

Date: 14 June 2016

Item: TfL Statement of Accounts for the Year Ended 31 March 2016

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 2016 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 19 July 2016.

2 Recommendation

- 2.1 **The Committee is recommended to note the draft Statement of Accounts and that the Chief Finance Officer will 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.**

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 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 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 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 Chief Finance Officer on Friday 3 June and published on TfL's website together with the Annual Governance Statement on Monday 6 June. Appropriate notices have been placed in the London Evening Standard and on TfL's website. The period for exercise of public rights consequently commenced on 7 June and will conclude on 18 July. Following the conclusion of the period it is planned that the Board should consider the accounts at the Board meeting on 19 July.
- 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 The Group Comprehensive Income Statement shows a surplus on the provision of services of £1.0bn. This arises as a result of the requirement of the Code to include all grants, whether capital or revenue in nature, as grant income. Capital grant income of £2.7bn is included in this figure. It should be noted that all income is reinvested to run and improve services for customers and users.
- 4.2 As at 31 March 2016, the Group has usable reserves of £3,233m, £1,794m 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". This 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.
- 4.3 The majority of the balance of £1,439m 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 and undertaken borrowing in advance of incurring costs and completing projects. Government funding is paid 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 2013 Spending Review 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 increases in 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 the Four Lines upgrade, redevelopment at key stations to increase capacity and accessibility, the Road Modernisation Plan, and cycling programmes such as Cycle Superhighways. Since these sums are fully

allocated to transport improvements as part of the Investment Programme, they are not available to spend on additional projects.

- 4.4 The residual General Fund balance at 31 March 2016 was £150m (2014/15 £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 and a transfer was made from Earmarked reserves to maintain the General Fund at this level.

5 Accounting Policies

- 5.1 The 2015/16 Code contains only minor changes from that for 2014/15, none of which have 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, and an additional voluntary disclosure has been included in the prior year comparatives to show the total remuneration for the prior year.

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, and the liability in respect of unfunded pension obligations, all calculated in accordance with IAS 19 Employment Benefits. The Tube Lines section of the TfL Pension Fund was merged into the Public Sector section during the year. The total deficit on TfL's defined benefit pension schemes calculated in accordance with IAS 19 has increased from £2.9bn in the prior year to £3.2bn.
- 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, after allowing for the funding deficit in the Tube Lines section when assessed on the same assumptions. As mentioned above, the Tube Lines section was merged into the Public Sector section on 30 March 2016. Employer's contributions for 2015/16 for the Public Sector section were 31 per cent of pensionable pay and those for the Tube Lines Section were 23.15 per cent with additional lump sum deficit contributions of £1.02m per month, adjusted for inflation. Following the 2015 funding valuation a revised schedule of contributions has been agreed, and employer contributions for the combined Public Sector section are agreed at 31 per cent of pensionable pay from 1 April 2016.
- 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 2016)	(1.2)
Lower discount rate used for IAS 19 valuation	(2.6)
Impact of "best estimate" assumptions rather than "prudent"	0.7
Deficit at 31 March 2016 under IAS 19	<u>(3.1)</u>

- 7.5 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 pensions 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, in accordance with the 2013 Spending Review, was £600m taking total borrowing at 31 March 2016 to £9.1bn. Of the borrowing taken out in the year, £85m relates to the scheduled drawdown of a London Overground Capacity Improvement Project facility with the European Investment Bank at a pre-agreed fixed rate set in December 2014.
- 8.2 In April 2015, TfL issued a £400m Green Bond, with a ten year tenor and an annual fixed rate coupon of 2.125 per cent. At the same time it also issued a £120m 15 year private placement at an annual fixed rate coupon of 2.474 per cent.
- 8.3 In addition, TfL issued a further £20m of short term Commercial Paper during the year and made scheduled repayments totalling £25m in relation to inherited debt.

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 2016, the Group has in place interest rate swaps to fix the interest rate on

£725m of floating rate borrowings currently in issue. In addition, it took out an intra-day gilt lock to hedge the interest rate on £200m of the £400m, 10 year, 2.125 per cent Green bond issued during the year. The cash gain realised of £0.1m is deferred within the hedging reserve and is being amortised to profit or loss over the term of the Green bond. The Group also holds an interest rate swap to hedge the interest rate risk in a lease of rolling stock.

- 9.2 At 31 March 2016, the Group held forward foreign derivative contracts in Euros, US Dollars and Canadian Dollars to hedge planned foreign currency capital expenditure payments with a net nominal value of £181m.
- 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 2015/16 this has resulted in the recognition as a financing expense of £7.5m 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 and US Dollars, 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 again seen a significant increase in property valuations, both investment property and also office buildings currently occupied by the Group and included on the Balance Sheet in "property, plant and equipment". 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 Investment property has seen an increase in fair value of £50m, reflecting the general improvement in the property market with improvements in rental values and yields. The majority of the uplift relates to property in Victoria Street, Thurloe Street and at Holborn.
- 10.3 Office buildings have seen an increase in value of £108m, driven by generally higher rental values and lower yields in line with market movements. The majority of this relates to 55 Broadway and offices at Buckingham Palace Road.

- 10.4 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 Operating and Financial Review and Profit and Loss

- 11.1 Net revenue activity “Margin” as reported in the quarter 4 Operating and Financial Review (OFR) was £(1,397)m. The surplus on provision of services before tax in the Group Comprehensive Income and Expenditure Statement is £1,006m. Some of the differences relate to items not included in Margin 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 Margin in the OFR but included in the Income and Expenditure Statement:

- (a) all grant income, whether capital or revenue in nature, is required to be included;
- (b) depreciation and amortisation;
- (c) gains and losses on the disposal of fixed assets; and
- (d) valuation gains and losses on the revaluation of investment property.

- 11.3 Items where the treatment is different:

- (a) the capital repayments relating to PFI contracts are included in the Margin but they are not included in the surplus on provision of services; and
- (b) the cost of retirement benefits in the OFR is based on cash flows rather than the IAS 19 service cost and financing cost.

11.4 Reconciliation from OFR to accounts

	£m
Net revenue activity margin as reported in quarter 4 OFR	(1,397)
Grant income	3,511
Depreciation and amortisation	(1,119)
Valuation gains on investment property	50
Capital repayments on PFI	71

Pensions differences	(91)
Other	(19)
	1,006
	1,006

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 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 2016, 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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Transport for London

Annual Report and Financial Statements
Year ended 31 March 2016

Contents

	Page
Narrative Report and Financial Review	I
Statement of Responsibilities for the Accounts	18
Independent Auditor's Report	19
Group Comprehensive Income and Expenditure Statement	22
Group Balance Sheet	23
Group Movement in Reserves Statement	24
Group Statement of Cash Flows	26
Corporation Comprehensive Income and Expenditure Statement	27
Corporation Balance Sheet	28
Corporation Movement in Reserves Statement	29
Corporation Statement of Cash Flows	31
Accounting Policies	32
Notes to the Financial Statements	57

Narrative Report and Financial Review

Highlights

The year ended 31 March 2016 was another year of solid performance from the Transport for London ('TfL') Group. On the London Underground a record breaking number of journeys, up 3.4 per cent on 2014/15, was complemented by strong demand for London Overground and Docklands Light Railway services. Work continued on major projects to maintain, improve and extend services across London including Crossrail, Tube infrastructure and signalling upgrades, congestion relief projects and the Roads Modernisation Plan. A number of projects were completed in the year and a number of milestones achieved. These included:

- New passenger tunnels at Victoria Station joining the new north ticket hall and the enlarged south ticket hall.
- Tottenham Court Road re-opened with a new step-free access lift shaft, a new passageway that will link to the new larger ticket hall, and refitted platforms and refurbished escalators.
- At Tufnell Park station the two old lifts were replaced with new, more energy efficient models.
- A new crossover was installed on the Metropolitan line at King's Cross St. Pancras to support plans to reach 32 trains per hour on the line.
- The project to strengthen the Hammersmith flyover was completed.
- The Cycle Superhighways programme and new Quietway cycle routes progressed significantly and were nearing completion by year end.
- The Crossrail project neared 75 per cent complete.

Financial performance

The record passenger numbers on the London Underground were fuelled by population and economic growth. Passenger journeys on the DLR and London Overground were also higher than 2014/15 reflecting a combination of increased demand and the impact of the takeover of West Anglia services in May 2015. Bus passenger journeys, however, fell slightly from 2,385 million in 2014/15 to 2,314 million, as increasing demand was offset by the continuing impact of reduced bus reliability resulting from increasing road traffic and the congestion caused by the construction of major highway and urban improvement schemes.

Fares increased by an average 1.0 per cent in January 2016, in line with the annual increase in the Retail Price Index (RPI). This rise contributed to an increase in gross fares income to £4,587 million from £4,310 million in 2014/15, an increase of 6.4 per cent.

Narrative Report and Financial Review (continued)

Reliability remained consistently high for most of TfL's services. On the Tube, the number of Lost Customer Hours (the measure for the amount of delays to travelling customers) continued to improve after adjusting for the effects of industrial action. DLR's performance also improved on the prior year. Journey times on the road network and for buses were nevertheless adversely impacted by increased traffic levels and the impact of road improvement schemes.

Gross expenditure increased by 5.4 per cent from £7,055 million to £7,436 million, reflecting continued increases in levels of activity.

The level of capital works undertaken in 2015/16 remained high reflecting the continued investment in Crossrail and Tube infrastructure which is necessary to enhance capacity over the network. Capital expenditure during the year totalled £4,088 million (2014/15 £3,588 million).

Funding sources

TfL's activities are funded from six main sources:

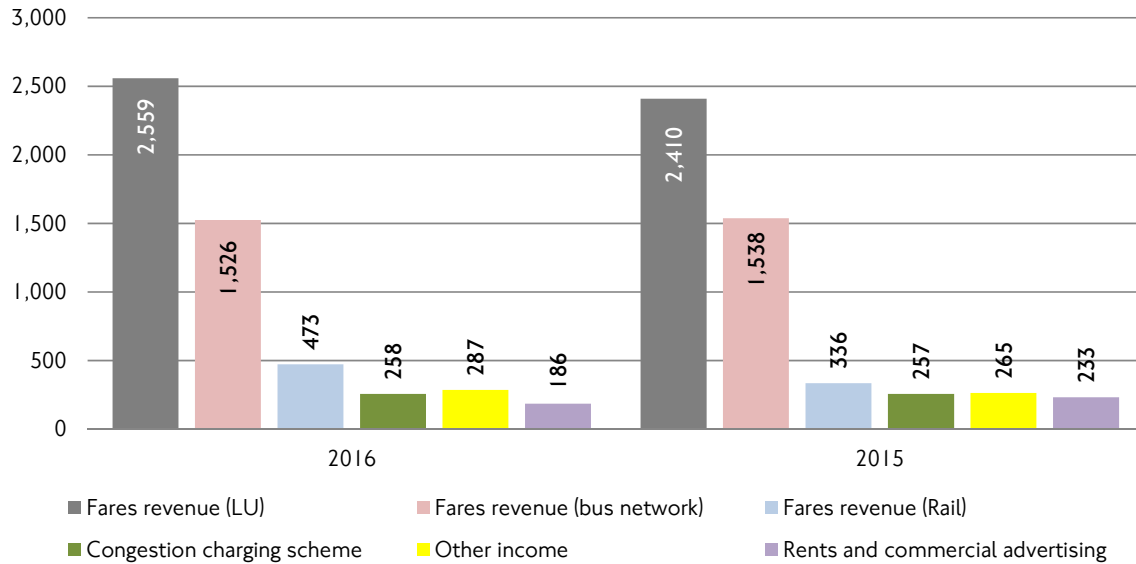
- Income from fares and the Congestion Charging scheme;
- Central government funding, which has been agreed to 2020/21 following the 2015 Spending Review;
- A proportion of London's business rates;
- Prudential borrowing (the amount and profile of which also forms part of TfL's settlement with central government);
- 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)

Revenue

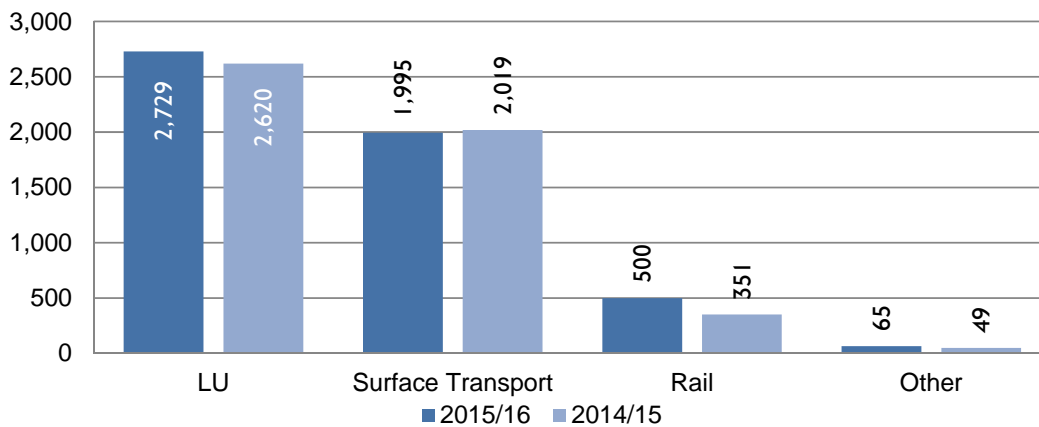
Revenue breakdown by type (£m)



Total revenue increased by 5.0 per cent from £5,039 million in 2014/15 to £5,289 million in 2015/16.

TfL's primary source of revenue comes from fares on the London Underground ('LU'), Rail and Bus networks. This represents 86.2 per cent of all revenue generated. The January 2016 fares rise, in line with the annual increase in RPI in the benchmark month of July 2015, was held at 1.0 per cent in response to the continued pressures on the cost of living for Londoners. Fares decisions are taken annually by the Mayor.

Total revenue by business unit (£m)



Narrative Report and Financial Review (continued)

Fares revenue in LU was £2,559 million, 6.2 per cent up on 2014/15. This reflected a year-on-year increase in passenger journeys of 3.4 per cent combined with fare increases.

Within Surface Transport, the decrease in bus passenger journeys contributed to a reduction in the bus network income to £1,526 million, 0.8 per cent below the previous year's total of £1,538 million.

Within Rail's revenue figures, total fares revenue on the DLR increased 8.2 per cent from £146 million in 2014/15 to £158 million in 2015/16, reflecting higher passenger numbers across the whole network. Annual ridership of 117.0 million passengers was up 6.8 million (6.2 per cent) from the previous year. The Emirates Air Line carried 1.5 million passengers, unchanged from 2014/15. Fares revenue also remained constant at approximately £6 million.

London Overground's fares revenue of £286 million for the year was up significantly on 2014/15 (£159 million), reflecting the adoption of routes from Liverpool Street to north east London from May 2015, combined with a continued increase in demand across all routes.

Congestion Charging revenue rose 0.4 per cent from £257 million in 2014/15 to £258 million in 2015/16. This increase was driven mainly by an increase in the volume of drivers incurring Penalty Charge Notices.

Other income increased 8.3 per cent from £265 million in 2014/15 to £287 million in 2015/16. Other income comprises a broad range of revenue streams including taxi licensing, cycle hire, ticket and photocard commission and similar fees, Road Network compliance and other third party contributions. The overall increase was driven by a strong performance from ticket and photocard commission and other similar fees.

Government grants and other funding

The main sources of grant income are the Investment Grant and the General Grant from the Department for Transport ('DfT'). The Investment Grant supports delivery of the Investment Programme, whilst the General Grant is classified as resource grant under Section 101 of the GLA Act 1999 and may be used to support TfL's operating activities including capital expenditure. Other key funding streams include a share of Business Rate Retention received from the Greater London Authority ('GLA'), which is also classified as resource grant, and specific capital grants from the DfT and the GLA for the Crossrail project. Total general and capital grants receivable, excluding specific Crossrail funding, amounted to £2,702 million (2014/15 £2,948 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 23 and 24 to the accounts).

Movement in borrowing £m	
Opening borrowing at 1 April 2015	8,514
European Investment Bank (EIB) loan due 2025 – London Overground Capacity Improvement Project (LOCIP)	85
£400m 2.125% Green Bond due 2025	400
£120m 2.474% Private Placement Bond due 2030	120
Rolling short- term commercial paper debt	20
Scheduled repayments on EIB loans	(25)
Fair value movements, issue premia/discounts and fee adjustments	(1)
Closing borrowing at 31 March 2016 per the accounts	9,113

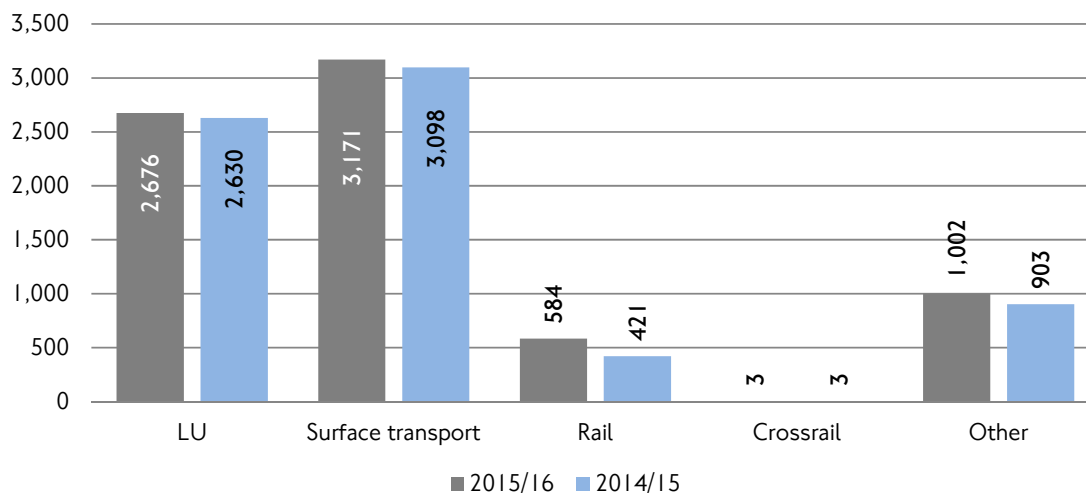
The Authorised borrowing limit for the Corporation set by the Mayor for 2015/16 was £10,376.5 million.

At 31 March 2016, TfL had three undrawn committed facilities with the EIB and Export Development Canada. The funds under these facilities will be drawn in multiple tranches over three years, starting in 2016/17.

Narrative Report and Financial Review (continued)

Uses of funding

Operational expenditure £m



Total operating expenditure increased by 5.4 per cent from £7,055 million to £7,436 million.

During the 2015/16 financial year £83 million of sustainable savings were secured through initiatives including challenging and changing our approach to track and signals maintenance and on-going improvements when staff and suppliers access the railway to undertake work. These savings have been reinvested into our network to improve our customer experience. The savings were part of an Efficiencies Programme committed to delivering £16 billion of saving from 2009/10 to 2020/21.

Following the 2015 Spending Review, a pan-TfL Business & Finance Review was commissioned to identify new efficient and effective ways of working with the view of unlocking additional savings. This branch and root Review has superseded the old Efficiencies Programme.

Operating expenditure on the Underground rose by 1.7 per cent, from £2,630 million to £2,676 million, reflecting an increase in the number of services provided. In Surface Transport, operating expenditure was £3,171 million, an increase of 2.4 per cent on 2014/15. This expenditure includes bus contract payments which are partly used to fund capital investment in vehicles and plant and premises made by bus operators as these assets are owned by the operators, estimated to total c. £0.3 billion. The increase over 2014/15 primarily reflects an increase in the payment made to bus contractors during the year.

In Rail, operating expenditure increased by a total of £163 million, or 38.7 per cent reflecting the additional costs of running Overground services from Liverpool Street station to north east London. These routes were taken over by London Rail from May 2015.

Narrative Report and Financial Review (continued)

Crossrail operating expenditure continues to be minimal as the majority of its costs represent the costs of construction of the Crossrail tunnels and related assets, and have therefore been capitalised on the Balance Sheet.

Other expenditure represents primarily centralised management overheads and the costs of specialist and shared services. Costs increased £99m from 2014/15 reflecting increased depreciation costs combined with higher pension costs borne by the Corporation. The Corporation, in its role as Sponsor for the TfL Pension Fund, recognises the IAS 19 pension obligations relating to this Group scheme in full. The total pension service costs of the scheme, less cash contributions contributed by subsidiaries are therefore recognised within central overheads.

TfL continued to support Borough schemes that improve the quality, safety, accessibility and sustainability of the local travelling environment. The overall Borough funding package for 2015/16 included £124 million provided directly to the Boroughs through the Local Implementation Plan programme, together with £13 million spent on the renewal of life-expired traffic signals. Additional financial assistance included: payments related to TfL's major investment in cycling on Borough roads, such as the new network of Quietways cycle routes and so-called 'mini-Hollands'; bus priority and bus stop accessibility schemes and Taxicard.

Net interest and finance charges

Total financing and investment expenditure for the year was £419 million, a decrease of £32 million from the previous year.

