revaluation reserve as it does not hold any property, plant or equipment at a revalued amount (2017 £nil).

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 2018 £m	Group 2017 £m
Balance at 1 April	**(139.1)**	(176.0)
Net change in fair value of cash flow interest rate hedges	**30.3**	25.9
Net change in fair value of cash flow foreign exchange hedges	**(14.8)**	3.2
Recycling of interest rate fair value losses to profit and loss	**8.2**	7.8
Balance at 31 March	**(115.4)**	(139.1)

The Corporation does not have a hedging reserve as it has not entered into any derivative transactions, nor does it have legal powers so to do.

35. Unusable reserves (continued)

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 2018 £m	Group 2017 £m	**Corporation 2018 £m**	Corporation 2017 £m
Balance at 1 April	**(182.8)**	(194.6)	**(182.8)**	(194.6)
Release of premium	**11.8**	11.8	**11.8**	11.8
Balance at 31 March	**(171.0)**	(182.8)	**(171.0)**	(182.8)

35. 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 2018 £m	Group 2017 £m	**Corporation 2018 £m**	Corporation 2017 £m
Balance at 1 April and 31 March	**466.1**	466.1	**-**	-

36. 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.

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

Corporation 2018

	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	169.7	(169.7)	-	-	-	-
Net gain on disposal of investment properties	7	(15.8)	15.8	-	-	-	-
Movements in the market value of investment properties	7	(0.6)	0.6	-	-	-	-
Capital grants and contributions	9	(490.0)	490.0	-	-	-	-
Unapplied capital grants	9	(41.6)	-	-	-	-	-
Loss on disposal of non-current assets	6	1.8	(1.8)	-	-	-	-
Reversal of items relating to retirement benefits		471.8	-	(471.8)	-	-	-
Transfers to/from street works reserve		(1.4)	-	-	1.4	-	-
Difference between the remuneration charged on an accruals basis and the remuneration chargeable in accordance with statutory requirements		0.2	-	-	-	-	(0.2)
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		(123.7)	-	123.7	-	-	-
Minimum Revenue provision	38	(18.7)	18.7	-	-	-	-
Amortisation of premium on financing		(11.8)	-	-	-	11.8	-
		(60.1)	353.6	(348.1)	1.4	11.8	(0.2)

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

Corporation 2017

	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	168.8	(168.8)	-	-	-	-
Movements in the market value of investment properties	7	(0.7)	0.7	-	-	-	-
Net gain on disposal of investment properties	7	(0.9)	0.9	-	-	-	-
Capital grants and contributions	9	(1,614.6)	1,614.6	-	-	-	-
Unapplied capital grants	9	1,164.3	-	-	-	-	-
Loss on disposal of non-current assets	6	1.3	(1.3)	-	-	-	-
Reversal of items relating to retirement benefits		218.9	-	(218.9)	-	-	-
Transfers to/from street works reserve		(4.1)	-	-	4.1	-	-
Difference between the remuneration charged on an accruals basis and the remuneration chargeable in accordance with statutory requirements		0.1	-	-	-	-	(0.1)
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		(74.6)	-	74.6	-	-	-
Minimum Revenue provision	38	(18.7)	18.7	-	-	-	-
Amortisation of premium on financing		(11.8)	-	-	-	11.8	-
		(172.0)	1,464.8	(144.3)	4.1	11.8	(0.1)

37. Sources of finance

Capital expenditure analysed by source of finance:

	Note	**Corporation 2018 £m**	Corporation 2017 £m
Capital expenditure			
Intangible asset additions	11	**16.5**	21.3
Property, plant and equipment additions	12	**246.1**	264.4
Investments in year	14	**200.0**	1,300.0
Loans made to subsidiaries in year for capital purposes		**618.7**	680.5
Capital grants allocated to subsidiaries in year	9	**560.2**	994.9
Total capital expenditure		**1,641.5**	3,261.1
Sources of finance			
Transport grants used to fund capital	9	**-**	1,107.2
Business Rates Retention used to fund capital	9	**777.8**	-
Community Infrastructure Levy used to fund capital	9	**100.4**	148.3
Other third party contributions	9	**213.6**	189.7
Adjusted by amounts transferred (to)/from Capital Grants Unapplied Account	9	**(41.6)**	1,164.3
Prudential borrowing		**618.7**	680.5
Capital receipts		**0.9**	2.3
Transfer from street works reserve		**1.4**	0.8
Net repayment of finance leases		**(11.4)**	(11.1)
Working capital		**(18.3)**	(20.9)
Total sources of finance		**1,641.5**	3,261.1

38. 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 the Transport for London (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 2017/18, 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 £18.7 million (2016/17 £18.7m).

39. 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 the London Transport Museum Limited.

Financial assistance given under section 159 of the Greater London Authority Act 1999 is outlined below:

	Corporation 2018 £m	Corporation 2017 £m
Financial assistance to subsidiaries		
Transport Trading Limited	**54.5**	78.9
London Underground Limited	**858.0**	1,110.2
London Bus Services Limited	**682.9**	723.2
Docklands Light Railway Limited	**38.0**	46.5
Rail for London Limited	**327.9**	293.2
London River Services Limited	**17.3**	11.3
Tramtrack Croydon Limited	**28.7**	22.4
London Transport Museum Limited	**4.0**	5.2
Crossrail Limited	**6.9**	238.3
	2,018.2	2,529.2

	Note	**Corporation 2018 £m**	Corporation 2017 £m
Financial assistance to London Boroughs and other third parties			
Local Implementation Plan		**112.0**	131.5
Crossrail Complementary Measures		**6.4**	7.2
Taxicard		**10.3**	10.0
Safety schemes		**0.1**	0.4
Cycling		**30.0**	32.4
Bus stop accessibility		**0.4**	4.4
Other		**24.2**	9.3
	3	**183.4**	195.2

40. Related parties

Transport for London 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 Greater London Authority Act 1999 (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, Managing Directors, Commissioner, 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.

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 9.

During 2017/18 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 2018 £m
Greater London Authority (GLA)	6.8	2.1	2.4
Mayor's Office for Policing and Crime (MOPC) (formerly Metropolitan Police Authority)	0.2	-	(0.1)
London Legacy Development Corporation (LLDC)	1.1	-	0.3
London Fire and Emergency Planning Authority (LFEPA)	0.2	-	-

40. Related parties (continued)

Board Members and Officers

Board Members, the Mayor of London, and key management (comprising the Commissioner and the Managing Directors), 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 (2016/17 none). Details of the remuneration of the Commissioner and his Managing Directors are disclosed in 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 32.

Central Government

Transport Grant is paid by the Department for Transport to the Greater London Authority, which in turn pays the grant to the Corporation. Details of Transport Grant are disclosed in the Corporation and Group Comprehensive Income and Expenditure Statements and Cash Flow Statements.

The Department for Transport sets the level of Transport Grant through the spending review process. The last such spending review was SR 2015, and the settlement covered grant funding and permitted levels of borrowing for the period up to 31 March 2021.

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 39.

TfL receives income from the London Boroughs for the provision of free travel for the elderly, disabled, and students. This income is set out in note 1.

TfL has borrowings outstanding from the Public Works Loan Board (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.

41. Trust Funds

The Corporation acts as the sole trustee for the TfL Healthcare Trust, a trust established in 2012 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 2018				
TfL Healthcare Trust	**6.5**	**(4.9)**	**2.0**	**(0.1)**
At 31 March 2017				
TfL Healthcare Trust	5.1	(4.7)	0.6	(0.4)

42. Events after the balance sheet date

There have been no events occurring after the reporting date that would have a material impact on these financial statements.