Within this overall total, interest payable on direct borrowings increased 3.1 per cent from £357 million to £368 million, reflecting a net increase in borrowings during the year of £600 million. The average cost of borrowings fell slightly from the prior year. As at 31 March 2015, TfL had a nominal £8.548 billion of debt, of which approximately £0.8 billion was short-term borrowing under the Commercial Paper Programme. The weighted average interest rate was 3.81 per cent and the borrowings had a weighted average remaining life to maturity of 21.5 years. As at 31 March 2016, the nominal value of debt outstanding had increased to £9.148 billion, of which £0.8 billion was short-term Commercial Paper. The weighted average interest rate was 3.70 per cent and the borrowings had a weighted average life to maturity of 19.9 years.

The increase in interest payable on direct borrowings was offset by an increase in the amount of interest capitalised into the cost of qualifying property, plant and equipment. Interest capitalised rose from £74 million in 2014/15 to £106 million in 2015/16. Interest payable on finance leases, including contingent rentals in respect of Private Finance Initiatives ('PFIs') also fell from £52 million in 2014/15 to £47 million in 2015/16 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 reduced from £102 million in 2014/15 to £92 million in 2015/16.

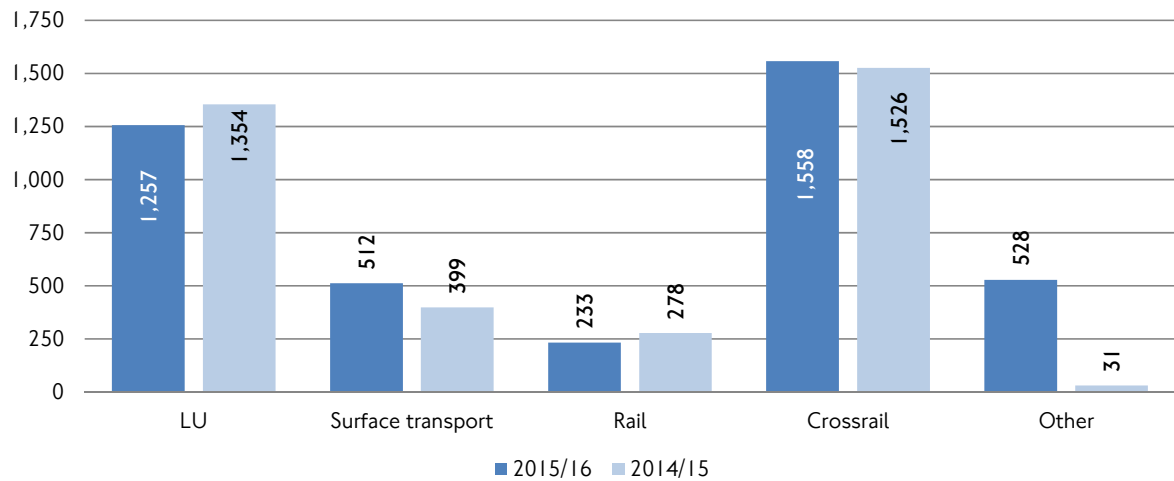
Narrative Report and Financial Review (continued)

Financing and investment income totalled £82 million, a reduction of £147 million from the previous year. This was due primarily to a lower gain recognised on the revaluation of investment properties. In 2014/15 a gain of £200 million was recognised, reflecting the revaluation of the Group's development site at Earl's Court. During 2015/16, the Group's investment in these properties was transferred into an associated undertaking, Earls Court Partnership Limited. The gain recognised in 2015/16 on the remaining investment property portfolio was £50 million. The net gain realised on the disposal of investment properties, however, increased from £1 million in 2014/15 to £5 million in 2015/16.

Higher average yields achieved on investments during 2015/16 were offset by falling investment balances to result in a return on investments for the year of £26 million, slightly below the 2014/15 figure of £28 million.

Capital expenditure

Capital expenditure by business area (£m)



Total capital expenditure for the year was £4,088 million (2014/15 £3,588 million).

London Underground's major projects continued to make good progress.

Station modernisation is a part of London Underground's strategic programme to relieve congestion throughout the city. At Victoria, the connection of the tunnels joining the new north ticket hall and the enlarged south ticket hall was completed. The south ticket hall floor slab has been fully cast and work started on the construction of the lift that connects the existing Network Rail concourse to the enlarged London Underground ticket hall. The civils and structural works for the north ticket hall have been completed and the testing and commissioning of the station systems is progressing well.

Narrative Report and Financial Review (continued)

The Central line platforms at Tottenham Court Road re-opened following an 11 month closure, during which time a new step-free access lift shaft; a new passageway that will link to the new larger ticket hall; refitted platforms; and refurbished escalators were constructed. The closure also included restoration of the celebrated Eduardo Paolozzi mosaics.

At Tufnell Park station two lifts were replaced with new, more energy efficient models, contributing towards TfL's commitment to reduce the carbon footprint of Tube stations. Advantage was taken of the station closure to refurbish the ticket hall with an extra ticket gate, an automatic wide aisle gate and an improved customer information area. The station was re-opened to customers ahead of schedule.

During the year a major Automatic Train Control (ATC) signal supply contract was awarded and the fit-out of ATC equipment on trains has begun. This drives forward our work to increase capacity and improve customer journey time with a more frequent and reliable service. As part of this work, we aim to deliver a 36 trains per hour peak service across the Victoria line during 2016. We have also now replaced the deep level crossover at Walthamstow and installed new, more reliable point machines.

A new crossover was installed on the Metropolitan line at King's Cross St. Pancras during the Christmas period. This required major signals remodelling and the changes will support the Four Lines Modernisation (4LM) Automatic Train Control (ATC) project achieving 32 trains per hour.

Work has begun on extending the Northern line to Battersea which will include building two new stations at Nine Elms and Battersea.

In November 2015, TfL committed to extend the Metropolitan Line from Croxley to Watford Junction via Watford High Street for Hertfordshire District Council. It will link to the current London Overground services at Watford High Street, before terminating at Watford Junction for an interchange with the West Coast Mainline services. Two new stations will be created at Cassiobridge and Watford Vicarage Road. The aim is to complete the link by late 2020.

Capital expenditure of £233 million was incurred by London Rail in 2015/16. Work to lengthen trains from four carriages to five which began in November 2014, has now been completed on time and on budget. The new carriages, which increase passenger capacity on the East London, West London, North London and Euston to Watford routes by 25 per cent, will help meet the increasing demand for the highly popular rail service and provide room for an extra 170 passengers per train.

Overground stations have been brought up to modern standards, with CCTV, better security, a turn up and go service for disabled Londoners and staff present at every station at all times.

Narrative Report and Financial Review (continued)

Improvements were also completed on a new interchange between Hackney Downs and Hackney Central stations. The 200m-long covered walkway includes lifts, monitored CCTV and bright lighting – making journeys quicker, safer and more accessible. It will mean passengers at Hackney Central can easily access trains to North London or to Liverpool Street via Hackney Downs, and those at Hackney Downs can easily access trains to Stratford or Highbury & Islington via Hackney Central.

DLR has embarked on a programme to reconfigure the seating on its trains. The works will improve how standing space in the vehicles is used by creating a more open environment which encourages customers to move away from the crowded vestibules. The existing transverse seats are being rotated to provide longitudinal seating, whilst maintaining the overall number of seats. Some draught screens are also to be removed to open up more areas of the train for standing.

In Surface Transport, £512 million was spent on capital works. Most of the expenditure has been on the annual programme of asset replacement and renewal, ensuring London's highways, traffic and bus infrastructure is maintained in a good state of repair. During the year a number of large-scale renewal schemes have progressed including work at Power Road bridge and Ardleigh Green bridge, works completed at Chiswick bridge and on the Fore Street tunnel, plus the project to strengthen the Hammersmith flyover.

In addition, Surface Transport invests to enhance and develop London's transport infrastructure. TfL's cycling programme remains a priority with more significant investment this year. Major progress has been made implementing the network of Cycle Superhighways, including the new segregated East-West and North-South routes. Implementation of the Central London Grid and Quietways programme has also started. Schemes aimed primarily at improving safety at junctions for cyclists are being implemented at Oval and Stockwell and work at the Elephant and Castle roundabout provides enhanced pedestrian and cycle facilities along with high quality urban realm in the area.

Major activity to enhance traffic signals technology and associated communications infrastructure also continued apace, including a project to digitise the capital's Safety Cameras. Furthermore, the New Routemaster bus continues to be introduced on a route by route basis.

During the year, £1,558 million was spent on the Crossrail project. This takes total expenditure on the project to date to some £9 billion including the acquisition of land and property. By the end of the year, the Crossrail project was nearing 75 per cent completion. The eight Tunnel Boring Machines finished their journeys under central London in May 2015. With the tunnels delivered, construction on Crossrail's central section moved on to the fitting out of tunnels, shafts and portals and the continuing build of new stations. In February 2016, Her Majesty Queen Elizabeth II visited the Crossrail station at Bond Street when it was announced the new railway will be known as the Elizabeth line in her honour when services through central London open in December 2018. The announcement followed TfL unveiling designs for the new trains, which will enter service from May 2017 before the project is fully completed in 2019.

Narrative Report and Financial Review (continued)

Other capital expenditure in 2015/16 includes the Group's investment in its associated undertaking, Earls Court Partnership Limited. During the year cash and property to a value of £447 million have been invested in the equity of this vehicle, established, in conjunction with Capital & Counties Properties PLC, to enable the development of the Earls Court site in line with the Earls Court masterplan. The masterplan will deliver 7,500 new homes and an estimated 10,000 new jobs. It will also see the development of a new primary school, a new leisure centre and new health facilities as well as community and cultural spaces. Thirty-seven acres of green open space will be provided, including a new five acre park and there will be significant improvements to the transport infrastructure at Earls Court, West Kensington and West Brompton Underground stations.

Cash and investments

Total cash, cash equivalents and investments with maturities greater than three months held by the Group at 31 March 2016 amounted to £3,314 million. The average yield from TfL's cash investments for 2015/16 was 0.56 per cent, up from 2014/15 (0.54 per cent). The low investment yields reflect the conservative nature of TfL's investment strategy and continued low interest rates. Earmarked reserves for TfL's future Investment Programme at 31 March 2016 amount to £1,275 million, with an additional £1,794 million being set aside for Crossrail.

Treasury risk management

The Board annually 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 and Policy 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 (passenger levels, fare revenue and costs) and its financial activities (financial costs and investment returns on cash balances). TfL's borrowing strategy for 2015/16 remained largely unchanged from 2014/15, with TfL's objective remaining the management of its borrowings in a manner that combines flexibility, security of access to funds, diversity of funding sources and value for money. TfL's investment strategy remained largely unchanged in 2015/16.

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

Narrative Report and Financial Review (continued)

Counterparty credit

The Group's exposure to credit-related losses, i.e. non-performance by counterparties on financial instruments, is mitigated by setting a minimum required credit rating and applying financial limits based on credit ratings. For 2015/16, TfL continued to follow a conservative investment strategy, investing in: the UK Government and its executive agency, the UK Debt Management Office ('DMO'); UK Government guaranteed investments; 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 and US Dollars which were swapped back into Sterling as a matter of course. The amounts that can be invested with the UK Government and its DMO were not limited, while amounts invested with other institutions were based on their credit rating. The minimum rating was A-/A3. Credit ratings are obtained from the three main ratings agencies and are kept under constant review.

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 2016 is set out in Note 30 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.

Interest rates

The Board has approved parameters of a minimum of 50 per cent fixed-rate on existing debt 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 99.4 per cent; the remaining 0.6 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 revolving basis.

Pensions

As at 31 March 2016, the majority of TfL's employees were members of the TfL Pension Fund. Over the past year, there was an increase in the actuarial value of future liabilities recorded by the Group in respect of this scheme of £263 million, reflecting a change in financial assumptions. This was compounded by a reduction in the fair value of the assets recorded, which fell by £59 million, reflecting a negative return on assets for the year. As a consequence, the deficit of pension scheme assets to future liabilities recognised in respect of the TfL Pension Fund increased by a total of £322 million.

Narrative Report and Financial Review (continued)

The total deficit recognised in respect of all funded and unfunded pension arrangements at 31 March amounted to £3,208 million (2015 £2,895 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.

Prospects and outlook

In March 2016, TfL published a Budget to 2016/17 and an updated Business Plan for the next five years to 2020/21. The investment set out in the Business Plan is designed to support London's projected population growth from 8.6 million today to over 10 million people by 2030 and the accompanying growth in employment.

Many schemes are in progress to ensure that our services can meet the demands of a growing population, including:

- The Elizabeth Line, which is expected to deliver a 10 per cent increase in rail-based network capacity in London from 2018/19. In 2015/16, Crossrail construction approached 75 per cent completion and MTR Corporation began operating services under the 'TfL Rail' brand between Shenfield and Liverpool Street. Good progress has been made on the construction of the new Crossrail Depot and Stabling facilities at Old Oak Common; and the production of the new Rolling Stock (Class 345) is on track to deliver the first train into service in May 2017.
- Crossrail 2, a new railway serving London and South East England, which the recently formed National Infrastructure Commission recommended (and the Government accepted) should be taken forward as a priority. Crossrail 2 would run underground through the west end and link into the existing national rail networks at Wimbledon and Tottenham Hale, unlocking thousands of new homes and jobs, and helping to tackle the capacity crunch at Clapham Junction and Waterloo.
- In 2015 the ambitious target of reducing tube delays by 30 per cent was achieved. A huge transformation of London Underground continues, including the development of the Northern and Metropolitan line extensions; modernisation of the Metropolitan, District, Hammersmith & City and Circle line signalling system; and more new trains designed to make journeys faster and more reliable on these sub-surface lines.
- The Northern line extension will connect Kennington to Battersea Power Station, with a new intermediate station at Nine Elms. The extension will be designed and developed with latent capacity, and will be able to accommodate at least 30 trains an hour in the peak.
- Major upgrades to improve stations, including Tottenham Court Road, Bond Street, Bank and Victoria.

Narrative Report and Financial Review (continued)

- The Four Lines modernisation upgrade is one of the most important investments currently being made on the Underground. The Metropolitan, District, Hammersmith & City and Circle lines make up 40 per cent of the Underground network and to improve reliability and ensure a world-class service on these lines, a programmed replacement of fleet, signalling and supporting systems is underway.
- Capacity increases on the London Overground providing a 25 per cent increase to the West London line, North London line, East London line and Euston to Watford line have been completed. In 2016/17, Network Rail will complete the preparation work needed for us to introduce electric four-car trains on the Gospel Oak to Barking line, providing new trains to realise further capacity increases.
- Contactless payment has risen steadily and now accounts for 26 per cent of all pay as you go Tube and rail journeys, and 23 per cent of bus trips.
- A £4 billion investment programme, over 10 years from 2013/14, of renewal and modernisation to transform London's road network and making junctions safer. Work in 2016/17 will include major enhancements at Elephant and Castle, Wandsworth town centre, Croydon Fiveways, Euston Road, Old Street and Vauxhall Cross. We will also replace four road-over-rail bridges – Highbury Corner Bridge, Upper Holloway Bridge and structures at Ardleigh Green and Power Road.
- Maintaining London's bus services at record levels of customer satisfaction, reflecting our focus on continued improvement in customer service, information, passenger comfort and driver performance. We will continue to review the bus network and introduce congestion mitigation measures, such as bus priority and active travel management.
- Cycling will continue to be a major method of transport in the city, with a combination of Cycle Superhighways and Quietways to complement the other cycling programmes.
- Working with the Government and City Hall to fund and deliver measures in its National Air Quality Action Plan, for instance the Ultra Low Emission Zone and reducing emissions from buses and taxis.
- The Silvertown Tunnel is one of 13 new river crossings that are planned to be delivered by 2050, and work will continue to realise this vision.
- The new advertising contract awarded to Exterior Media goes live from October 2016. This contract is based on TfL bearing revenue risk without a minimum guaranteed revenue and funding capital investment in its estate. TfL expects to earn greater revenues through bearing more exposure to the performance of the out of home advertising market and GDP than it would have under a contract with a minimum guaranteed revenue.
- The development and sale of property is expected to generate £327 million net of investment over the next five years.

Narrative Report and Financial Review (continued)

Key Risks

TfL is subject to a number of risks which could impact the delivery of our strategic priorities and the potential financial and non-financial impacts. They include:

- Exposure to various economic risks, such as disruption to financial markets affecting our ability to borrow and/or lower than forecast GDP growth;
- London Property market risk, planning risk, the challenges associated with releasing sites from operational use and the risk of a need to compromise the value of sites in favour of other priorities;
- Knowledge retention from key staff, as well as continuing negotiations with trade unions that could affect the levels of service provision;
- A disruption to service quality as large-scale asset renewal and replacement programmes, frequent line or major station closures, and changes to operational procedures and resource requirements after upgrades are completed;
- Domestic or international terrorism and other security threats that may cause casualties, disrupt service, damage assets and create fear among the travelling public;
- An information or cyber security incident or the failure of critical IT systems (applications, networks and infrastructure) impacting business operations and support services;
- Key elements of investment programmes not being delivered on time and to budget or delivering expected benefits; and
- Targets set by external stakeholders not being met, including targets for improved air quality.

Where appropriate, we adopt risk-specific mitigation strategies to limit our exposure. We maintain a general fund to ensure liquidity and protect us from short-term effects that may arise from specific risks.

We are currently reviewing strategic risk management and the Strategic Risk Register and reporting documentation is being refreshed. This will mean we can provide more useful and simplified strategic risk information to support decision making.

We continue to work with the Audit and Assurance Committee to enhance the way we manage strategic risks, and provide regular updates at these meetings. In addition, we are investing in training and systems so our employees can manage risk more effectively and efficiently.

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.

Narrative Report and Financial Review (continued)

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 2015/16 (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 Movement in Reserves Statements
- The Statement of Accounting Policies
- Statement of Responsibilities for the Accounts
- Notes to the Group and Corporation financial statements

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

Purposes of major schedules within the financial statements

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

Comprehensive Income and Expenditure Statement

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

Narrative Report and Financial Review (continued)

The Balance Sheet

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

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 fares income and grant. 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.

Appointment of New Auditor

In December 2014, the Audit Commission notified TfL that they would be appointing Ernst & Young LLP as TfL's auditor for two years commencing with the audit of the 2015/16 financial statements, with the potential for this appointment to be extended by up to a further three years. Ernst & Young LLP have been duly appointed and this is therefore the first year of their audit.

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 (its 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 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 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.

Ian Nunn

Chief Finance Officer

2016

Independent Auditor's Report to Transport for London

We have audited the financial statements of Transport for London ('the Corporation') and the Transport for London Group ('the Group') for the year ended 31 March 2016 which comprise the Corporation and Group Comprehensive Income and Expenditure Statements, the Corporation and Group Balance Sheets, the Corporation and Group Movement in Reserves Statements, the Corporation and Group Cash Flow Statements and the related notes, as set out on pages X to X. These financial statements have been prepared under applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2015/16.

This report is made solely to Transport for London in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to Transport for London those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Transport for London for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities set out on page X, the Chief Finance Officer is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Transport for London's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Group and the Corporation as at 31 March 2016 and of the Group's and Corporation's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the Comptroller and Auditor General's Code of Audit Practice as published in 2015.

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

Matters on which we report by exception

We have nothing to report in respect of the following matters where the Code of Audit Practice requires us to report to you if:

- the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the Narrative Report and Financial Review and the content of the Annual Report for the financial year for which the financial statements are prepared is inconsistent with the financial statements; or
- any matters have been reported in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the end of, the audit; or
- any application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014; or
- any advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014; or
- any application has been made for judicial review under Section 31 of the Local Audit and Accountability Act 2014; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014

Conclusion on the Corporation's arrangements for securing economy, efficiency and effectiveness in the use of resources

Corporation's responsibilities

The Corporation is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 20 of Local Audit and Accountability Act 2014 to satisfy ourselves that the Corporation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

Basis of conclusion

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the National Audit Office in November 2015, as to whether the Corporation has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the national Audit Office in November 2015 we are satisfied that, in all significant respects, the Corporation put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

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

Karl Havers (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP,
Statutory Auditor

London
E14 5GL

[] July 2016

Group Comprehensive Income and Expenditure Statement

Year ended 31 March	Note	2016 £m	2015 £m
Highways and Transport Services			
Gross income	1	5,288.6	5,039.2
Gross expenditure	3	(7,436.2)	(7,054.9)
Net cost of services	2	(2,147.6)	(2,015.7)
Other net operating expenditure	6	(46.2)	(19.5)
Financing and investment income	7	81.6	229.3
Financing and investment expenditure	8	(418.7)	(450.7)
Grant income	9	3,510.9	4,560.1
Group share of profit after tax of associated undertakings	15	25.9	-
Surplus on the provision of services before tax	2	1,005.9	2,303.5
Taxation income	10	2.2	-
Surplus on the provision of services after tax		1,008.1	2,303.5
Other comprehensive income and expenditure			
Items that will not be subsequently reclassified to profit or loss			
Surplus on the revaluation of property, plant and equipment *	12	108.0	99.2
Net remeasurement losses on defined benefit pension schemes *	31	(162.1)	(293.7)
		(54.1)	(194.5)
Items that may be subsequently reclassified to profit or loss			
Movement in the fair value of derivative financial instruments *	33	17.4	(33.4)
Movement in the fair value of available for sale financial investments *	33	(0.1)	0.1
Derivative fair value loss recycled to income and expenditure *	33	7.5	7.2
		24.8	(26.1)
		(29.3)	(220.6)
Total comprehensive income and expenditure		978.8	2,082.9

* There is no tax effect of these items on other comprehensive income and expenditure in the years ended 31 March 2016 or 2015 (note 10).

Group Balance Sheet

	Note	31 March 2016 £m	31 March 2015 £m
Long-term assets			
Intangible assets	11	122.8	123.8
Property, plant and equipment	12	34,402.6	31,862.2
Investment property	13	517.7	437.8
Equity accounted investment in associated undertakings	15	473.0	-
Long-term investments	19	-	10.1
Derivative financial instruments	25	7.1	-
Long-term debtors	17	691.8	868.3
		36,215.0	33,302.2
Current assets			
Inventories	16	70.6	53.9
Short-term debtors	17	1,262.4	608.6
Assets held for sale	18	-	375.7
Short-term derivative financial instruments	25	5.1	22.6
Short-term investments	19	3,162.3	4,548.4
Cash and cash equivalents	20	152.1	119.4
		4,652.5	5,728.6
Current liabilities			
Short-term creditors	21	(2,187.9)	(2,095.8)
Short-term borrowings	22	(832.1)	(784.3)
Short-term finance lease liabilities	23	(94.3)	(86.6)
Short-term derivative financial instruments	25	(21.3)	(1.3)
Short-term provisions	26	(220.7)	(230.2)
		(3,356.3)	(3,198.2)
Long-term liabilities			
Long-term creditors	21	(79.8)	(105.5)
Long-term borrowings	22	(8,281.0)	(7,730.0)
Long-term finance lease liabilities	23	(564.8)	(659.4)
Long-term derivative financial instruments	25	(94.9)	(101.3)
Long-term provisions	26	(46.4)	(84.4)
Retirement benefit obligation	31	(3,208.2)	(2,894.7)
		(12,275.1)	(11,575.3)
Net assets		25,236.1	24,257.3
Reserves			
Usable reserves		3,233.2	4,660.6
Unusable reserves	33	22,002.9	19,596.7
Total reserves		25,236.1	24,257.3

The notes on pages X to X form part of these financial statements. These financial statements were approved by the Board on 19 July 2016 and signed on its behalf by:

Sadiq Khan,
Chair of TfL

Group Movement in Reserves Statement

	Note	General fund £m	Earmarked reserves £m	Street works reserve £m	Capital grants unapplied account £m	Usable reserves £m	Unusable reserves £m	Total reserves £m
At 1 April 2014		156.6	1,969.6	2.5	2,547.1	4,675.8	17,498.6	22,174.4
Movement in reserves during 2014/15								
Surplus on the provision of services after tax		1,543.8	-	-	-	1,543.8	759.7	2,303.5
Other comprehensive income and expenditure		-	-	-	-	-	(220.6)	(220.6)
Total comprehensive income and expenditure		1,543.8	-	-	-	1,543.8	539.1	2,082.9
Adjustments between accounting basis and funding basis under regulations	35	(1,785.2)	-	4.3	221.9	(1,559.0)	1,559.0	-
Net (decrease)/increase before transfer to/from earmarked reserves		(241.4)	-	4.3	221.9	(15.2)	2,098.1	2,082.9
Transfer to/from earmarked reserves		234.8	(234.8)	-	-	-	-	-
(Decrease)/increase in 2014/15		(6.6)	(234.8)	4.3	221.9	(15.2)	2,098.1	2,082.9
Balance at 31 March 2015		150.0	1,734.8	6.8	2,769.0	4,660.6	19,596.7	24,257.3
Movement in reserves during 2015/16								
Surplus on the provision of services after tax		911.9	-	-	-	911.9	96.2	1,008.1
Other comprehensive income and expenditure		-	-	-	-	-	(29.3)	(29.3)
Total comprehensive income and expenditure		911.9	-	-	-	911.9	66.9	978.8
Adjustments between accounting basis and funding basis under regulations	35	(1,371.6)	-	7.1	(974.8)	(2,339.3)	2,339.3	-
Net (decrease)/increase before transfer to/from earmarked reserves		(459.7)	-	7.1	(974.8)	(1,427.4)	2,406.2	978.8
Transfer to/from earmarked reserves		459.7	(459.7)	-	-	-	-	-
(Decrease)/increase in 2015/16		-	(459.7)	7.1	(974.8)	(1,427.4)	2,406.2	978.8
Balance at 31 March 2016		150.0	1,275.1	13.9	1,794.2	3,233.2	22,002.9	25,236.1

Group Movement in Reserves Statement (continued)

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	2016 £m	2015 £m
Surplus on the provision of services after tax		1,008.1	2,303.5
Adjustments to surplus after tax for non-cash movements	32 a	(1,044.7)	(2,217.1)
Net cash flows from operating activities		(36.6)	86.4
Investing activities	32 b	(135.0)	(353.1)
Financing activities	32 c	204.3	249.8
Increase/(decrease) in net cash and cash equivalents in the year		32.7	(16.9)
Net cash and cash equivalents at the start of the year		119.4	136.3
Net cash and cash equivalents at the end of the year	20	152.1	119.4

Corporation Comprehensive Income and Expenditure Statement

Year ended 31 March	Note	2016 £m	2015 £m
Highways and Transport Services			
Gross income		378.9	390.1
Gross expenditure	3	(1,154.9)	(1,078.3)
Net cost of services		(776.0)	(688.2)
Other net operating expenditure	6	(25.6)	(2.1)
Financing and investment income	7	347.9	304.4
Financing and investment expenditure	8	(446.5)	(439.8)
Grant income	9	3,468.0	4,512.4
Grant funding of subsidiaries		(1,655.9)	(2,142.9)
Surplus on the provision of services		911.9	1,543.8
Other comprehensive income and expenditure			
Items that will not be subsequently reclassified to profit or loss			
Net remeasurement losses on defined benefit pension schemes	31	(167.2)	(300.9)
		(167.2)	(300.9)
Items that may be subsequently reclassified to profit or loss			
Movement in the fair value of available for sale financial investments	33	(0.1)	0.1
		(0.1)	0.1
		(167.3)	(300.8)
Total comprehensive income and expenditure		744.6	1,243.0

Corporation Balance Sheet

	Note	31 March 2016 £m	31 March 2015 £m
Long-term assets			
Intangible assets	11	62.5	40.6
Property, plant and equipment	12	3,751.1	3,609.6
Investment property	13	13.0	16.2
Investments in subsidiaries	14	7,262.5	5,432.5
Long-term investments	19	-	10.1
Long-term debtors	17	8,692.5	8,105.4
		19,781.6	17,214.4
Current assets			
Inventories	16	2.2	1.6
Short-term debtors	17	735.3	290.3
Short-term investments	19	3,146.3	4,521.9
Cash and cash equivalents	20	19.6	53.7
		3,903.4	4,867.5
Current liabilities			
Short-term creditors	21	(592.5)	(605.4)
Short-term borrowings	22	(832.1)	(784.3)
Short-term finance lease liabilities	23	(11.1)	(10.9)
Short-term provisions	26	(101.9)	(128.0)
		(1,537.6)	(1,528.6)
Long-term liabilities			
Long-term creditors	21	(19.8)	(14.7)
Long-term borrowings	22	(8,288.8)	(7,738.4)
Long-term finance lease liabilities	23	(153.5)	(164.6)
Long-term provisions	26	(37.7)	(78.1)
Retirement benefit obligation	31	(3,208.2)	(2,862.7)
		(11,708.0)	(10,858.5)
Net assets		10,439.4	9,694.8
Reserves			
Usable reserves		3,233.2	4,660.6
Unusable reserves	33	7,206.2	5,034.2
Total reserves		10,439.4	9,694.8

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

These financial statements were approved by the Board on 19 July 2016 and signed on its behalf by:

Sadiq Khan,

Chair of TfL

Corporation Movement in Reserves Statement

	Note	General fund £m	Earmarked reserves £m	Street works reserve £m	Capital grants unapplied account £m	Usable reserves £m	Unusable reserves £m	Total reserves £m
At 1 April 2014		156.6	1,969.6	2.5	2,547.1	4,675.8	3,776.0	8,451.8
Movement in reserves during 2014/15								
Surplus on the provision of services		1,543.8	-	-	-	1,543.8	-	1,543.8
Other comprehensive income and expenditure		-	-	-	-	-	(300.8)	(300.8)
Total comprehensive income and expenditure		1,543.8	-	-	-	1,543.8	(300.8)	1,243.0
Adjustments between accounting basis and funding basis under regulations	35	(1,785.2)	-	4.3	221.9	(1,559.0)	1,559.0	-
Net (decrease)/increase before transfer to/from earmarked reserves		(241.4)	-	4.3	221.9	(15.2)	1,258.2	1,243.0
Transfer to/from earmarked reserves		234.8	(234.8)	-	-	-	-	-
(Decrease)/increase in 2014/15		(6.6)	(234.8)	4.3	221.9	(15.2)	1,258.2	1,243.0
Balance at 31 March 2015		150.0	1,734.8	6.8	2,769.0	4,660.6	5,034.2	9,694.8
Movement in reserves during 2015/16								
Surplus on the provision of services		911.9	-	-	-	911.9	-	911.9
Other comprehensive income and expenditure		-	-	-	-	-	(167.3)	(167.3)
Total comprehensive income and expenditure		911.9	-	-	-	911.9	(167.3)	744.6
Adjustments between accounting basis and funding basis under regulations	35	(1,371.6)	-	7.1	(974.8)	(2,339.3)	2,339.3	-
Net (decrease)/increase before transfers to/from earmarked reserves		(459.7)	-	7.1	(974.8)	(1,427.4)	2,172.0	744.6
Transfer to/from earmarked reserves		459.7	(459.7)	-	-	-	-	-
(Decrease)/increase in 2015/16		-	(459.7)	7.1	(974.8)	(1,427.4)	2,172.0	744.6
Balance at 31 March 2016		150.0	1,275.1	13.9	1,794.2	3,233.2	7,206.2	10,439.4

Corporation Movement in Reserves Statement (continued)

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	2016 £m	2015 £m
Surplus on the provision of services		911.9	1,543.8
Adjustments to surplus after tax for non-cash movements	32 a	(1,892.7)	(1,758.1)
Net cash flows from operating activities		(980.8)	(214.3)
Investing activities	32 b	703.1	(59.9)
Financing activities	32 c	243.6	318.6
(Decrease)/increase in net cash and cash equivalents in the year		(34.1)	44.4
Net cash and cash equivalents at the start of the year		53.7	9.3
Net cash and cash equivalents at the end of the year	20	19.6	53.7

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 2015/16 (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 2015/16 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 2016, the Group had usable reserves totalling £3,233.2m.

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 IFRS 19 Defined Benefit Plans: Employee Contributions. The amendments to IAS 19 clarify the accounting treatment for contributions made by employees or third parties to a defined benefit plan. According to the amendments, discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan. When the formal terms of the plan specify contributions from employees or third parties, the accounting depends on whether the contributions are linked to service. If contributions are linked to services they reduce service costs. If they are not linked to services they affect, they impact the remeasurement of the net defined benefit liability.
- Amendments to IFRSs Annual Improvements to IFRSs 2010-2012 Cycle (Mandatory for years beginning on or after 1 July 2014). The amendments are as follows:
 - IFRS 2 Share-based Payment. The amendment is to clarify the definition of vesting condition and market condition to ensure consistent classification of conditions attached to a share based payment;
 - IFRS 3 Business Combinations. The amendment clarifies that contingent consideration should be measured at fair value at each reporting date, irrespective of whether or not the contingent consideration falls within the scope of IFRS 9 or IAS 39. Changes in fair value (other than measurement period adjustments as defined in IFRS 3) should be recognised in profit and loss;
 - IFRS 8 Operating Segments. The amendment requires an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments and clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if information about the amount of the segment assets are regularly provided to the chief operating decision-maker;
 - IFRS 13 Fair Value Measurement. The amendment clarifies that the issuance of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial;
 - IAS 16 Property, Plant and Equipment; IAS 38 Intangible Assets. The amendments remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between gross carrying amount and the carrying amount after taking into account accumulated impairment losses; and

Accounting Policies (continued)

e) The application of new and revised standards (continued)

- IAS 24 Related Party Disclosures. The amendment clarifies that a management entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. Disclosure of the components of compensation to key management personnel that is paid by the management entity to the management entity's employees or directors is not required.
- Amendments to IFRSs Annual Improvements to IFRSs 2011–2013 Cycle (Mandatory for years beginning on or after 1 July 2014). The amendments are as follows:
 - IFRS 3 Business Combinations. The amendment clarifies that IFRS 3 does not apply to the accounting for the formation of joint arrangement in the financial statements of the joint arrangement itself;
 - IFRS 13 Fair Value Measurement. The amendment clarifies that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32; and
 - IAS 40 Investment Property. The amendment clarifies that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required.

In addition TfL has applied IFRS 13 Fair Value Measurement for the first time in these financial statements. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

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). 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.

Accounting Policies (continued)

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

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. The revised standard is mandatory for years beginning on or after 1 January 2018;

- IFRS 14 Regulatory Deferral Accounts (mandatory for years commencing on or after 1 January 2016). This specifies the accounting for regulatory deferral account balances for entities that recognised regulatory deferral account balances under their previous GAAP. This does not apply to the TfL Group;
- IFRS 15 Revenue from Contracts with Customers (mandatory for years beginning on or after 1 January 2017). 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;
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (mandatory for years commencing on or after 1 January 2016). These amendments provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business;
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (mandatory for years commencing on or after 1 January 2016). The amendments prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment; whilst the amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset;
- IAS 1 Disclosure Initiative (mandatory for years on or after 1 January 2016). The amendments clarify the concept of materiality in practice as the wording of some of the requirements in IAS 1 has in some cases been read to prevent the use of judgement;
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (mandatory for years commencing on or after 1 January 2016). This does not apply to TfL;
- Amendments to IAS 27 Equity Method in Separate Financial Statements (mandatory for years beginning on or after 1 January 2016). The amendments focus on separate financial statements and allow the use of the equity method to account for investments in subsidiaries, joint ventures and associates in such statements;
- 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 1 January 2016);

Accounting Policies (continued)

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

- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (mandatory for years beginning on or after 1 January 2016). The amendments clarify that the exemption from preparing financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. Consequential amendments have also been made to IAS 28 to clarify that the exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity that measures all its subsidiaries at fair value; and
- IFRS 16 Leases (mandatory for years beginning on or after 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.

In addition, CIPFA/LASAAC has stated that the 2016/17 edition of the Code will adopt the measurement requirements of the CIPFA Code of Practice on Transport Infrastructure Assets, as amended in 2013. This Code of Practice will require all Highways infrastructure assets to be categorised as a separate 'Highways Network Asset' to be measured on a Depreciated Replacement Cost (DRC) basis, as opposed to the current depreciated historic cost basis. This will represent a change in accounting policy from 1 April 2016. However, exceptionally, the 2016/17 Code will include an adaptation to IAS 1 for the transition to measuring Highways assets at DRC such that there is no requirement to restate information for the year ended 31 March 2016, or for an opening balance as at 1 April 2016. The change shall therefore be accounted for as an adjustment to opening balances as at 1 April 2016.

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.

Accounting Policies (continued)

h) Uses of estimates and judgements (continued)

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 31.

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.

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 30 and the Accounting Policy on financial instruments (policy ag) 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.

Accounting Policies (continued)

h) Uses of estimates and judgements (continued)

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 26.

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.

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.

Accounting Policies (continued)

i) Revenue recognition (continued)

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. Prepayments by fleets of vehicles are deferred to the balance sheet and released on a daily basis as the vehicles enter 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 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.

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;
- London Rail – Provision of passenger rail services;
- Surface Transport – Provision of bus services and other surface transport, maintenance of London's roads, and cycle hire; and
- Corporate Directorate – Provision of TfL wide services, including property investment, commercial advertising, and the development of corporate strategy and policy.

Accounting Policies (continued)

k) Grants and other funding

The main source of grant funding is Transport Grant, which is divided into an Investment Grant element (a capital grant) and a General Grant element, which is classified as a resource grant under Section 101 of the GLA Act 1999. Other key funding streams include a share of Business Rate Retention received from the Greater London Authority, which is also 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 2015/16 (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.

Accounting Policies (continued)

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)

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
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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 100 years	Bridges and viaducts	up to 100 years
Track	up to 50 years	Road pavement	up to 15 years
Road foundations	up to 50 years	Signalling	15 to 40 years
Stations	up to 50 years	Other property	20 to 50 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.

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 ag) 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.

Accounting Policies (continued)

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

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.

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.

Accounting Policies (continued)

ae) Employee benefits (continued)

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.

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.

Accounting Policies (continued)

ae) Employee benefits (continued)

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) 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:

Accounting Policies (continued)

ag) Financial instruments (continued)

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.

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.

Accounting Policies (continued)

ag) Financial instruments (continued)

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.

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.

Accounting Policies (continued)

ag) Financial instruments (continued)

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 re-measured at fair value. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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

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

Hedge accounting

In order to qualify for hedge accounting, at inception of the transaction the Group formally designates and documents the hedging relationship, which includes the Group's risk management 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.

Accounting Policies (continued)

ag) Financial instruments (continued)

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.

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.

Accounting Policies (continued)

ag) Financial instruments (continued)

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.

Notes to the Financial Statements

I. Gross income

a) Gross income

Year ended 31 March	2016 £m	% of total	2015 £m	% of total
Fares	4,258.4	80.5	3,989.1	79.2
Revenue in respect of free travel for the elderly and disabled	328.3	6.2	321.0	6.4
Congestion Charging	258.4	4.9	257.4	5.1
Charges to London Boroughs	13.2	0.2	15.6	0.3
Charges to transport operators	10.8	0.2	10.7	0.2
Road Network compliance income	35.2	0.7	38.7	0.8
Commercial advertising receipts	114.9	2.2	169.5	3.4
Rents receivable	71.5	1.4	63.3	1.3
Contributions from third parties to operating costs	12.6	0.2	16.3	0.3
Taxi licensing	25.4	0.5	21.9	0.4
Ticket and photocard commission income	37.8	0.7	17.9	0.4
ATM and car parking income	15.9	0.3	12.3	0.2
Museum income	8.6	0.2	8.4	0.2
Training and specialist services	9.0	0.2	12.0	0.2
Cycle hire scheme	16.2	0.3	15.6	0.3
Other	72.4	1.3	69.5	1.3
	5,288.6	100.0	5,039.2	100.0

b) Congestion charging

	Group and Corporation 2016 £m	Group and Corporation 2015 £m
Income	258.4	257.4
Toll facilities and traffic management	(84.4)	(80.7)
	174.0	176.7
Administration, support services and depreciation	(5.7)	(4.2)
Net income from Congestion Charging	168.3	172.5

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

Notes to the Financial Statements

I. Gross income (continued)

c) Street works

	Group and Corporation 2016 £m	Group and Corporation 2015 £m
Income	12.0	6.3
Allowable operating costs of managing the lane rental scheme	(1.8)	-
Application of Street Works Reserve to projects reducing the adverse effects caused by street works	(1.3)	(1.6)
Net income recognised within net cost of services	8.9	4.7
Allowable capital costs of managing the lane rental scheme	(1.8)	(0.4)
Net income for the year transferred to the Street Works Reserve	7.1	4.3

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.

Notes to the Financial Statements (continued)

2. Segmental analysis

Decisions taken by the Board about resource allocation are made using internal management reports which show total expenditure. These management reports are presented on a segmental basis as shown below.

Year ended 31 March 2016

	London Underground £m	London Rail £m	Surface Transport £m	Corporate Items £m	Total £m
Income	2,740.7	499.7	1,952.3	95.9	5,288.6
Expenditure	(2,555.5)	(538.2)	(2,987.0)	(216.5)	(6,297.2)
Net operating income/(expenditure)	185.2	(38.5)	(1,034.7)	(120.6)	(1,008.6)

Year ended 31 March 2015

	London Underground £m	London Rail £m	Surface Transport £m	Corporate Items £m	Total £m
Income	2,634.6	351.1	1,974.6	78.9	5,039.2
Expenditure	(2,563.1)	(383.7)	(2,919.5)	(233.4)	(6,099.7)
Net operating income/(expenditure)	71.5	(32.6)	(944.9)	(154.5)	(1,060.5)

Notes to the Financial Statements (continued)

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. The main differences between the methodologies are explained below and reconciliations between the two are included on the following pages:

- Certain items which do not fit into any of the reporting segments are known internally as 'Group items'. Group items are reported separately to management and are not included in the segmental analysis.
- Depreciation, amortisation and impairment charges are not included in the segmental analysis.
- 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 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.

Notes to the Financial Statements (continued)

2. Segmental analysis (continued)

Reconciliation of net operating expenditure per the segmental analysis to net cost of services for the year ended 31 March 2016

	£m	£m
Net operating expenditure per the segmental analysis		(1,008.6)
Amounts included in the Comprehensive Income and Expenditure Statement not reported to management in the segmental analysis		
Depreciation (note 3)	(1,057.3)	
Amortisation (note 3)	(62.0)	
Pension service costs (note 31)	(381.0)	
		(1,500.3)
Amounts included in the segmental analysis not included in the Comprehensive Income and Expenditure Statement		
Capital and interest payments under the PFI schemes	71.3	
Pension payments charged to operating costs	290.0	
		361.3
Net cost of services		(2,147.6)

Notes to the Financial Statements (continued)

2. Segmental analysis (continued)

Reconciliation of net operating expenditure per the segmental analysis to net cost of services for the year ended 31 March 2015

	£m	£m
Net operating expenditure per the segmental analysis		(1,060.5)
Net expenditure of services not included in the segmental analysis		
Amounts included in the Comprehensive Income and Expenditure Statement not reported to management in the segmental analysis		
Depreciation (note 3)	(999.3)	
Amortisation (note 3)	(40.6)	
Pension service costs (note 31)	(320.4)	
		(1,360.3)
Amounts included in the segmental analysis not included in the Comprehensive Income and Expenditure Statement		
Capital and interest payments under the PFI schemes	112.4	
Pension payments charged to operating costs	292.7	
		405.1
Net cost of services		(2,015.7)

Notes to the Financial Statements (continued)

2. Segmental analysis (continued)

Reconciliation of segmental analysis to subjective analysis for the year ended 31 March 2016

	Net revenue cost per the segmental analysis £m	Amounts included in the Comprehensive Income and Expenditure Statement not reported to management in the segmental analysis £m	Amounts included in the segmental analysis not included in the Comprehensive Income and Expenditure Statement £m	Total £m
Income	5,288.6	-	-	5,288.6
Staff costs	(1,861.7)	(370.3)	290.0	(1,942.0)
Other service expenses	(4,435.5)	(10.7)	71.3	(4,374.9)
Depreciation, amortisation and impairment	-	(1,119.3)	-	(1,119.3)
Total cost	(6,297.2)	(1,500.3)	361.3	(7,436.2)
Net cost of services	(1,008.6)	(1,500.3)	361.3	(2,147.6)
Other net operating expenditure				(46.2)
Financing and investment income				81.6
Financing and investment expenditure				(418.7)
Grant income				3,510.9
Group share of profit after tax of associated undertakings				25.9
Surplus on the provision of services before taxation				1,005.9

Notes to the Financial Statements (continued)

2. Segmental analysis (continued)

Reconciliation of segmental analysis to subjective analysis for the year ended 31 March 2015

	Net revenue cost per the segmental analysis £m	Amounts included in the Comprehensive Income and Expenditure Statement not reported to management in the segmental analysis £m	Amounts included in the segmental analysis not included in the Comprehensive Income and Expenditure Statement £m	Total £m
Income	5,039.2	-	-	5,039.2
Staff costs ⁺	(1,786.2)	(310.1)	292.7	(1,803.6)
Other service expenses ⁺	(4,313.5)	(10.3)	112.4	(4,211.4)
Depreciation, amortisation and impairment	-	(1,039.9)	-	(1,039.9)
Total cost	(6,099.7)	(1,360.3)	405.1	(7,054.9)
Net cost of services	(1,060.5)	(1,360.3)	405.1	(2,015.7)
Other net operating expenditure				(19.5)
Financing and investment income				229.3
Financing and investment expenditure				(450.7)
Grant income				4,560.1
Surplus on the provision of services before taxation				2,303.5

⁺ Staff costs for 2014/15 have been restated to exclude the costs of British Transport Police Authority staff and officers working on the London Underground. Costs of these individuals are now included as non-staff costs within other service expenses in the table above.

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.

Notes to the Financial Statements (continued)

3. Gross expenditure

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

Note	Group 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Staff costs [†] :				
Wages and salaries *	1,423.8	1,351.6	291.1	254.6
Social security costs	135.8	127.9	27.9	24.7
Pension costs	31	324.1	153.8	83.2
	1,942.0	1,803.6	472.8	362.5
Other service expenditure **	4,374.9	4,211.4	468.1	526.9
Depreciation	12	999.3	186.2	173.0
Amortisation of software intangibles	11	40.6	27.8	15.9
	7,436.2	7,054.9	1,154.9	1,078.3

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

** Included in the Corporation's other service expenditure is £177.0m (2014/15 £173.1m) relating to financial assistance to London Boroughs and other third parties (see note 38 for detailed analysis). Other service expenditure also includes payments made under operating leases for the year of £98.7m for the Group (2014/15 £65.7m) and of £24.8m (2014/15 £18.2m) for the Corporation.

The average number of persons employed in the year was:

	Group 2016 Number	Group 2015 [†] Number	Corporation 2016 Number	Corporation 2015 Number
Permanent staff (including fixed term contracts)	27,501	26,090	5,501	4,751
Agency staff	2,882	2,480	859	544
	30,383	28,570	6,360	5,295

[†] Group staff costs and average staff numbers for 2014/15 have been restated to exclude the costs of British Transport Police Authority staff and officers working on the London Underground. Costs of these individuals have been reclassified as non-staff costs within other service expenditure.

Notes to the Financial Statements (continued)

4. External audit fees

External audit fees are made up as follows:

	Group 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Auditor's remuneration:				
for statutory audit services	0.9	1.2	0.2	0.2
for non-statutory audit services	-	0.1	-	-
for non-audit services *	-	0.3	-	0.1
	0.9	1.6	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.

Notes to the Financial Statements (continued)

5. Remuneration

a) Employees' remuneration

The Code requires the disclosure of remuneration for the Corporation's employees whose total remuneration in the year was £50,000 or more, grouped in rising bands of £5,000. The impact of the transfer of employees into and out of the Corporation from subsidiaries can cause distortion for year on year comparison purposes. Consequently, an additional voluntary disclosure for the Group is provided that shows the combined employee bands for TfL and its subsidiaries.

The remuneration disclosure is also affected by the Crossrail project. The number of employees of Crossrail Limited receiving total remuneration of £50,000 or more has increased from 272 in 2014/15 to 297 in 2015/16. The corresponding figures for those receiving total remuneration of more than £100,000 are 41 for 2014/15 and 56 for 2015/16.

Excluding Crossrail the number of staff receiving total remuneration over £100,000 is 402 (2014/15 413).

The disclosure in note 5a includes all senior employees also included in note 5b.

Notes to the Financial Statements (continued)

5. Remuneration (continued)

a) Employees' remuneration

Employees' remuneration, which includes their salaries, fees, performance related pay, benefits in kind, lump sums and termination payments, but excludes pension contributions paid by the employer, fell within the following bands:

£	Group 2016 Number	Group 2015 Number	Corporation 2016 Number	Corporation 2015 Number
50,000 – 54,999	4,260	4,503	478	417
55,000 – 59,999	2,231	2,172	405	358
60,000 – 64,999	1,647	1,510	319	257
65,000 – 69,999	1,164	1,110	248	208
70,000 – 74,999	812	762	231	165
75,000 – 79,999	613	543	148	108
80,000 – 84,999	404	338	86	74
85,000 – 89,999	239	231	63	55
90,000 – 94,999	178	179	37	37
95,000 – 99,999	140	121	37	32
100,000 – 104,999	85	106	28	31
105,000 – 109,999	69	72	19	20
110,000 – 114,999	59	45	23	16
115,000 – 119,999	49	36	10	9
120,000 – 124,999	31	23	6	7
125,000 – 129,999	25	27	7	12
130,000 – 134,999	18	13	5	4
135,000 – 139,999	10	14	2	3

Notes to the Financial Statements (continued)

5. Remuneration (continued)

£	Group 2016 Number	Group 2015 Number	Corporation 2016 Number	Corporation 2015 Number
140,000 – 144,999	15	11	4	5
145,000 – 149,999	7	12	1	1
150,000 – 154,999	5	12	4	4
155,000 – 159,999	10	8	4	5
160,000 – 164,999	7	8	4	4
165,000 – 169,999	7	6	2	1
170,000 – 174,999	2	5	-	-
175,000 – 179,999	4	6	1	3
180,000 – 184,999	4	6	1	3
185,000 – 189,999	1	2	1	1
190,000 – 194,999	1	2	-	-
195,000 – 199,999	3	3	2	1
200,000 – 204,999	7	3	2	1
205,000 – 209,999	3	3	3	2
210,000 – 214,999	4	2	3	1
215,000 – 219,999	2	2	-	2
220,000 – 224,999	3	5	3	-
225,000 – 229,999	5	1	1	-
230,000 – 234,999	1	3	1	2
235,000 – 239,999	-	2	-	1
240,000 – 244,999	1	-	1	-
245,000 – 249,999	1	1	-	-
250,000 – 254,999	4	1	1	-

Notes to the Financial Statements (continued)

5. Remuneration (continued)

£	Group 2016 Number	Group 2015 Number	Corporation 2016 Number	Corporation 2015 Number
255,000 – 259,999	2	1	-	-
260,000 – 264,999	1	1	-	-
265,000 – 269,999	-	1	-	1
270,000 – 274,999	-	1	-	-
275,000 – 279,999	1	-	-	-
280,000 – 284,999	1	-	-	-
290,000 – 294,999	-	2	-	1
300,000 – 304,999	3	-	1	-
320,000 – 324,999	2	1	2	1
335,000 – 339,999	1	1	1	-
345,000 – 349,999	1	-	1	-
350,000 – 354,999	-	1	-	1
360,000 – 364,999	-	1	-	1
390,000 – 394,999	1	1	-	1
420,000 – 424,999	-	1	-	-
435,000 – 439,999	1	-	1	-
475,000 – 479,999	-	1	-	1
775,000 – 779,999	1	-	-	-
870,000 – 874,999	-	1	-	-
Total	12,146	11,923	2,197	1,857

Notes to the Financial Statements (continued)

5. Remuneration (continued)

b) Remuneration for senior employees (continued)

The Accounts and Audit Regulations 2015 require disclosure of individual remuneration details for senior employees. Senior employees are those with a base salary of £150,000 or more, calculated on a full time equivalent basis for those working part-time.

Disclosure is made for each financial year under various categories, and set out in the tables below.

Employer's pension contributions include the contribution in respect of future benefit accrual. Separately, member contributions are payable by employees at the rate of five per cent of pensionable salary.

Salary, fees and allowances are disclosed on an earned basis to ensure that reported salary is based on annual salary rather than being distorted by the variable timing of payroll payments. Performance related pay, however, is reported on a cash paid basis as performance payments may not be determined for many months after the end of the relevant year.

Notes to the Financial Statements (continued)

5. Remuneration (continued)

b) Remuneration for senior employees

	Notes	Salary (including fees and allowances) 2015/16 £	Performance related pay for 2014/15 paid in year 2015/16** £	Compensation for loss of employment 2015/16 £	Benefits in kind 2015/16 £	Total remuneration excluding pension contributions 2015/16 £	Employer's contribution to pension 2015/16^ £	Salary (including fees and allowances) 2014/15 £	Performance related pay for 2013/14 paid in year 2014/15*** £	Total remuneration excluding pension contributions 2014/15**** £
Current employees excluding Crossrail										
Mike Brown, Commissioner	a	* 356,409	79,957	-	1,781	438,147	9,676	* 309,658	79,668	391,106
Nick Brown, Managing Director, Rail and Underground	b	* 314,880	9,069	-	-	323,949	-	* 86,814	-	86,814
Howard Carter, General Counsel	c	* 257,814	63,486	-	1,781	323,081	9,676	* 261,976	59,899	323,655
Leon Daniels, Managing Director, Surface Transport	d	273,760	73,886	-	1,781	349,427	14,352	277,768	72,030	351,578
Michèle Dix, Managing Director, Crossrail 2	e	173,086	35,904	-	1,770	210,760	22,315	206,740	52,102	260,622
Vernon Everitt, Managing Director, Customers, Communication and Technology	f	233,657	65,500	-	1,781	300,938	19,028	229,020	64,813	295,613
Ian Nunn, Chief Finance Officer	g	137,693	-	-	812	138,505	-	-	-	-
Miles Ashley, Programme Director Construction, Rail and Underground		153,535	21,000	-	1,389	175,924	27,883	143,768	28,000	173,153

Notes to the Financial Statements (continued)

5. Remuneration (continued)

	Notes	Salary (including fees and allowances) 2015/16 £	Performance related pay for 2014/15 paid in 2015/16** £	Compensation for loss of employment 2015/16 £	Benefits in kind 2015/16 £	Total remuneration excluding pension contributions 2015/16 £	Employer's contribution to pension 2015/16^ £	Salary (including fees and allowances) 2014/15 £	Performance related pay for 2013/14 paid in year 2014/15*** £	Total remuneration excluding pension contributions 2014/15**** £
Current employees excluding Crossrail										
Sarah Atkins, Commercial Director, Rail & Underground	h	* 187,362	25,600	-	1,389	214,351	-	* 185,297	28,888	215,570
Derek Baillie, Project Manager, Property Development	i	22,518	-	-	-	22,518	-	-	-	-
Justin Brand, Commercial Asset Management Director	j	107,787	-	-	457	108,244	21,132	-	-	-
Alan Bristow, Director of Road Space Management		* 163,833	24,975	-	1,389	190,197	-	* 136,897	22,000	160,282
Andrea Clarke, Director of Legal	k	148,832	29,000	-	1,389	179,221	27,606	137,808	26,100	165,293
Graeme Craig, Director of Commercial Development		175,000	25,000	-	1,389	201,389	29,682	150,000	22,500	173,885
Richard De Cani, Managing Director, Planning		* 191,416	32,375	-	1,389	225,180	27,689	* 155,278	26,000	182,735
Garrett Emmerson, Chief Operating Officer, Surface Transport	l	* 193,686	33,298	-	626	227,610	9,676	* 198,725	32,000	231,349
Stephen Field, Director of Pensions and Reward	m	* 189,988	30,970	-	1,389	222,347	9,676	* 185,436	27,565	214,386
Michael Flynn, New Tube for London Programme Director		178,426	23,200	-	1,389	203,015	30,468	163,157	12,614	177,156
Steve Griffiths, Chief Operating Officer, London Underground	n	247,747	-	-	1,278	249,025	27,646	-	-	-
Lester Hampson, Property Development Director	o	66,335	-	-	532	66,867	11,408	-	-	-

Notes to the Financial Statements (continued)

5. Remuneration (continued)

Notes	Salary (including fees and allowances) 2015/16 £	Performance related pay for 2014/15 paid in 2015/16** £	Compensation for loss of employment 2015/16 £	Benefits in kind 2015/16 £	Total remuneration excluding pension contributions 2015/16 £	Employer's contribution to pension 2015/16^ £	Salary (including fees and allowances) 2014/15 £	Performance related pay for 2013/14 paid in year 2014/15*** £	Total remuneration excluding pension contributions 2014/15**** £
Current employees excluding Crossrail									
Stuart Harvey, Programme Director of Systems, Rail and Underground	210,092	52,000	-	1,389	263,481	-	168,493	52,000	221,878
Nigel Holness, Operations Director - Jubilee, Northern & Piccadilly Lines	* 182,534	36,434	-	1,389	220,357	29,606	* 162,672	41,100	205,157
Simon Kilonback, Director of Group Treasury	179,185	25,000	-	1,389	205,574	29,682	150,987	25,000	177,372
Nicholas Leach, IM Chief Operating Officer p	62,916	-	-	578	63,494	12,247	-	-	-
Chris Macleod, Director of Marketing	* 173,547	31,014	-	-	204,561	30,468	* 168,189	30,000	198,189
George McNulty, Programme Director - Infrastructure, Rail and Underground q	* 153,008	20,000	-	1,389	174,397	36,121	* 120,236	24,047	149,624
Andrew Pollins, Director of Finance, Rail & Underground	* 183,645	22,820	-	1,389	207,854	30,468	* 177,229	27,380	205,994
Gareth Powell, Chief Operating Officer, London Rail	* 200,606	33,300	-	1,389	235,295	30,473	* 185,569	30,625	217,579
Andrew Quincey, Director of Commercial	* 176,156	25,000	-	1,389	202,545	30,468	* 176,421	22,500	200,306
Patricia Riley, Human Resources Director r	* 207,826	32,375	-	626	240,827	12,014	* 200,256	31,500	232,380
Michael Strzelecki, Director of Business Transformation	160,000	20,000	-	1,389	181,389	-	160,000	21,000	182,385
Paul Thomas, Head of Engineering, New Tube for London s	171,324	32,000	-	1,389	204,713	32,606	172,037	20,228	193,650

Notes to the Financial Statements (continued)

5. Remuneration (continued)

		Salary (including fees and allowances) 2015/16 £	Performance related pay for 2014/15 paid in 2015/16** £	Compensation for loss of employment 2015/16 £	Benefits in kind 2015/16 £	Total remuneration excluding pension contributions 2015/16 £	Employer's contribution to pension 2015/16^ £	Salary (including fees and allowances) 2014/15 £	Performance related pay for 2013/14 paid in year 2014/15*** £	Total remuneration excluding pension contributions 2014/15**** £
Notes										
Current employees excluding Crossrail										
	Steve Townsend, Chief Information Officer	175,598	20,000	-	1,389	196,987	38,149	163,726	22,500	187,611
	Shashi Verma, Chief Technology Officer and Director of Customer Experience	* 192,872	36,000	-	626	229,498	39,398	* 187,655	35,000	223,279
	David Waboso, Director of Capital Programmes, London Underground	* 258,582	-	-	1,389	259,971	76,040	* 258,604	76,950	336,939
	Stephen White, Operations Director, Sub- Surface Lines	210,082	46,465	-	1,389	257,936	-	205,978	20,000	227,359

Notes to the Financial Statements (continued)

5. Remuneration (continued)

	Notes	Salary (including fees and allowances) 2015/16 £	Performance related pay for 2014/15 paid in 2015/16** £	Compensation for loss of employment 2015/16 £	Benefits in kind 2015/16 £	Total remuneration excluding pension contributions 2015/16 £	Employer's contribution to pension 2015/16^ £	Salary (including fees and allowances) 2014/15 £	Performance related pay for 2013/14 paid in year 2014/15*** £	Total remuneration excluding pension contribution 2014/15**** £
Crossrail current office holders/employees										
Terry Morgan, Non-Executive Chairman	v	250,000	-	-	1,400	251,400	-	250,000	-	251,385
Andrew Wolstenholme, Chief Executive		521,150	252,950	-	1,400	775,500	30,923	514,621	358,848	874,854
Chris Binns, Chief Engineer	w	121,542	-	-	1,063	122,605	12,137	-	-	-
Martin Buck, Transition and Strategy Director		153,090	149,753	-	631	303,474	30,923	170,329	101,130	272,083
Mathew Duncan, Finance Director	x	107,718	-	-	676	108,394	10,772	-	-	-
Mark Fell, Legal Services Director and Company Secretary		162,553	40,735	-	1,400	204,688	33,126	160,225	62,189	223,799
Robert Flanagan, Finance Operations Director	y	159,081	22,097	-	1,400	182,578	30,923	157,988	23,676	183,049
Paul Grammer, Commercial Director	z	211,575	12,531	-	1,400	225,506	21,158	70,000	-	70,460
Steve Hails, Health & Safety Director		196,785	31,251	-	1,400	229,436	30,923	195,320	29,298	226,003
Ian Lindsay, Land & Property Director		177,453	31,657	-	1,400	210,510	30,923	175,216	34,485	211,086
Richard Palczynski, Head of Controls	a a	126,936	-	-	504	127,440	12,423	-	-	-
Duncan Pickard, Stations Delivery Director	a b	170,195	8,920	-	-	179,115	16,926	54,491	-	54,491
Chris Sexton, Technical Director		210,052	36,238	-	1,400	247,690	30,923	202,952	33,554	237,891
Howard Smith, Director of Operations, Crossrail	a c	* 185,644	94,500	-	1,389	281,533	9,676	* 190,774	30,625	222,784

Notes to the Financial Statements (continued)

5. Remuneration (continued)

	Notes	Salary (including fees and allowances) 2015/16 £	Performance related pay for 2014/15 paid in 2015/16** £	Compensation for loss of employment 2015/16 £	Benefits in kind 2015/16 £	Total remuneration excluding pension contributions 2015/16 £	Employer's contribution to pension 2015/16^ £	Salary (including fees and allowances) 2014/15 £	Performance related pay for 2013/14 paid in year 2014/15*** £	Total remuneration excluding pension contribution 2014/15**** £
Crossrail current office holders/employees										
Valerie Todd, Talent & Resources Director	ad	221,625	52,809	-	1,781	276,215	30,468	* 219,607	42,490	263,877
Andrew Turner, IT Director	ae	161,022	7,336	-	1,400	169,758	1,192	88,984	-	89,783
Mark Warren, Head of Performance	af	164,279	9,017	-	1,400	174,696	16,120	54,353	-	54,813
Matthew White, Surface Director		147,140	20,784	-	1,400	169,324	28,601	138,561	24,452	163,719
Simon Wright, Programme Director	ag	289,101	99,680	-	1,400	390,181	28,630	204,874	-	205,867
Former employees										
Peter Hendy, Commissioner	ah	105,313	151,922	-	495	257,730	-	331,362	145,301	478,443
Stephen Allen, Managing Director, Finance	ai	* 151,962	70,740	-	680	223,382	9,676	* 288,574	74,520	363,863
David Allen, Finance Director, Crossrail	aj	193,542	106,614	-	979	301,135	21,884	264,231	156,897	422,513
Carl Devlin, Capacity Optimisation Programme Director	ak	191,783	60,950	-	849	253,582	10,594	265,000	26,500	292,885
John Gaudette, Delivery Manager, Tubelines	al	12,211	-	-	-	12,211	825	88,623	-	88,623
Martin Rowark, Director of Commercial, Line Upgrades	am	29,146	22,468	-	179	51,793	4,332	123,730	-	124,735

Notes to the Financial Statements (continued)

5. Remuneration (continued)

b) Remuneration for senior employees

- * salary, fees and allowances include an allowance paid as a result of the individual opting out of part or all of the benefits provided by the TfL Savings for Retirement Plan. The allowance is paid at the rate of the supplementary scheme pension scheme contribution foregone, discounted by the employer rate of National Insurance in order to ensure no additional employer cost is incurred. It also includes an allowance available to employees on fixed term contracts who choose to join a defined contribution scheme rather than the TfL Pension Fund
- ** refers to 2014/15 Performance Related Pay awards
- *** refers to 2013/14 Performance Related Pay awards
- **** total remuneration for 2014/15 also includes benefits in kind as reported in last year's Statement of Accounts
- ^ a number of senior employees opted out of the TfL Pension Fund during 2015/16. They are instead accruing equivalent benefits under an unfunded defined benefit pension scheme
- a changed role in year, formerly Managing Director, Rail and Underground. Salary sacrificed for pension of £5,154 (2014/15 £nil)
- b entered service 15 December 2014. Changed role in year, formerly Interim Chief Operating Officer, Rail and Underground
- c salary sacrificed for childcare vouchers of £352 (2014/15 £1,144) and pension of £5,155 (2014/15 £nil)
- d salary sacrificed for pension of £4,008 (2014/15 £nil)
- e salary sacrificed for pension of £9,167 (2014/15 £nil). Worked full-time for most of 2014/15, reverting to part-time four days per week on 1 April 2015
- f salary sacrificed for pension of £2,863 (2014/15 £nil)
- g entered service 1 September 2015. Salary sacrificed for pension of £4,438 (2014/15 £nil)
- h salary sacrificed for pension of £2,863 (2014/15 £nil)
- i entered service 11 January 2016, paid for providing services three days per week
- j entered service 13 July 2015
- k paid for providing services four and a half days per week
- l salary sacrificed for pension of £5,154 (2014/15 £nil)
- m salary sacrificed for pension of £5,154 (2014/15 £nil)
- n entered service 5 May 2015
- o entered service 16 November 2015
- p entered service 1 November 2015

Notes to the Financial Statements (continued)

5. Remuneration (continued)

b) Remuneration for senior employees

q	salary sacrificed for Cycle to Work scheme of £794 (2014/15 £nil)
r	salary sacrificed for pension of £4,581 (2014/15 £nil)
s	salary sacrificed for Cycle to Work scheme of £1,000 (2014/15 £nil). Performance related pay of £2,138 sacrificed to pension fund (2014/15 £nil)
t	performance related pay of £33,406 sacrificed to pension fund (2014/15 £nil)
u	entered service 7 April 2014
v	paid for providing services three days per week
w	entered service 29 June 2015
x	entered service 8 October 2015
y	salary sacrificed for childcare vouchers of £1,320 (2014/15 £1,320)
z	entered service 1 December 2014
aa	entered service 15 June 2015
ab	entered service 8 December 2014
ac	salary sacrificed for pension of £5,154 (2014/15 £nil)
ad	employed by TfL but on secondment to Crossrail since January 2009
ae	entered service 3 September 2014 and paid for providing services four days per week
af	entered service 1 December 2014
ag	entered service 14 July 2014
ah	left service 15 July 2015. Salary sacrificed for pension of £5,154 (2014/15 £17,082)
ai	left service 30 September 2015. Salary sacrificed for pension of £1,288 (2014/15 £nil)
aj	left service 11 December 2015
ak	left service 13 November 2015
al	left service 10 April 2015, entered service 9 December 2014
am	left service 22 May 2015, entered service 14 July 2014

Notes to the Financial Statements (continued)

5. Remuneration (continued)

c) Termination payments

The Code requires the separate disclosure of the number and cost of compulsory and voluntary severance termination packages agreed during the year.

The majority of those who leave the TfL Group due to redundancy do so under TfL's voluntary severance terms, by choosing to accept the voluntary severance terms which are set out in a compromise agreement signed by both the employer and the employee on the termination of their employment. These employees are classified as leaving due to 'voluntary severance'. A small number of employees who leave due to redundancy do not wish to sign a compromise agreement and accept the voluntary terms. They are classified as having left due to 'compulsory redundancy'.

Termination payments disclosed in the tables below are reported on a cash paid basis to provide certainty on the amounts reported, and include pension contributions in respect of added years, ex-gratia payments and other related costs.

Notes to the Financial Statements (continued)

5. Remuneration (continued)

c) Termination payments (continued)

£	Group 2016 Number	Group 2016 £m	Corporation 2016 Number	Corporation 2016 £m	Group 2015 Number	Group 2015 £m	Corporation 2015 Number	Corporation 2015 £m
Non-compulsory exit packages								
0 – 20,000	30	0.3	4	-	22	0.3	8	0.1
20,001 - 40,000	53	1.6	12	0.4	35	1.0	12	0.3
40,001 - 60,000	53	2.7	2	0.1	39	1.9	14	0.7
60,001 - 80,000	35	2.4	1	0.1	24	1.7	9	0.6
80,001 - 100,000	18	1.6	1	0.1	22	2.0	6	0.5
100,001 - 150,000	14	1.6	1	0.1	29	3.5	9	1.1
150,001 - 200,000	1	0.2	-	-	9	1.6	4	0.7
200,001 - 250,000	4	0.9	2	0.5	6	1.3	1	0.2
250,001 - 300,000	2	0.5	1	0.3	2	0.5	-	-
300,001 - 350,000	-	-	-	-	1	0.3	-	-
400,001 - 450,000	1	0.4	1	0.4	-	-	-	-
Total non-compulsory exit packages	211	12.2	25	2.0	189	14.1	63	4.2
Compulsory exit packages								
0 – 20,000	3	-	-	-	-	-	-	-
20,001 - 40,000	-	-	-	-	1	-	-	-
40,001 - 60,000	1	0.1	1	0.1	-	-	-	-
Total	215	12.3	26	2.1	190	14.1	63	4.2

Notes to the Financial Statements (continued)

6. Other operating expenditure

	Group 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Net loss on disposal of property, plant and equipment and intangible assets	(46.1)	(19.5)	(25.5)	(2.1)
Net loss on disposal of intangibles	(0.1)	-	(0.1)	-
Total other operating expenditure	(46.2)	(19.5)	(25.6)	(2.1)

7. Financing and investment income

	Group 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Interest income on bank deposits and other investments	19.3	26.2	18.9	25.9
Realised exchange gain on foreign currency investments	6.3	1.8	6.3	1.8
Interest income on loans to subsidiaries	-	-	304.1	273.7
Change in fair value of investment properties	50.0	200.2	0.1	2.1
Net gain on disposal of investment properties	5.4	0.8	0.1	0.9
Dividends receivable from subsidiaries	-	-	18.0	-
Other investment income	0.6	0.3	0.4	-
	81.6	229.3	347.9	304.4

Notes to the Financial Statements (continued)

8. Financing and investment expenditure

	Note	Group 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Interest payable on loans and derivatives		368.3	356.5	338.2	325.6
Interest payable on loans to subsidiaries		-	-	-	0.1
Interest payable on finance lease liabilities		46.5	51.7	7.8	8.1
Contingent rentals on PFI contracts		16.6	12.3	8.2	4.1
Net interest on defined benefit obligation	31	91.9	102.4	91.3	101.0
Other financing and investment expenditure		1.6	1.5	1.0	0.9
		524.9	524.4	446.5	439.8
less: amounts capitalised into qualifying assets	12	(106.2)	(73.7)	-	-
		418.7	450.7	446.5	439.8

Notes to the Financial Statements (continued)

9. Grant income

	Group 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Non ring-fenced resource grant from the DfT used to fund operations	40.9	104.4	40.9	104.4
Non ring-fenced Business Rates Retention from the GLA used to fund operations	772.5	828.5	772.5	828.5
Other revenue grant received	28.9	132.0	28.9	132.0
Council tax precept	6.0	6.0	6.0	6.0
Total grants allocated to revenue	848.3	1,070.9	848.3	1,070.9
Non ring-fenced resource grant from the DfT used to fund capital	715.4	1,728.2	715.4	1,728.2
Investment grant from the DfT used to fund capital	925.0	-	925.0	-
Ring-fenced grant used to fund capital expenditure relating to Crossrail	800.0	1,582.2	800.0	1,582.2
Business Rate Supplement levied to fund capital expenditure relating to Crossrail	9.0	30.0	9.0	30.0
Community Infrastructure Levy used to fund capital expenditure	123.3	-	123.3	-
Other capital grants and contributions received	89.9	148.8	47.0	101.1
Total grants allocated to capital	2,662.6	3,489.2	2,619.7	3,441.5
Total grants	3,510.9	4,560.1	3,468.0	4,512.4
Allocation of capital grants				
	Group 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Capital grant funding of subsidiaries	-	-	848.5	1,356.9
Applied capital grants (note 33)	3,637.4	3,267.3	2,746.0	1,862.7
Transfer (from)/to unapplied capital grants (note 35)	(974.8)	221.9	(974.8)	221.9
Total capital grants	2,662.6	3,489.2	2,619.7	3,441.5

Notes to the Financial Statements (continued)

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 20 per cent (2014/15 21 per cent) comprised:

	Group 2016 £m	Group 2015 £m
UK Corporation Tax - adjustments in respect of prior years	(2.2)	-
Total tax income for the year	(2.2)	-

Reconciliation of tax income

	Group 2016 £m	Group 2015 £m
Surplus on the provision of services before tax	1,005.9	2,303.5
Surplus on the provision of services before tax multiplied by standard rate of Corporation Tax in the UK of 20% (2014/15 21%)	201.2	483.7
Effects of:		
Non-deductible expenses/ (non-taxable income)	(38.9)	(163.4)
Permanent difference in TfL Corporation	(180.7)	(324.2)
Amount charged to current tax for which no deferred tax was recognised	23.3	(13.6)
Tax losses carried forward for which no deferred tax was recognised	4.0	18.1
Utilisation of tax losses carried forward for which no deferred tax was recognised	(9.2)	-
Overseas earnings	0.3	(0.6)
Adjustments in respect of prior years	(2.2)	-
Total tax income for the year	(2.2)	-

Notes to the Financial Statements (continued)

10. Taxation (continued)

b) Unrecognised deferred tax assets

The Group has a potential net deferred tax asset of £1,500.2m (2015 £1,593.5m) in respect of the following items:

	Group 2016 £m	Group 2015 £m
Deductible temporary differences	541.6	527.6
Tax losses	958.6	1,065.9
Unrecognised deferred tax asset	1,500.2	1,593.5

No net deferred tax asset has been recognised as it is not considered probable that there will be future taxable profits available against which the unused tax losses and 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:

	Balance at 1 April 2015 £m	Movement in period £m	Balance at 31 March 2016 £m
For the year ended 31 March 2016			
Deferred tax assets			
Property, plant and equipment	116.3	(73.7)	42.6
Derivative financial instruments	35.9	(0.6)	35.3
Total	152.2	(74.3)	77.9
Deferred tax liabilities			
Investment properties	(77.0)	(0.9)	(77.9)
Assets held for sale	(75.1)	75.1	-
Other	(0.1)	0.1	-
Total	(152.2)	74.3	(77.9)
Net deferred tax asset/(liability)	-	-	-

Notes to the Financial Statements (continued)

10. Taxation (continued)

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

	Balance at 1 April 2014 £m	Movement in period £m	Balance at 31 March 2015 £m
For the year ended 31 March 2015			
Deferred tax assets			
Property, plant and equipment	82.7	33.6	116.3
Derivative financial instruments	34.9	1.0	35.9
Total	117.6	34.6	152.2
Deferred tax liabilities			
Investment properties	(113.8)	36.8	(77.0)
Assets held for sale	-	(75.1)	(75.1)
Other	(3.8)	3.7	(0.1)
Total	(117.6)	(34.6)	(152.2)
Net deferred tax asset/(liability)	-	-	-

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

- The value of deferred tax assets and liabilities has fallen generally, due to the reduction in the tax rate used for calculation.
- The deferred tax liability arising on investment properties, including those classified as assets held for sale, has decreased due to the disposal of property at Earl's Court.
- 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 on revaluations of £108.0m 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 23 per cent to 21 per cent on 1 April 2014, and 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 and at 18 per cent for the year starting 1 April 2020. In March 2016, the Government issued a proposal to further reduce the main rate of Corporation Tax to 17 per cent. This reduction, however, has not yet been enacted. As the Group's deferred tax balances are not expected to be settled until after April 2020 deferred tax balances at 31 March 2016 have therefore been calculated at the enacted rate of 18 per cent.

No deferred tax asset has been recognised on the Corporation's pension deficit of £3,208.2m as the principal employer is not a taxpaying entity. Future tax deductions for some contributions will be made in the taxable entities, however no deferred tax assets are being recognised in these entities.

Notes to the Financial Statements (continued)

11. Intangible assets

a) Group intangible assets

	Note	Software costs £m	Intangible assets under construction £m	Goodwill £m	Total £m
Cost					
At 1 April 2014		274.6	38.1	349.2	661.9
Additions		28.0	6.9	-	34.9
Net transfers from property, plant and equipment	12	1.4	5.5	-	6.9
Transfers between asset classes		30.1	(30.1)	-	-
Disposals		(3.5)	-	-	(3.5)
At 31 March 2015		330.6	20.4	349.2	700.2
Additions		49.8	2.8	-	52.6
Net transfers from property, plant and equipment	12	8.5	-	-	8.5
Transfers between asset classes		19.9	(19.9)	-	-
Disposals		(18.5)	-	-	(18.5)
At 31 March 2016		390.3	3.3	349.2	742.8
Amortisation and impairment					
At 1 April 2014		190.1	-	349.2	539.3
Amortisation charge for the year	3	40.6	-	-	40.6
Disposals		(3.5)	-	-	(3.5)
At 31 March 2015		227.2	-	349.2	576.4
Amortisation charge for the year	3	62.0	-	-	62.0
Disposals		(18.4)	-	-	(18.4)
At 31 March 2016		270.8	-	349.2	620.0
Net book value at 31 March 2016		119.5	3.3	-	122.8
Net book value at 31 March 2015		103.4	20.4	-	123.8

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

Notes to the Financial Statements (continued)

11. Intangible assets (continued)

b) Corporation intangible assets

	Note	Software costs £m	Intangible assets under construction £m	Total £m
Cost				
At 1 April 2014		167.8	0.2	168.0
Additions		20.7	0.1	20.8
Transfers between asset classes		0.2	(0.2)	-
Disposals		(3.3)	-	(3.3)
At 31 March 2015		185.4	0.1	185.5
Additions		43.5	0.4	43.9
Net transfers from property, plant and equipment	12	5.9	-	5.9
Transfers between asset classes		0.1	(0.1)	-
Disposals		(18.5)	-	(18.5)
At 31 March 2016		216.4	0.4	216.8
Amortisation and impairment				
At 1 April 2014		132.3	-	132.3
Amortisation charge for the year	3	15.9	-	15.9
Disposals		(3.3)	-	(3.3)
At 31 March 2015		144.9	-	144.9
Amortisation charge for the year	3	27.8	-	27.8
Disposals		(18.4)	-	(18.4)
At 31 March 2016		154.3	-	154.3
Net book value at 31 March 2016		62.1	0.4	62.5
Net book value at 31 March 2015		40.5	0.1	40.6

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

Notes to the Financial Statements (continued)

12. Property, plant and equipment

a) Group property, plant and equipment at 31 March 2016 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 2015		29,688.0	4,865.7	1,580.9	10,508.1	46,642.7
Additions		262.7	0.8	141.1	3,178.7	3,583.3
Transfers to intangible assets	11	-	-	(6.1)	(2.4)	(8.5)
Disposals		(718.4)	(238.0)	(40.4)	-	(996.8)
Transfers to investment properties	13	(2.3)	-	(3.4)	(30.2)	(35.9)
Transfers between asset classes		938.1	582.1	70.0	(1,590.2)	-
Revaluation		95.8	-	-	-	95.8
At 31 March 2016		30,263.9	5,210.6	1,742.1	12,064.0	49,280.6
Depreciation						
At 1 April 2015		11,711.0	2,060.6	1,008.9	-	14,780.5
Depreciation charge for the year	3	829.3	127.8	100.2	-	1,057.3
Disposals		(682.1)	(225.1)	(40.4)	-	(947.6)
Revaluation		(12.2)	-	-	-	(12.2)
At 31 March 2016		11,846.0	1,963.3	1,068.7	-	14,878.0
Net book value at 31 March 2016		18,417.9	3,247.3	673.4	12,064.0	34,402.6
Net book value at 31 March 2015		17,977.0	2,805.1	572.0	10,508.1	31,862.2

Notes to the Financial Statements (continued)

12. Property, plant and equipment (continued)

b) Group property, plant and equipment at 31 March 2015 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 2014		28,650.4	4,525.2	1,436.2	8,783.9	43,395.7
Additions		168.4	-	106.0	3,251.3	3,525.7
Net transfers to intangible assets	11	-	-	-	(6.9)	(6.9)
Disposals		(307.4)	(36.6)	(22.7)	-	(366.7)
Transfers between asset classes		1,081.7	377.1	61.4	(1,520.2)	-
Revaluation		94.9	-	-	-	94.9
At 31 March 2015		29,688.0	4,865.7	1,580.9	10,508.1	46,642.7
Depreciation						
At 1 April 2014		11,225.2	1,980.4	920.7	-	14,126.3
Depreciation charge for the year	3	780.9	116.8	101.6	-	999.3
Disposals		(281.6)	(36.6)	(22.6)	-	(340.8)
Transfers between asset classes		(9.2)	-	9.2	-	-
Revaluation		(4.3)	-	-	-	(4.3)
At 31 March 2015		11,711.0	2,060.6	1,008.9	-	14,780.5

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 £106.2m (2015 £73.7m). The cumulative borrowing costs capitalised are £303.3m (2015 £197.1m).

At 31 March 2016, the Group had capital commitments which are contracted for but not provided for in the financial statements amounting to £4,060.4m (2015 £3,707.7m).

Notes to the Financial Statements (continued)

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	965.3	45.3	16.7	1,027.3
Other leased assets	-	407.7	-	407.7
	965.3	453.0	16.7	1,435.0
Depreciation				
PFI assets	372.2	36.9	16.7	425.8
Other leased assets	-	145.1	-	145.1
	372.2	182.0	16.7	570.9
Net book value at 31 March 2016	593.1	271.0	-	864.1
Net book value at 31 March 2015	624.0	285.6	-	909.6

d) Depreciation charge

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

	2016 £m	2015 £m
Depreciation of owned assets	1,011.8	948.0
Depreciation of assets held under PFI	33.2	39.9
Depreciation of asset held under other leases	12.3	11.4
Total depreciation	1,057.3	999.3

Notes to the Financial Statements (continued)

12. Property, plant and equipment (continued)

e) Group office buildings

The fair value of office buildings at 31 March 2016 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 Company, 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 their current use. There were no transfers of properties in or out of level 3 of the fair value hierarchy during the year (2014/15 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 2016 was £342.8m (2015 £247.9m) and the depreciated historic cost value was £33.6m (2015 £35.0m). A related revaluation gain for the year of £108.0m (2014/15 £99.2m) 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 2016, the latest available insurance value for the collection was £25.5m (2015 £25.5m). The net book value of these assets at 31 March 2016 was £nil (2015 £nil).

Notes to the Financial Statements (continued)

12 Property, plant and equipment (continued)

g) Corporation property, plant and equipment at 31 March 2016 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 2015		5,092.4	194.2	1,082.6	6,369.2
Additions		202.8	22.8	137.0	362.6
Net transfers to intangible assets	11	-	(5.9)	-	(5.9)
Transfers to investment properties	13	-	(3.5)	-	(3.5)
Transfers between asset classes		166.3	22.9	(189.2)	-
Disposals		(643.7)	(23.0)	-	(666.7)
At 31 March 2016		4,817.8	207.5	1,030.4	6,055.7
Depreciation					
At 1 April 2015		2,617.4	142.2	-	2,759.6
Depreciation charge for the year	3	159.5	26.7	-	186.2
Disposals		(618.2)	(23.0)	-	(641.2)
At 31 March 2016		2,158.7	145.9	-	2,304.6
Net book value at 31 March 2016		2,659.1	61.6	1,030.4	3,751.1
Net book value at 31 March 2015		2,475.0	52.0	1,082.6	3,609.6

Notes to the Financial Statements (continued)

12 Property, plant and equipment (continued)

h) Corporation property, plant and equipment at 31 March 2015 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 2014		4,972.7	181.3	927.1	6,081.1
Additions		85.7	6.7	207.1	299.5
Transfers between asset classes		45.4	6.2	(51.6)	-
Disposals		(11.4)	-	-	(11.4)
At 31 March 2015		5,092.4	194.2	1,082.6	6,369.2
Depreciation					
At 1 April 2014		2,478.1	117.8	-	2,595.9
Depreciation charge for the year	3	148.6	24.4	-	173.0
Disposals		(9.3)	-	-	(9.3)
At 31 March 2015		2,617.4	142.2	-	2,759.6

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

Direct borrowing costs are included in the cost of qualifying assets to the extent that the asset is funded by borrowings. Total borrowing costs capitalised during the year were £nil (2015 £nil). The cumulative borrowing costs capitalised are also £nil (2015 £nil).

At 31 March 2016, the Corporation had capital commitments which are contracted for but not provided for in the financial statements amounting to £121.2m (2015 £204.1m).

Notes to the Financial Statements (continued)

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. In addition, within intangible assets, the Corporation holds a further leased software asset with a gross cost, at 31 March 2016, of £4.9m (2015 £4.9m) and a depreciated net book value of £1.9m (2015 £2.9m).

	Infrastructure and office buildings £m	Plant and equipment £m	Total £m
Gross cost			
PFI assets	209.1	16.7	225.8
Depreciation			
PFI assets	83.0	16.7	99.7
Net book value at 31 March 2016	126.1	-	126.1
Net book value at 31 March 2015	128.7	-	128.7

j) Depreciation charge

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

	2016 £m	2015 £m
Depreciation of owned assets	183.6	164.7
Depreciation of assets held under PFI	2.6	8.3
Total depreciation	186.2	173.0

k) Corporation office buildings

The Corporation did not have any office buildings.

Notes to the Financial Statements (continued)

13. Investment properties

	Note	Group £m	Corporation £m
Valuation			
At 1 April 2014		592.5	16.4
Additions		27.3	-
Transfers to assets held for sale		(375.7)	-
Disposals		(6.5)	(2.3)
Fair value adjustments	7	200.2	2.1
At 31 March 2015		437.8	16.2
Additions		5.1	-
Transfers from property, plant and equipment	12	35.9	3.5
Disposals		(11.1)	(6.8)
Fair value adjustments	7	50.0	0.1
At 31 March 2016		517.7	13.0

The fair value of the Group's investment properties at 31 March 2016 has been arrived at on the basis of valuations that date by Cushman & Wakefield, a property valuation company not connected with the Company, 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 their current use. There were no transfers of properties in or out of level 3 of the fair value hierarchy during the year (2014/15 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.

Notes to the Financial Statements (continued)

14. Investments in subsidiaries

	Corporation 2016 £m	Corporation 2015 £m
At 1 April	5,432.5	3,932.5
Investments in year	1,830.0	1,500.0
At 31 March	7,262.5	5,432.5

During the year, the Corporation increased its investment in the ordinary share capital of Transport Trading Limited (TTL) by £1,830.0m (2015 £1,500.0m). 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	Construction and maintenance of DLR lines
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
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
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 Earls Court Properties Ltd	Holding company
TTL Properties Ltd	Holding company
Tube Lines Limited	Maintenance of underground lines
Tube Lines Pension Scheme Trustees Limited	Pension Fund Trustee
Victoria Coach Station Limited	Coach station
Woolwich Arsenal Rail Enterprises Limited	Construction and maintenance of DLR lines

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.

Notes to the Financial Statements (continued)

15. Investment in associated undertakings

The Group holds a 37 per cent holding in the ownership and voting rights of Earls Court Partnership Ltd (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. Simultaneously, the Group also contributed funds totalling £44.4m to ECP. In consideration ECP issued share capital to a value of £44.4m to the Group, and non-interest bearing equity loans totalling £375.6m. 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.

Between 2 April 2015 and 31 March 2016 the Group has invested a further £27.1m in equity loans of ECP. The Group's percentage holding, however, remains unchanged at 37 per cent.

The financial year end of Earls Court Partnership Ltd is 31 December. For the purposes of applying the equity method of accounting, the financial statements of Earls Court Partnership Ltd for the year ended 31 December 2015 have been used, and appropriate adjustments made for the effects of significant transactions between that date and 31 March 2016.

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

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

	Group 2016 £m	Group 2015 £m
Short-term assets	27.8	-
Long-term assets	1,285.7	-
Short-term liabilities	(6.1)	-
Long-term liabilities	(29.1)	-

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

	Group 2016 £m	Group 2015 £m
Net assets at 100%	1,278.3	-
Percentage held by the TfL Group	37%	37%
Carrying amount of the Group's equity interest in Earls Court Partnership Ltd	473.0	-

15. Investment in associates (continued)

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

	Group 2016 £m	Group 2015 £m
Group share of profit or loss from continuing operations	25.9	-
Group share of other comprehensive income	-	-
Total Group share of comprehensive income and expenditure for the year	25.9	-

16. Inventories

	Group 2016 £m	Group 2015 £m
Raw materials and consumables	69.4	53.1
Goods held for resale	1.2	0.8
	70.6	53.9

	Corporation 2016 £m	Corporation 2015 £m
Raw materials and consumables	2.2	1.6

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

Notes to the Financial Statements (continued)

16. Inventories (continued)

The movement on inventories was as follows:

	Group £m	Corporation £m
Balance at 1 April 2014	47.7	5.1
Purchases in the year	78.3	5.6
Recognised as an expense in the year:		
Consumed in the year	(73.7)	(9.6)
Goods sold in the year	(1.2)	-
Net write-backs in the year	2.8	0.5
Balance at 31 March 2015	53.9	1.6
Purchases in the year	90.3	1.1
Recognised as an expense in the year:		
Consumed in the year	(73.1)	(0.6)
Goods sold in the year	(1.1)	-
Net write-backs in the year	0.6	0.1
Balance at 31 March 2016	70.6	2.2

Notes to the Financial Statements (continued)

17. Debtors

	Group 2016 £m	Group 2015 £m
Short-term		
Trade debtors	162.8	130.0
Capital debtors	41.9	13.2
Other debtors	690.4	87.3
Other tax and social security	97.1	94.0
Grant debtors	69.5	88.9
Amounts due relating to sale of non-current assets	7.4	9.9
Interest debtors	2.4	3.9
Accrued income	21.8	15.1
Prepayments for goods and services	169.1	166.3
	1,262.4	608.6
Long-term		
Other debtors	661.0	821.5
Prepayments for goods and services	30.8	46.8
	691.8	868.3

Short and long-term other debtors include funds totalling £1,285.4m (2015 £832.0m) advanced to Network Rail Infrastructure Limited to provide interim financing for the construction of assets related to the Crossrail project. £453.4m was advanced at periodic intervals during 2015/16 (£381.9m in 2014/15). The receivable is non-interest bearing and has been discounted to its fair value of £1,277.5m (2015 £821.3m) using a discount rate of 0.633 per cent (2015 1.125 per cent). It is repayable in six equal instalments with the final instalment falling due on 30 September 2017.

Notes to the Financial Statements (continued)

17. Debtors (continued)

	Corporation 2016 £m	Corporation 2015 £m
Short-term		
Trade debtors	22.1	18.8
Amounts due from subsidiary companies	542.6	105.5
Capital debtors	4.2	6.7
Other debtors	3.7	1.7
Other tax and social security	11.3	16.1
Grant debtors	65.2	84.3
Interest debtors	2.4	3.9
Accrued income	5.5	2.5
Prepayments for goods and services	78.3	50.8
	735.3	290.3
Long-term		
Loans made to subsidiary companies	8,688.8	8,098.8
Other debtors	0.3	0.2
Prepayments for goods and services	3.4	6.4
	8,692.5	8,105.4

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 2016 was 4.0 per cent (2015 4.2 per cent).

Notes to the Financial Statements (continued)

18. Assets held for sale

	Note	Group £m
Balance at 1 April 2014		-
Assets newly classified as held for sale		
Investment properties		375.7
Balance at 31 March 2015		375.7
Disposals		
Investment properties		(375.7)
Balance at 31 March 2016		-

On 2 April 2015, the Group granted a 999 year lease over land at Earl's Court into its associated undertaking, ECP, in return for share capital and non-interest bearing equity loans issued by ECP. ECP is a limited company, registered in England and Wales, established to develop the Earl's Court Village site in West London. The TfL Group holds a 37 per cent interest in the issued share capital of ECP, with 63 per cent held by a subsidiary of the Capco group.

Notes to the Financial Statements (continued)

19. Other investments

	Group 2016 £m	Group 2015 £m
Short-term		
Investments held at amortised cost	3,162.3	4,548.4
Long-term		
Available for sale financial assets	-	10.1
	Corporation 2016 £m	Corporation 2015 £m
Short-term		
Investments held at amortised cost	3,146.3	4,521.9
Long-term		
Available for sale financial assets	-	10.1

Short-term investments relate to investments in UK Treasury bills, other Sovereign bills, deposits with UK clearing banks, and also to Money Market Fund and repurchase agreement investments with a maturity of greater than three but less than twelve months. Long-term investments comprise long-term deposits and similar investments tradeable on an active market with a maturity of greater than twelve months.

Notes to the Financial Statements (continued)

20. Cash and cash equivalents

	Group 2016 £m	Group 2015 £m
Cash at bank	129.1	100.1
Cash in hand and in transit	23.0	19.3
	152.1	119.4

	Corporation 2016 £m	Corporation 2015 £m
Cash at bank	19.6	53.7

Notes to the Financial Statements (continued)

21. Creditors

	Group 2016 £m	Group 2015 £m
Short-term		
Trade creditors	190.8	135.9
Accrued interest	96.7	85.1
Capital works	641.4	707.1
Retentions on capital contracts	8.0	1.7
Capital grants received in advance	66.2	32.5
Wages and salaries	126.5	117.3
Other taxation and social security creditors	57.6	28.7
Receipts in advance for travelcards, bus passes and Oyster cards	411.4	394.9
Other deferred income	53.5	46.0
Accruals and other payables	535.8	546.6
	2,187.9	2,095.8
Long-term		
Trade creditors	8.4	8.8
Capital grants received in advance	3.4	3.8
Retentions on capital contracts	35.1	49.3
Other deferred income	24.9	20.5
Accruals and other payables	8.0	23.1
	79.8	105.5

Notes to the Financial Statements (continued)

21. Creditors (continued)

	Corporation 2016 £m	Corporation 2015 £m
Short-term		
Trade creditors	65.6	45.1
Accrued interest	92.2	80.6
Capital works	91.4	89.3
Retentions on capital contracts	0.2	0.7
Capital grants received in advance	54.7	32.5
Amounts due to subsidiary companies	100.2	146.0
Wages and salaries	17.1	27.0
Other taxation and social security creditors	4.5	2.2
Other deferred income	11.5	11.4
Accruals and other payables	155.1	170.6
	592.5	605.4
Long-term		
Capital grants received in advance	3.4	3.8
Other deferred income	16.4	10.9
	19.8	14.7

Notes to the Financial Statements (continued)

22. Borrowings and overdrafts

	Group 2016 £m	Group 2015 £m
Short-term		
Borrowings	832.1	784.3
Long-term		
Borrowings	8,281.0	7,730.0

	Corporation 2016 £m	Corporation 2015 £m
Short-term		
Borrowings	832.1	784.3
Long-term		
Borrowings	8,288.8	7,738.4

Further information about the maturity and interest rate profiles of the Group and Corporation's borrowings is provided in note 30 (Funding and financial risk management).

In May 2015, TfL signed a £500 million 20 year corporate loan facility with EDC, Canada's Export Credit Agency, to finance part of the costs associated with the Crossrail rolling stock and depot contract with Bombardier. This facility may be drawn down in multiple tranches. As at 31 March 2016, TfL had fixed the interest rates and repayment dates for two tranches, for a total of £300 million. The tranches are set to be drawn down in 2016/17 and 2017/18.

A further £500 million of costs will be financed through an EIB Crossrail Rolling Stock and Depot Facility, which was signed in December 2013. This facility will split into two tranches to be drawn in 2017/18.

In June 2015, TfL also entered into a new £1 billion framework facility with the EIB. The facility, called Urban Mobility for London (UML), represents a landmark transaction because of its large size and the broad range of TfL projects it will support, including the Victoria and Bank station upgrades, cycling infrastructure and track replacements. During the year TfL fixed the interest rates and repayment dates for a number of tranches totalling £900 million to be drawn between 2016/17 and 2018/19.

These borrowings are expected to form part of TfL's 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.

Notes to the Financial Statements (continued)

23. 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 2016			
Not later than one year	135.6	(41.3)	94.3
Later than one year but not later than two years	112.2	(35.4)	76.8
Later than two years but not later than five years	290.2	(78.6)	211.6
Later than five years	373.4	(97.0)	276.4
	911.4	(252.3)	659.1
At 31 March 2015			
Not later than one year	133.5	(46.9)	86.6
Later than one year but not later than two years	135.7	(41.4)	94.3
Later than two years but not later than five years	309.4	(92.5)	216.9
Later than five years	467.3	(119.1)	348.2
	1,045.9	(299.9)	746.0
		2016 £m	2015 £m
Principal outstanding			
Short-term		94.3	86.6
Long-term		564.8	659.4
		659.1	746.0

Notes to the Financial Statements (continued)

23. 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 2016			
Not later than one year	18.4	(7.3)	11.1
Later than one year but not later than two years	18.2	(6.8)	11.4
Later than two years but not later than five years	48.0	(17.1)	30.9
Later than five years	134.4	(23.2)	111.2
	219.0	(54.4)	164.6
At 31 March 2015			
Not later than one year	18.7	(7.8)	10.9
Later than one year but not later than two years	18.4	(7.3)	11.1
Later than two years but not later than five years	52.0	(18.7)	33.3
Later than five years	148.6	(28.4)	120.2
	237.7	(62.2)	175.5
		2016 £m	2015 £m
Principal outstanding			
Short-term		11.1	10.9
Long-term		153.5	164.6
		164.6	175.5

Notes to the Financial Statements (continued)

24. 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	<p>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.</p> <p>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.</p>

24. 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	<p>Design, installation, management and maintenance of an integrated digital radio system.</p> <p>The contract requires LU to make an annual unitary payment which is adjusted for indexation and performance as specified in the contract.</p>
British Transport Police (London Underground)	1999 to 2021 with a voluntary break option on provision of 12 months' written notice	<p>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.</p> <p>The contract requires LU to make a base annual unitary payment which is adjusted for indexation and performance as specified in the contract.</p>
Docklands Light Railway Limited ('DLR')		
Greenwich	1996 to 2021	<p>Design, construction and ongoing maintenance of the Greenwich extension to the Docklands Light Railway.</p> <p>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.</p>

24. Private finance initiative contracts (continued)

PFI finance lease liabilities

The following PFI finance lease liabilities are included within total finance lease liabilities in note 23.

	Group 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
At 1 April	430.8	490.7	172.6	179.4
Payments	(90.5)	(86.5)	(17.4)	(14.6)
Interest	23.2	26.6	7.5	7.8
At 31 March	363.5	430.8	162.7	172.6

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 2016				
Less than 1 year	19.3	71.0	87.6	177.9
Between 2 to 5 years	41.4	180.9	266.1	488.4
Between 6 to 10 years	19.2	65.8	157.2	242.2
Between 11 to 15 years	3.9	45.8	110.3	160.0
	83.8	363.5	621.2	1,068.5
At 31 March 2015				
Less than 1 year	23.2	67.3	75.2	165.7
Between 2 to 5 years	49.7	185.1	167.7	402.5
Between 6 to 10 years	27.5	116.5	257.4	401.4
Between 11 to 15 years	6.6	61.1	148.5	216.2
Between 16 to 20 years	-	0.8	1.8	2.6
	107.0	430.8	650.6	1,188.4

24. 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 2016				
Less than 1 year	7.1	10.1	17.9	35.1
Between 2 to 5 years	23.7	41.4	83.9	149.0
Between 6 to 10 years	19.2	65.4	152.6	237.2
Between 11 to 15 years	3.9	45.8	110.3	160.0
	53.9	162.7	364.7	581.3
At 31 March 2015				
Less than 1 year	7.5	9.9	16.4	33.8
Between 2 to 5 years	25.6	42.4	79.1	147.1
Between 6 to 10 years	21.8	59.0	143.7	224.5
Between 11 to 15 years	6.6	60.5	140.1	207.2
Between 16 to 20 years	-	0.8	1.8	2.6
	61.5	172.6	381.1	615.2

Notes to the Financial Statements (continued)

25. Derivative financial instruments

Group cash flow hedges

	Fair value 2016 £m	Notional amount 2016 £m	Fair value 2015 £m	Notional amount 2015 £m
Long-term assets				
Foreign currency forward contracts	7.1	129.6	-	-
Short-term assets				
Foreign currency forward contracts	5.1	137.2	22.6	484.0
Short-term liabilities				
Foreign currency forward contracts	21.3	769.1	1.3	113.4
Long-term liabilities				
Interest rate swaps	94.9	830.7	101.3	830.9

The Corporation has not entered into any derivative financial instruments.

26. Provisions

a) Group provisions

	At 1 April 2015 £m	Payments in the year £m	Charge for the year £m	Releases in the year £m	At 31 March 2016 £m
Compensation and contractual	72.2	(24.1)	43.9	(11.8)	80.2
Capital investment activities	188.5	(81.9)	49.5	(35.5)	120.6
Environmental harm	1.4	-	-	-	1.4
Severance and other	52.5	(9.2)	24.1	(2.5)	64.9
	314.6	(115.2)	117.5	(49.8)	267.1

	2016 £m	2015 £m
Due		
Short-term	220.7	230.2
Long-term	46.4	84.4
At 31 March	267.1	314.6

26. Provisions (continued)

b) Corporation provisions

	At 1 April 2015 £m	Payments in the year £m	Charge for the year £m	Releases in the year £m	At 31 March 2016 £m
Compensation and contractual	15.2	(7.5)	15.5	(5.8)	17.4
Capital investment activities	188.5	(81.9)	49.5	(35.5)	120.6
Other	2.4	(0.2)	1.4	(2.0)	1.6
	206.1	(89.6)	66.4	(43.3)	139.6

	2016 £m	2015 £m
Due		
Short-term	101.9	128.0
Long-term	37.7	78.1
At 31 March	139.6	206.1

Notes to the Financial Statements (continued)

26. 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 year.

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.

27. 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.

Notes to the Financial Statements (continued)

28. 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 Pittville Leasing Limited	51
Agreement with Lombard North Central Plc	7
Agreement with APSLL	4

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

Notes to the Financial Statements (continued)

28. 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 2016 is £104.0m (2015 £80.0m).

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 2016 the fair value of all financial guarantees granted has been recorded as £nil (2015 £nil).

29. 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 2016					
Within one year	54.7	12.5	2.7	23.8	93.7
Between one and two years	48.2	12.1	1.8	23.8	85.9
Between two and five years	101.9	31.7	2.1	71.5	207.2
Later than five years	459.1	14.8	-	171.5	645.4
	663.9	71.1	6.6	290.6	1,032.2
At 31 March 2015					
Within one year	48.1	4.2	3.2	18.5	74.0
Between one and two years	45.2	4.4	1.5	21.9	73.0
Between two and five years	114.2	2.5	1.3	71.5	189.5
Later than five years	392.9	16.9	-	219.2	629.0
	600.4	28.0	6.0	331.1	965.5

29. 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 2016				
Within one year	46.6	8.5	0.2	55.3
Between one and two years	41.2	4.2	0.1	45.5
Between two and five years	95.6	13.1	-	108.7
Later than five years	455.4	9.7	-	465.1
	638.8	35.5	0.3	674.6
At 31 March 2015				
Within one year	46.6	8.5	0.1	55.2
Between one and two years	39.5	4.1	0.1	43.7
Between two and five years	88.2	11.6	-	99.8
Later than five years	486.3	7.5	-	493.8
	660.6	31.7	0.2	692.5

29. 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 2016			
Within one year	18.4	0.1	18.5
Between one and two years	18.4	0.1	18.5
Between two and five years	54.2	-	54.2
Later than five years	232.4	-	232.4
	323.4	0.2	323.6
At 31 March 2015			
Within one year	18.2	-	18.2
Between one and two years	18.0	-	18.0
Between two and five years	53.8	-	53.8
Later than five years	130.1	-	130.1
	220.1	-	220.1

29. 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 2016		
Within one year	3.4	3.4
Between one and two years	3.4	3.4
Between two and five years	9.9	9.9
Later than five years	8.4	8.4
	25.1	25.1
At 31 March 2015		
Within one year	3.5	3.5
Between one and two years	3.3	3.3
Between two and five years	9.7	9.7
Later than five years	11.3	11.3
	27.8	27.8

30. 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 fares), grant and prudential borrowing. The majority of the Group's debt is issued by the statutory corporation, Transport for London, in the form of loans from the Public Works Loan Board and the European Investment Bank, 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 also takes account of the CIPFA recommendations contained in the Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code) issued in 2011 for Treasury Management in the Public Services, the Local Government Act 2003, the Local Authorities (Capital Finance and Accounting) Regulations 2003 and the fully revised second edition of CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) issued in 2011, in managing the financial risks faced by the Group.

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. An annual report on overall performance against approved strategy is considered by the Finance and Policy Committee (a committee of the Transport for London Board). Section 49 of the TfL Act 2008 confers upon TfL the powers to use derivative financial instruments for risk management purposes only.

Notes to the Financial Statements (continued)

30. 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 Board of Transport for London annually approves indicators for prudent and affordable borrowing, for estimates of capital expenditure and for interest rate exposures and the maturity profile of its borrowing.

TfL also agrees its maximum in-year 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 Board of Transport for London, through its Finance and Policy 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.

Notes to the Financial Statements (continued)

30. 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 – 2016					
Trade debtors	16.0	4.6	1.8	0.2	22.6
Group – 2015					
Trade debtors	10.9	4.8	1.0	0.6	17.3
	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 – 2016					
Trade debtors	4.3	2.3	1.0	-	7.6
Corporation – 2015					
Trade debtors	2.4	1.4	0.2	-	4.0

Notes to the Financial Statements (continued)

30. 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 only made with institutions included on an Approved Investment List and within limits approved by the Finance and Policy Committee. The Approved Investments List includes i) the UK Government and its executive agency, the Debt Management Office; ii) UK Government guaranteed investments; iii) selected financial institutions with high (investment grade) credit ratings from a credit rating agency; iv) selected supranational or sub-sovereign agencies with high credit ratings; v) selected Money Market Funds with high credit ratings; vi) highly rated corporates; and vii) other highly rated Governments.

In determining whether to place an institution on the Approved Investment List, TfL considers the credit rating, financial position and jurisdiction of the institution, the market pricing of credit default swaps for the institution, any implicit or explicit Government support for the institution and any other relevant factors that could influence the institution's general creditworthiness.

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 on the Approved Investment List, and the maximum term of such investments, are linked to the credit rating of the institution. In accordance with the TfL Treasury Management Strategy, which has been approved by TfL's Finance and Policy Committee, the TfL will not trade with an institution with a credit rating of less than A- with all three major credit rating agencies.

Certain banks hold collateral on TfL's account to provide security for TfL's reverse repurchase agreement investments. As at 31 March 2016, the fair value of the collateral held amounted to £300.0m (2015 £275.0m). As no lenders have defaulted, TfL has not exercised its right to sell or re-pledge the collateral.

The centrally managed cash reserves at 31 March 2016 totalled £3,126.2m (2015 £4,551.6m).

Notes to the Financial Statements (continued)

30. 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 2016			
UK Debt Management Office	1,273.8	AAA/Aa1/AA+	54
Other Government Agencies	528.5	Minimum AA-/Aa1/AAA	72
Money Market Funds	176.3	AAA/Aaa/AAA	1
Banks (including Gilt backed repos)	657.4	Minimum AA-/A3/AA-	37
Corporates	317.1	Minimum A/A2/A	50
Non-UK Sovereign Funds	173.1	Minimum AA/Aa2/AA	42
Total	3,126.2		49

At 31 March 2015			
UK Debt Management Office	1,303.5	AAA/Aa1/AA+	66
Government guaranteed supranationals	375.4	Minimum AA+/Aa1/AA+	191
Other Government Agencies	1,332.6	Minimum A+/Aa3/AA-	137
Money Market Funds	374.3	AAA/Aaa/AAA	1
Banks (including Gilt backed repos)	610.6	Minimum BBB/A2/A	50
Corporates	485.4	Minimum A/A2/A	81
Non-UK Sovereign Funds	69.8	Minimum AA+/Aaa/AA+	122
Total	4,551.6		92

Notes to the Financial Statements (continued)

30. 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 28, 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 2016, the fair value of the Corporation's financial guarantees has been assessed as £nil (2015 £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. 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 Company's financial liabilities are listed later in this note.

Notes to the Financial Statements (continued)

30. 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 equity prices 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 2016 and 2015, 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 2015/16, TfL held certain short term investments denominated in Euros and US Dollars. These 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 2016, the Group held foreign exchange contracts to hedge €978.0m future Euro receipts in relation to its Euro investments (2015 €791.5m). An unrealised exchange net gain of £39.8m was recognised on retranslation of these Euro investment balances as at 31 March 2016 (2014/15 a net loss of £19.7m). This gain was offset by an unrealised fair value net loss of £41.4m arising from the fair value movement of the related forward foreign exchange contracts (2014/15 a net gain of £21.3m). These derivative instruments mature in the period to June 2016. It had no outstanding US Dollar derivatives (2015 \$nil).

30. Funding and financial risk management (continued)

For 2015/16, the broad policy on managing transactional foreign exchange risk arising from contractual obligations with overseas providers was to pass the exchange risk to the vendor where there was value in doing so. For specific transactions where the risk was retained by the Group, exchange rate exposures were managed through the use of forward foreign exchange contracts. Hedge accounting is applied to these derivative instruments.

At 31 March 2016, the Group held forward foreign derivative contracts in Euros, US Dollars and Canadian Dollars to hedge planned foreign currency capital expenditure payments with a net nominal value of £180.6m (2015 £3.2m). At 31 March 2016, these contracts had a combined net fair value of £11.0m (2015 £nil). It is expected that the hedged purchases will take place in the period to 1 September 2021. 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 Investment 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.

Sensitivity analysis on foreign exchange risk

As at 31 March 2016, the Group held forward euro foreign exchange contracts with a combined total net nominal sale value of £736.4m (2015 £591.0m) and a net fair value liability of £18.5m (2015 an asset of £21.3m). A 10 per cent increase/(decrease) in GBP against the euro would increase/(decrease) the fair value of these derivative instruments by £68.6m/£(83.9)m (2015 £51.8m/£(63.3)m).

As at 31 March 2016, the Group held forward foreign exchange contracts with a combined net notional value of £1.0m (2015 £nil) and a fair value of £0.1m (2015 £nil), to purchase US dollars. A 10 per cent increase/(decrease) in GBP against the US dollar would (decrease)/increase the fair value of these derivative instruments by £(0.1)m/£0.1m.

As at 31 March 2016, the Group also held forward foreign exchange contracts with a combined net notional value of £161.5m (2015 £nil) and a fair value of £9.3m (2015 £nil) to purchase Canadian dollars. A 10 per cent increase/(decrease) in GBP against the Canadian dollar would (decrease)/increase the fair value of these derivative instruments by £(15.5)m/£19.0m.

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

Interest rate risk

As at 31 March 2016, 99.4 per cent (2015 99.6 per cent) of the Group's borrowings were at fixed rates of interest after hedging. The remaining 0.6 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.

30. Funding and financial risk management (continued)

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 borrowing TfL employs a number of interest rate swaps and gilt locks, allowing additional funds to be allocated for investment in transport infrastructure in the Business Plan. As at 31 March 2016, the Group, through its wholly owned subsidiary Transport for London Finance Limited, held 18 interest rate swaps at a total notional value of £830.7m (2015 18 interest rate swaps at a total notional value of £830.9m). The net fair value of these contracts at 31 March 2016 was a liability of £94.9m (2015 £101.3m). As the hedging was assessed as fully effective these unrealised losses have been recognised in the hedging reserve. In addition, a gain of £0.1m, representing the cash settled net gain on gilt locks taken out to hedge the interest rate on £200m of the £400m 2.125% 10 year Green bond, issued in April 2015, has been deferred in the hedging reserve and is being released to profit or loss over the term of the bond to which it relates. 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 the forward fixing contracts is disclosed later in this note.

The Group is also exposed to interest rate risk in respect to its investments. Investments are made in accordance with the Investment 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 2016, the Group holds interest rate derivative contracts with a combined notional value of £830.7m (2015 £830.9m) which are designated as cash flow hedges.

An increase/(decrease) of 100 basis points in interest rates would increase/(decrease) the fair value of the derivative instruments by £38.8m/£(37.0)m (2015 £46.7m/£(48.6)m).

Inflation risk

The Group has a number of exposures to inflation including staff pay awards and fares revenue. 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.

Notes to the Financial Statements (continued)

30. Funding and financial risk management (continued)

Maturity profile of derivatives

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

	2016 Average exchange rate	2016 Fair value £m	2016 Notional amount £m	2015 Average exchange rate	2015 Fair value £m	2015 Notional amount £m
Foreign currency forward contracts						
Buy euro						
Less than one year	0.770	1.7	56.0	0.729	-	3.2
Between one and two years	0.738	1.1	12.4	-	-	-
Between two and five years	0.759	-	0.1	-	-	-
Sell euro						
Less than one year	0.772	(21.3)	804.9	0.751	21.3	594.2
Total euro	0.772	(18.5)	873.4	0.751	21.3	597.4
Buy US Dollars						
Less than one year	0.640	-	0.4	-	-	-
Between one and two years	0.640	0.1	0.3	-	-	-
Between two and five years	0.638	-	0.3	-	-	-
Total US Dollars	0.639	0.1	1.0	-	-	-
Buy Canadian Dollars						
Less than one year	0.498	3.4	45.1	-	-	-
Between one and two years	0.500	2.4	35.5	-	-	-
Between two and five years	0.510	3.1	68.4	-	-	-
After five years	0.513	0.4	12.5	-	-	-
Total Canadian Dollars	0.504	9.3	161.5	-	-	-
Grand total	n/a	(9.1)	1,035.9	n/a	21.3	597.4

30. Funding and financial risk management (continued)

Maturity profile of derivatives (continued)

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

	2016 Average contracted fixed interest rate (%)	2016 Fair value £m	2016 Notional amount £m	2015 Average contracted fixed interest rate (%)	2015 Fair value £m	2015 Notional amount £m
Interest rate hedges						
Between one and two years	3.273	(9.2)	250.0	-	-	-
Between two and five years	3.718	(24.4)	275.0	3.504	(39.4)	500.0
After five years	3.832	(61.3)	305.7	3.810	(61.9)	330.9
Total	3.626	(94.9)	830.7	3.626	(101.3)	830.9

TfL was conferred the legal powers to enter into derivatives for the purpose of risk mitigation via qualifying subsidiaries. The Corporation does not itself have the legal powers to enter into derivative transactions. TfL has entered into these contracts for the purpose of risk management and intends to hold these contracts to maturity as hedges against the underlying transactions.

Notes to the Financial Statements (continued)

30. 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 – 2016					
Derivatives settled gross					
Foreign exchange forward contracts:					
Amounts receivable	911.4	51.8	71.9	13.0	1,048.1
Amounts payable	(927.6)	(48.3)	(68.8)	(12.5)	(1,057.2)
Derivatives settled net					
Interest rate swaps	(25.1)	(20.3)	(29.4)	(17.6)	(92.4)
	(41.3)	(16.8)	(26.3)	(17.1)	(101.5)
Group – 2015					
Derivatives settled gross					
Foreign exchange forward contracts:					
Amounts receivable	597.4	-	-	-	597.4
Amounts payable	(576.1)	-	-	-	(576.1)
Derivatives settled net					
Interest rate swaps	(25.0)	(19.6)	(22.5)	(4.2)	(71.3)
	(3.7)	(19.6)	(22.5)	(4.2)	(50.0)

The total asset or liability due to the Group as recognised on the balance sheet is the fair value of the derivatives, as this represents the cost to terminate. As such it differs from the total net contractual payments shown in the table above. At 31 March 2016, the fair value of the interest rate derivatives was a net liability of £94.9m (2015 £101.3m). The fair value of forward foreign exchange derivatives was a net liability of £9.1m (2015 a net asset of £21.3m).

30. 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 - 2016					
Trade and other creditors	1,656.8	51.5	-	-	1,708.3
Borrowings - principal	833.1	342.8	282.0	7,689.8	9,147.7
Borrowings - interest	334.2	245.9	1,048.8	5,647.9	7,276.8
Finance lease liabilities	135.6	112.2	290.2	373.4	911.4
	2,959.7	752.4	1,621.0	13,711.1	19,044.2
Group - 2015					
Trade and other creditors	1,622.4	81.2	-	-	1,703.6
Borrowings - principal	785.1	53.0	511.2	7,198.4	8,547.7
Borrowings - interest	321.9	320.7	937.2	5,840.1	7,419.9
Finance lease liabilities	133.5	135.7	309.4	467.3	1,045.9
	2,862.9	590.6	1,757.8	13,505.8	18,717.1
Corporation - 2016					
Trade and other payables	526.3	-	-	-	526.3
Borrowings - principal	833.1	342.8	282.0	7,689.8	9,147.7
Borrowings - interest	334.2	245.9	1,048.8	5,647.9	7,276.8
Finance lease liabilities	18.4	18.2	48.0	134.4	219.0
	1,712.0	606.9	1,378.8	13,472.1	17,169.8
Corporation - 2015					
Trade and other payables	561.5	-	-	-	561.5
Borrowings - principal	785.1	53.0	511.2	7,198.4	8,547.7
Borrowings - interest	321.9	320.7	937.2	5,840.1	7,419.9
Finance lease liabilities	18.7	18.4	52.0	148.6	237.7
	1,687.2	392.1	1,500.4	13,187.1	16,766.8

Notes to the Financial Statements (continued)

30. 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.

Notes to the Financial Statements (continued)

30. 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:

	2016 Carrying value £m	2016 Fair value £m	2015 Carrying value £m	2015 Fair value £m
Cash and cash equivalents	152.1	152.1	119.4	119.4
Long-term investments	-	-	10.1	10.1
Short-term investments	3,162.3	3,162.3	4,548.4	4,548.4
Trade and other debtors	1,754.3	1,754.3	1,263.8	1,263.8
Derivative financial instruments	12.2	12.2	22.6	22.6
Total financial assets	5,080.9	5,080.9	5,964.3	5,964.3
Trade and other creditors	1,708.3	1,708.3	1,703.6	1,703.6
Borrowings	9,113.1	10,517.8	8,514.3	9,942.4
Finance lease liabilities	659.1	659.1	746.0	746.0
Derivative financial instruments	116.2	116.2	102.6	102.6
Total financial liabilities	11,596.7	13,001.4	11,066.5	12,494.6
Net financial liabilities	(6,515.8)	(7,920.5)	(5,102.2)	(6,530.3)

Notes to the Financial Statements (continued)

30. 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:

	2016 Carrying value £m	2016 Fair value £m	2015 Carrying value £m	2015 Fair value £m
Cash and cash equivalents	19.6	19.6	53.7	53.7
Long-term investments	-	-	10.1	10.1
Short-term investments	3,146.3	3,146.3	4,521.9	4,521.9
Trade and other debtors	9,346.1	9,346.1	8,338.5	8,338.5
Total financial assets	12,512.0	12,512.0	12,924.2	12,924.2
Trade and other creditors	526.3	526.3	561.5	561.5
Borrowings	9,120.9	10,517.8	8,522.7	9,942.4
Finance lease liabilities	164.6	164.6	175.5	175.5
Total financial liabilities	9,811.8	11,208.7	9,259.7	10,679.4
Net financial assets	2,700.2	1,303.3	3,664.5	2,244.8

Notes to the Financial Statements (continued)

31. Pensions

During the year the majority of the Group's staff were members of either the Public Sector Section or the Tube Lines Section of the TfL Pension Fund. On 30 March 2016, the Tube Lines Section was merged into the Public Sector Section. The majority of the Group's remaining staff belong to the Local Government Pension Scheme, the Principal Civil Service Pension Scheme or the Tube Lines defined contribution scheme.

a) Amount included in net cost of services

	Note	Group 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
TfL Pension Fund		377.6	314.6	158.2	85.2
Local Government Pension Scheme		1.6	1.3	1.6	1.3
Unfunded schemes provision		1.8	4.5	1.8	4.5
Total for schemes accounted for as defined benefit		381.0	320.4	161.6	91.0
Principal Civil Service Pension Scheme		0.6	0.6	0.6	0.6
Other schemes		11.5	13.4	1.7	1.3
Amounts included in net cost of services		393.1	334.4	163.9	92.9
Less: scheme expenses		(10.7)	(10.3)	(10.1)	(9.7)
Amount included in staff costs	3	382.4	324.1	153.8	83.2

Notes to the Financial Statements (continued)

31. 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.

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's 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 TfL Pension Fund.

Employer's contributions for the period from 1 April 2016 until 31 March 2022 will continue to be 31.0 per cent, with an additional lump sum payment due in 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 Public Sector Section 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.

On 30 March 2016, the Group's obligations in respect of the Tube Lines Section transferred from Tube Lines Limited, a subsidiary of the TfL Group, to the Corporation as the Tube Lines Section of the TfL Pension Fund was merged into the Public Sector Section. In the following tables this transfer is shown under assets/liabilities acquired during the year by the Corporation in the analysis of balance sheet movements; and as a settlement loss in the analysis of amounts charged to net cost of services. The transfer has no impact on consolidated Group figures.

A separate valuation of the TfL Pension Fund has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2016. 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 2015 projections with a long term improvement rate of 1.25 per cent per annum.

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

Notes to the Financial Statements (continued)

31. Pensions (continued)

b) Defined benefit schemes (continued)

Local Government Pension Scheme

The Local Government Pension Scheme 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 12 per cent (2014/15 12 per cent) of pensionable pay. The Corporation's share of the underlying assets and defined benefit obligation resulted in a deficit of £43.0m (2015 £47.7m). The discounted scheme liabilities have an average duration of 21 years.

The last full actuarial valuation was carried out at 31 March 2013. The annual report and financial statements for the whole scheme can be found on the London Pensions Fund Authority website (www.lpfa.org.uk).

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 2016 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 2016 was £73.3m (2015 £77.5m), and is fully provided for in these financial statements.

Notes to the Financial Statements (continued)

31. Pensions (continued)

(b) Defined benefit schemes (continued)

Assumptions for defined benefit sections

The main actuarial assumptions used for the TfL Pension Fund and the Local Government Pension Scheme (together 'the Schemes') and unfunded schemes were:

	IAS 19 valuation at 31 March 2016 %	IAS 19 valuation at 31 March 2015 %
RPI Inflation	2.60-3.40	2.75-3.30
CPI Inflation	2.00-2.50	2.50
Rate of increase in salaries	2.60-4.30	2.75-4.30
Rate of increase in pensions in payment and deferred pensions	2.50-3.00	2.50-3.00
Discount rate	3.25-3.80	2.95-3.40

The Group's retirement benefit plans typically expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk. Sensitivity analyses for the most significant actuarial assumptions made in relation to these risks are as set out below. The analyses have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate were 0.1 per cent higher/(lower), the defined benefit obligation would decrease by £214.5m/(increase by 220.6m).
- If the expected salary growth were increased/(decreased) by 0.1 per cent, the defined benefit obligation would increase by £58.3m/(decrease by £58.2m).
- If life expectancy were increased/(decreased) by one year, the defined benefit obligation would increase by £334.6m/(decrease by £335.4m).
- If the inflation rate were 0.1 per cent higher/(lower), the defined benefit obligation would increase by £213.4m/(decrease by £211.3m).

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.

Notes to the Financial Statements (continued)

31. Pensions (continued)

c) Accounting for defined benefit schemes

The total assets in the Schemes were:

	Value at 31 March 2016 £m	Value at 31 March 2015 £m
Equities and alternatives	6,186.1	6,208.9
Bonds	1,936.6	2,002.4
Cash and other	64.7	34.9
Total fair value of assets	8,187.4	8,246.2

The TfL Pension Fund's and the Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March 2016 %	31 March 2015 %
Equities	75	75
Bonds	24	25
Cash and other assets	1	-
	100	100

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

Notes to the Financial Statements (continued)

31. Pensions (continued)

Total pension deficit at the end of the year

	2016 £m	2015 £m
Group		
Fair value of scheme assets	8,187.4	8,246.2
Actuarial valuation of defined benefit obligation	(11,395.6)	(11,140.9)
Deficit recognised as a liability in the balance sheet	(3,208.2)	(2,894.7)

	2016 £m	2015 £m
Group		
TfL Pension Fund – Public Sector section	(3,091.9)	(2,737.5)
TfL Pension Fund – Tube Lines section	-	(32.0)
Local Government Pension Scheme	(43.0)	(47.7)
Unfunded schemes provision	(73.3)	(77.5)
Deficit recognised as a liability in the balance sheet	(3,208.2)	(2,894.7)

	2016 £m	2015 £m
Corporation		
Fair value of scheme assets	8,187.4	7,969.9
Actuarial valuation of defined benefit obligation	(11,395.6)	(10,832.6)
Deficit recognised as a liability in the balance sheet	(3,208.2)	(2,862.7)

	2016 £m	2015 £m
Corporation		
TfL Pension Fund - Public Sector section	(3,091.9)	(2,737.5)
Local Government Pension Scheme	(43.0)	(47.7)
Unfunded schemes provision	(73.3)	(77.5)
Deficit recognised as a liability in the balance sheet	(3,208.2)	(2,862.7)

Notes to the Financial Statements (continued)

31. Pensions (continued)

Analysis of amounts included in the Comprehensive Income and Expenditure Statement

Analysis of amounts charged to net cost of services

	Group 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Current service cost	369.1	305.8	355.7	293.5
Less contributions paid by subsidiaries	-	-	(229.7)	(216.5)
Past service cost	1.2	4.3	1.2	4.3
Settlements and curtailments	-	-	24.3	-
Total included in staff costs	370.3	310.1	151.5	81.3
Scheme expenses	10.7	10.3	10.1	9.7
Total amount charged to net cost of services	381.0	320.4	161.6	91.0

Amounts charged to financing and investment expenditure

	Group 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Net interest expense on scheme defined benefit obligation	91.9	102.4	91.3	101.0

Amount recognised in other comprehensive income and expenditure

	Group 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Net remeasurement losses recognised in the year	162.1	293.7	167.2	300.9

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

	Group 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Wholly unfunded schemes	73.3	77.5	73.3	77.5
Wholly or partly funded schemes	11,322.3	11,063.4	11,322.3	10,755.1
Total scheme defined benefit obligation	11,395.6	11,140.9	11,395.6	10,832.6

31. Pensions (continued)

Reconciliation of defined benefit obligation

	Group 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Actuarial value of defined benefit obligation at start of year	11,140.9	9,772.0	10,832.6	9,484.7
Current service cost	369.1	305.8	355.7	293.5
Interest cost	367.6	423.9	358.8	412.5
Employee contributions	49.3	47.0	47.3	44.8
Remeasurement (gains)/losses on scheme liabilities:				
Net remeasurement - financial	(524.8)	1,059.3	(508.8)	1,036.3
Net remeasurement - experience	352.3	(162.3)	354.3	(154.8)
Net remeasurement - demographic	(26.5)	-	(26.5)	-
Actual benefit payments	(333.5)	(309.1)	(309.3)	(288.7)
Past service cost	1.2	4.3	1.2	4.3
Acquisition of Tube Lines section liabilities	-	-	290.3	-
Actuarial value of defined benefit obligation at end of year	11,395.6	11,140.9	11,395.6	10,832.6

Reconciliation of fair value of the scheme assets

	Group 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Fair value of assets at start of year	8,246.2	7,289.8	7,969.9	7,050.3
Expected return on assets net of expenses	275.7	321.5	267.5	311.5
Scheme expenses	(10.7)	(10.3)	(10.1)	(9.7)
Return on assets excluding interest income and other net gains on assets	(361.1)	603.3	(348.2)	580.6
Actual employer contributions	317.0	299.6	70.1	60.2
Contributions paid by subsidiaries	-	-	229.7	216.5
Employee contributions	49.3	47.0	47.3	44.8
Actual benefits paid	(329.0)	(304.7)	(304.8)	(284.3)
Acquisition of Tube Lines Section assets	-	-	266.0	-
Fair value of assets at end of year	8,187.4	8,246.2	8,187.4	7,969.9

Notes to the Financial Statements (continued)

31. Pensions (continued)

The expected return on scheme assets is set equal to the discount rate. The actual return on scheme assets in the year was a loss of £85.4m (2014/15 a gain of £924.8m).

Total contributions of £313.8m are expected to be made to the schemes in the year ending 31 March 2017.

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 last 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.

Railways Pension Scheme

Crossrail Limited (CRL) contributes 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 37 participating employers, each (apart from CRL) having fewer than 51 active members in the scheme.

The Omnibus Section of the RPS is a multi-employer scheme and is valued as a whole. As a result of this, CRL is unable to identify its share of the underlying assets and defined benefit obligation. It is therefore accounted for as a defined contribution scheme under IAS 19.

The last actuarial valuation of the Omnibus Section of the scheme was carried out at 31 December 2013. The actuarial report showed that there was a deficit of £5.4m for the total Omnibus Section.

The findings of the 2013 valuation report were translated into the current contribution level of 31 per cent up to 30 June 2015, and 26.9 per cent effective from 1 July 2015. The pension charge for the year was £5.4m (2014/15 £6.2m).

Notes to the Financial Statements (continued)

31. Pensions (continued)

Docklands Light Railway Pension Scheme (the “DLR Scheme”)

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

Actuarial valuations are carried out every three years with the last valuation being carried out at 31 March 2012. As a consequence of this valuation a schedule of contributions was agreed as outlined in the paragraph below. A valuation as at 1 April 2015 is currently underway.

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, although they remain liable for some contributions towards the deficit of the DLR Scheme. As at 31 March 2016, Serco Limited is committed to pay £8.25m on or before January 2017 and £8.25m on or before 2 January 2018. 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. No contributions were payable by DLR in the year to 31 March 2016.

A valuation of the DLR Scheme has been prepared for accounting purposes by Punter Southall on an IAS 19 basis at 31 March 2016. This valuation showed a defined benefit obligation as at 31 March 2016 of £21.1m. 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.

Defined contribution schemes

The Group contributes to a number of defined contribution schemes, with total contributions, including contributions to the PCS and RPS schemes as outlined in the paragraphs above, amounting to £12.1m (2014/15 £14.0m).

Notes to the Financial Statements (continued)

32. Cash flow notes

a) Adjustments to net surplus for non-cash movements

	Group 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Depreciation of property, plant and equipment and amortisation of intangibles	1,119.3	1,039.9	214.0	188.9
Loss on disposal of property, plant and equipment and intangibles	46.2	19.5	25.6	2.1
Net gain on sale of investment properties	(5.4)	(0.8)	(0.1)	(0.9)
Movements in the value of investment properties	(50.0)	(200.2)	(0.1)	(2.1)
Reversal of unrealised (gains)/losses on retranslation of foreign currency investments	(39.8)	19.7	(39.8)	19.7
Reversal of fair value movements on derivatives not in hedging relationships for accounting purposes	41.4	(21.3)	-	-
Financing income	(26.2)	(28.3)	(347.7)	(301.4)
Financing expense	418.7	450.7	446.5	439.8
Capital grants received	(2,662.6)	(3,489.2)	(2,619.7)	(3,441.5)
Capital grants paid to subsidiaries	-	-	848.5	1,356.9
Reversal of share of profits from associated undertakings	(25.9)	-	-	-
Reversal of defined benefit pension service costs	381.0	320.4	161.6	91.0
Reversal of taxation credit	(2.2)	-	-	-
Adjustments to net surplus for non-cash movements before movements in working capital	(805.5)	(1,889.6)	(1,311.2)	(1,647.5)
Increase/(decrease) in creditors	95.0	(17.8)	(42.6)	(74.9)
(Increase)/decrease in debtors	(18.6)	3.5	(465.0)	27.7
(Increase)/decrease in inventories	(16.7)	(6.2)	(0.6)	3.5
Increase/(decrease) in provisions	20.4	(2.9)	1.3	(2.3)
Adjustments to net surplus for non-cash movements after movements in working capital	(725.4)	(1,913.0)	(1,818.1)	(1,693.5)
Net cash payments for employers' contributions to defined benefit pension funds and direct payments to pensioners	(321.5)	(304.0)	(74.6)	(64.6)
Taxation received/(paid)	2.2	(0.1)	-	-
Total adjustments to net surplus for non-cash movements	(1,044.7)	(2,217.1)	(1,892.7)	(1,758.1)

Notes to the Financial Statements (continued)

32. Cash flow notes (continued)

b) Investing activities

	Group 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Interest and other investment income received	27.7	24.5	331.2	297.6
Dividends received from subsidiaries	-	-	18.0	-
Capital grants received	2,715.3	3,460.8	2,660.6	3,410.8
Capital grants paid to subsidiaries	-	-	(848.5)	(1,356.9)
Purchase of property, plant and equipment and investment property	(3,758.6)	(3,507.0)	(428.9)	(311.2)
Purchase of intangible assets	(52.6)	(34.9)	(43.9)	(20.8)
Proceeds from the sale of property, plant and equipment and intangible assets	3.1	6.2	2.5	-
Net sales of other investments	1,435.9	58.1	1,425.4	66.9
Interim financing advanced to third parties for the Crossrail project	(453.4)	(381.9)	-	-
Issue of loans to subsidiaries (net of repayments)	-	-	(590.0)	(649.2)
Proceeds from sale of investment property	394.7	21.1	6.7	2.9
Investment in equity loan notes of associated undertakings	(402.7)	-	-	-
Investment in share capital of associated undertakings	(44.4)	-	-	-
Investment in share capital of subsidiaries	-	-	(1,830.0)	(1,500.0)
Net cash flows from investing activities	(135.0)	(353.1)	703.1	(59.9)

c) Financing activities

	Group 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Cash payments for reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI arrangements	(86.9)	(75.8)	(10.9)	(7.9)
Net proceeds from new borrowing	623.0	668.1	623.0	668.1
Repayments of borrowings	(25.3)	(22.1)	(25.3)	(22.1)
Cash received on settlement of derivatives	0.1	-	-	-
Interest paid	(306.6)	(320.4)	(343.2)	(319.5)
Net cash flows from financing activities	204.3	249.8	243.6	318.6

Notes to the Financial Statements (continued)

33. Unusable reserves

	2016 £m	2015 £m
Group		
Capital adjustment account	23,826.1	21,122.1
Pension reserve	(3,208.2)	(2,862.7)
Accumulated absences reserve	(7.2)	(6.5)
Retained earnings reserve in subsidiaries	985.9	1,071.9
Revaluation reserve	310.8	212.9
Hedging reserve	(176.0)	(200.9)
Available for sale reserve	-	0.1
Financial instruments adjustment account	(194.6)	(206.3)
Merger reserve	466.1	466.1
At 31 March	22,002.9	19,596.7

	2016 £m	2015 £m
Corporation		
Capital adjustment account	10,616.2	8,109.6
Pension reserve	(3,208.2)	(2,862.7)
Accumulated absences reserve	(7.2)	(6.5)
Available for sale reserve	-	0.1
Financial instruments adjustment account	(194.6)	(206.3)
At 31 March	7,206.2	5,034.2

Notes to the Financial Statements (continued)

33. 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 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Balance at 1 April		21,122.1	18,669.3	8,109.6	6,434.5
Charges for depreciation and impairment of non-current assets		(214.0)	(188.9)	(214.0)	(188.9)
Gain on disposal of investment properties		0.1	0.9	0.1	0.9
Movements in the market value of investment properties		0.1	2.1	0.1	2.1
Capital grants and contributions	9	3,637.4	3,267.3	2,746.0	1,862.7
Transfer from street works reserve		-	0.4	-	0.4
Loss on disposal of non-current assets		(25.6)	(2.1)	(25.6)	(2.1)
Adjustments between Group and Corporation financial statements	*	(694.0)	(626.9)	-	-
Balance at 31 March		23,826.1	21,122.1	10,616.2	8,109.6

* The adjustment between the Group financial statements and the Corporation financial statements arises due to an alignment of the accounting policies between the Group and its subsidiaries. Under the Code, capital grants are recognised in the Comprehensive Income and Expenditure Statement and are then transferred to the Capital Adjustment Account (CAA) when utilised. No amortisation of grants or disposal of grants is recognised in the Comprehensive Income and Expenditure Statement. TfL's subsidiary companies account under full EU-adopted IFRS (rather than the Code) and are required to recognise deferred capital grants on the balance sheet and recognise grant amortisation in arriving at their retained earnings. An accounting policy alignment is performed on consolidation to recognise the grant receipts in the Comprehensive Income and Expenditure Statement (from where they are then transferred to the CAA). Equally, the amortisation and grant disposals are removed from the Comprehensive Income and Expenditure Statement and are shown in the CAA so that the total CAA adjustment is equal to the deferred capital grant carried in the subsidiaries' books.

Notes to the Financial Statements (continued)

33. 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 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Balance at 1 April	(2,862.7)	(2,434.4)	(2,862.7)	(2,434.4)
Net remeasurement losses on pension assets and defined benefit obligations	(167.2)	(300.9)	(167.2)	(300.9)
Reversal of charges relating to retirement benefits	(482.6)	(408.5)	(252.9)	(192.0)
Employer's pension contributions, contributions from subsidiaries and direct payments to pensioners payable in the year	304.3	281.1	74.6	64.6
Balance at 31 March	(3,208.2)	(2,862.7)	(3,208.2)	(2,862.7)

Notes to the Financial Statements (continued)

33. 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 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Balance at 1 April	(6.5)	(6.0)	(6.5)	(6.0)
Settlement or cancellation of accrual made at the end of the preceding year	6.5	6.0	6.5	6.0
Amounts accrued at the end of the current year	(7.2)	(6.5)	(7.2)	(6.5)
Balance at 31 March	(7.2)	(6.5)	(7.2)	(6.5)

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 2016 £m	Group 2015 £m
Balance at 1 April	1,071.9	1,079.3
Loss for the year	(101.2)	(18.0)
Remeasurement gains on defined benefit pension plan assets and liabilities	5.1	7.2
Release of revaluation reserve relating to the difference between historic cost of disposal and fair value cost of disposal	10.1	3.4
Balance at 31 March	985.9	1,071.9

Notes to the Financial Statements (continued)

33. Unusable reserves (continued)

Revaluation reserve

The revaluation reserve contains the accumulated gains made arising from increases in the value of property, plant and equipment. The balance is reduced when assets with accumulated gains are:

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

	Note	Group 2016 £m	Group 2015 £m
Balance at 1 April		212.9	117.1
Revaluation of assets	12	108.0	99.2
Release of revaluation reserve relating to the difference between fair value depreciation and historic cost depreciation		(10.1)	(3.4)
Balance at 31 March		310.8	212.9

The Corporation does not have a revaluation reserve as it does not hold any property, plant or equipment at a revalued amount (2015 none).

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 2016 £m	Group 2015 £m
Balance at 1 April	(200.9)	(174.7)
Net change in fair value of cash flow interest rate hedges	17.4	(33.4)
Net change in fair value of cash flow foreign exchange hedges	-	-
Recycling of interest rate fair value losses to profit and loss	7.5	7.2
Balance at 31 March	(176.0)	(200.9)

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.

Notes to the Financial Statements (continued)

33. Unusable reserves (continued)

Available for sale reserve

The available for sale reserve holds the unrealised gain or loss arising from a change in the fair value of available for sale long-term investments. When an available for sale financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income and expenditure is transferred from the available for sale reserve and recognised in the Surplus or Deficit on the Provision of Services.

	Group 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Balance at 1 April	0.1	-	0.1	-
Movement in the fair value of available for sale financial investments	(0.1)	0.1	(0.1)	0.1
Balance at 31 March	-	0.1	-	0.1

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 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Balance at 1 April	(206.3)	(218.1)	(206.3)	(218.1)
Release of premium	11.7	11.8	11.7	11.8
Balance at 31 March	(194.6)	(206.3)	(194.6)	(206.3)

Notes to the Financial Statements (continued)

33. 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 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 2016 £m	Group 2015 £m	Corporation 2016 £m	Corporation 2015 £m
Balance at 1 April and 31 March	466.1	466.1	-	-

Notes to the Financial Statements (continued)

34. Business rate supplement

Business Rate Supplements (BRS) were introduced by the Business Rate Supplements Act 2009 and related regulations and statutory guidance. The Act confers powers on relevant local authorities “to impose a levy on non-domestic ratepayers to raise money for expenditure on projects expected to promote economic development”. In London, the only local authority empowered to levy a BRS is the Greater London Authority (GLA).

On 1 April 2010, the GLA introduced a BRS to finance £4.1bn of its contribution towards the costs of the Crossrail Project. The BRS is applied on non-domestic rating assessments in London and is collected on behalf of the GLA by the 33 London billing authorities (the London Boroughs and the Common Council of the City of London). This funding is then passed to TfL as the functional body with responsibility for delivering the Crossrail Project.

In the year to 31 March 2016, TfL recognised £9.0m (2014/15 £30.0m) of BRS income in its Income and Expenditure Statement (see note 9). Receipts in the year also totalled £9.0m (2014/15 £30.0m). No amounts were held as a debtor on the Corporation and Group balance sheets as at 31 March 2016 (2015 £nil).

	Corporation 2016 £m	Corporation 2015 £m
Opening balance on BRS Account	-	-
Transfer to Capital Adjustment Account in respect of BRS capital expenditure	(9.0)	(30.0)
Transfer from General Fund to clear BRS account deficit	9.0	30.0
Closing balance on BRS Account	-	-

35. 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.

Notes to the Financial Statements (continued)

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

Corporation 2016

	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	214.0	(214.0)	-	-	-	-
Movements in the market value of investment properties	7	(0.1)	0.1	-	-	-	-
Gain on sale of investment property	7	(0.1)	0.1	-	-	-	-
Capital grants and contributions	9	(2,746.0)	2,746.0	-	-	-	-
Unapplied capital grants	9	974.8	-	-	-	-	-
Loss on disposal of non-current assets	6	25.6	(25.6)	-	-	-	-
Transfers to/from street works reserve		(7.1)	-	-	7.1	-	-
Reversal of items relating to retirement benefits		252.9	-	(252.9)	-	-	-
Difference between the remuneration charged on an accruals basis and the remuneration chargeable in accordance with statutory requirements		0.7	-	-	-	-	(0.7)
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement which are required to be charged in accordance with statutory requirements							
Employer's pension contributions and direct payments to pensioners payable in the year		(74.6)	-	74.6	-	-	-
Amortisation of premium on financing		(11.7)	-	-	-	11.7	-
		(1,371.6)	2,506.6	(178.3)	7.1	11.7	(0.7)

Notes to the Financial Statements (continued)

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

Corporation 2015

	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	188.9	(188.9)	-	-	-	-
Movements in the market value of investment properties	7	(2.1)	2.1	-	-	-	-
Net gain on disposal of investment properties	7	(0.9)	0.9	-	-	-	-
Capital grants and contributions	9	(1,862.7)	1,862.7	-	-	-	-
Unapplied capital grants	9	(221.9)	-	-	-	-	-
Loss on disposal of non-current assets	6	2.1	(2.1)	-	-	-	-
Transfers to/from street works reserve		(4.7)	0.4	-	4.3	-	-
Reversal of items relating to retirement benefits		192.0	-	(192.0)	-	-	-
Difference between the remuneration charged on an accruals basis and the remuneration chargeable in accordance with statutory requirements		0.5	-	-	-	-	(0.5)
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		(64.6)	-	64.6	-	-	-
Amortisation of premium on financing		(11.8)	-	-	-	11.8	-
		(1,785.2)	1,675.1	(127.4)	4.3	11.8	(0.5)

Notes to the Financial Statements (continued)

36. Sources of finance

Capital expenditure analysed by source of finance:

	Note	Corporation 2016 £m	Corporation 2015 £m
Capital expenditure			
Intangible asset additions	11	43.9	20.8
Property, plant and equipment additions	12	362.6	299.5
Investments in year	14	1,830.0	1,500.0
Loans made to subsidiaries in year for capital purposes		1,037.1	650.0
Capital grants allocated to subsidiaries in year	9	848.5	1,356.9
Total capital expenditure		4,122.1	3,827.2
Sources of finance			
Transport grants used to fund capital	9	1,640.4	1,728.2
Business Rates Supplement used to fund capital	9	9.0	30.0
Community Infrastructure Levy used to fund capital	9	123.3	75.9
Other third party contributions	9	47.0	25.2
Crossrail specific grant	9	800.0	1,582.2
Adjusted by amounts transferred from/(to) Capital Grants Unapplied Account	9	974.8	(221.9)
Prudential borrowing		600.0	650.0
Capital receipts		6.8	3.1
Net repayment of finance leases		(10.9)	(7.9)
Working capital		(68.3)	(37.6)
Total sources of finance		4,122.1	3,827.2

37. 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 MRP 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 Department for 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 the statutory guidance provides four suggested options for the calculation of MRP, TfL does not consider that any of these are appropriate to TfL’s circumstances. TfL’s policy on MRP is to treat debt service (interest and principal) in its business plan as an in-year operating cost. As TfL has a legal requirement to produce a balanced Budget (and this approach had been extended to the full Business Plan), the cost of debt service is taken into account in determining whether annual Budgets and Business Plans are in balance.

TfL has therefore adopted the following policy:

No provision is made for debt repayment in advance of years where any such repayment is due;

Debt service, including principal repayment, is treated as an in-year operating cost and is funded from income in the year the debt service is required.

Notes to the Financial Statements (continued)

39. 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, Chief Officers, 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 the funding granted to TfL by the GLA from the Business Rates Supplement levied by the GLA are included in note 34. In addition, the GLA made grants to TfL in respect of the Crossrail project amounting to £800m. This amount is included in note 9 as part of “Ring-fenced grant to fund capital expenditure relating to Crossrail”. Amounts received from the Business Rates Retention, and the Council Tax precept paid to TfL by the GLA are also shown in note 9.

During 2015/16 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 2016 £m
Greater London Authority (GLA)	7.5	1.3	3.1
Mayor’s Office for Policing and Crime (MOPC) (formerly Metropolitan Police Authority)	-	-	-
London Legacy Development Corporation (LLDC)	1.3	0.2	0.5
London Fire and Emergency Planning Authority (LFEPA)	-	-	-

Notes to the Financial Statements (continued)

39. Related parties (continued)

Board Members and Officers

Board Members, the Mayor of London, and key management (comprising the Commissioner and the Chief Officers), 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 (2014/15 none). Details of the remuneration of the Commissioner and his Chief Officers 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 31.

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 38.

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.

Notes to the Financial Statements (continued)

40. 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 2016				
TfL Healthcare Trust	4.0	(4.5)	0.5	(0.3)
At 31 March 2015				
TfL Healthcare Trust	3.9	(4.1)	0.7	-
