Appendix 1

DRAFT

Transport for London

Financial Statements
For the year ended 31 March 2023

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

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

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

(ii) Transport for London's income and expenditure for the financial year ended 31 March 2023

Patrick Doig
Statutory Chief Finance Officer

31 May 2023

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Narrative Report and Financial Review (continued)

Overview

This was a pivotal year in the history of our finances, as we continued to build our recovery and look forward in to 2023/24.

Prior to the outbreak of the pandemic, Transport for London (TfL) had been close to reaching financial sustainability in terms of its operational activities without the need for direct Government grant, which had been removed from April 2018 onwards. Between 2015/16 and 2019/20 we focused on improving our financial position and resilience. We reduced the net cost of operations, excluding Government funding, by almost £1bn over that period, and we had increased cash reserves to over £2bn, giving ourselves a cash buffer that proved crucial to TfL being able to continue operating in the first phase of the pandemic whilst Government support was negotiated.

However, the pandemic devastated our fares income, which meant that, since March 2020, we have required extraordinary funding support from Government under a series of funding agreements from the Department for Transport (DfT). In 2021/22 we saw a combination of easing restrictions, leading to recovering income and ongoing careful cost control. During 2022/23, as we continued to focus on London's recovery, rebuilding our ridership and controlling costs, the level of extraordinary grant support reduced to £920m (2021/22 £1,717m). Passenger demand increased from 68 per cent of pre-pandemic levels to around 85 per cent, and passenger income grew by 34 per cent from £3.2bn to £4.2bn.

On 30 August 2022 the TfL Board approved a 20-month funding settlement with the DfT until 31 March 2024. Whilst this is not the genuinely long-term funding settlement required to deliver major capital investment in the most efficient and effective manner, it is significantly longer than any of our previous settlements during the pandemic. This funding settlement provides £1.2bn of Government funding along with the guaranteeing of passenger revenue over the period. Further detail of the key features and conditions is set out in the going concern section of our Accounting Policies.

Reaching agreement on this was crucial for the coming years to avoid a 'managed decline' of London's transport network. Under this scenario, the combination of uncertainty over the quantum of long-term funding, lower income levels and increasing inflationary pressures mean that, to balance our budget, we would be facing deteriorating asset conditions, which would impact on the reliability and operability of our public transport and road networks, impacting fares income. We would have to reduce service levels and be unable to enter contracts for new enhancement projects. This, in turn, would mean a failure to deliver on our policy goals of tackling climate change, air quality improvements, reduced congestion, and delivering our vision zero for people killed or seriously injured on our networks.

The Government recognises the need for certainty and stability for our capital investment pipeline, and the settlement will ensure delivery of key capital renewals and investment in London worth £3.6bn to March 2024. Combined with support from the Mayor, this has enabled TfL to avoid the managed decline scenario. We have increased renewals in our infrastructure above the level we had originally budgeted – helping us to protect the critical assets on which Londoners depend. We have restored a level of expenditure on new capital enhancements, to improve our network, alongside delivering our committed investment, including new Piccadilly line trains and DLR rolling stock, Four Line Modernisation, Bank station upgrade and Old Street roundabout.

Government also continues to recognise that further capital funding beyond this agreement will be required for major capital enhancements and major renewals, which TfL is not expected to solely finance from operating incomes, as is consistent with other transport authorities. A long-term funding settlement, similar to that in place for Network Rail, National Highways and other Metro Mayors across

Narrative Report and Financial Review (continued)

the country, would enable TfL and its supply chain to plan more effectively, improving efficiency and supporting investment in jobs around the UK. A number of studies, including those commissioned by Government, have estimated that long-term funding can enable cost efficiencies of between 10-30 per cent.

Organisational overview

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.

TfL is the integrated body responsible for the Capital's transport system. We implement the Mayor of London's Transport Strategy and manage transport services across the Capital. We aim to deliver safe, reliable and integrated transport to those who live in, work in or visit London.

Governance

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

The opinion for the year ending 31 March 2023 concluded that TfL's governance framework was satisfactory for TfL's needs and operated in an effective manner. The opinion highlighted the progress against the 2022/23 improvement plan.

We have established a Committee and Panel structure to which we delegate detailed scrutiny of key areas of our responsibilities. We have ensured the TfL Board has the right range and depth of knowledge, skills and experiences to run the organisation effectively. We refreshed our Board membership, in line with best practice, so it remained relevant and up to date (the list of our members is on pages xx to xx). At the date of this report 47 per cent of our Board members are women. We understand the benefits of diversity and are continually seeking to improve this across our Board and executive teams.

We also have a series of policies and guidance setting out expected standards of behaviour and conduct. These include the TfL Code of Conduct, anti-fraud and corruption policy and the whistleblowing policy.

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

Narrative Report and Financial Review (continued)

Operating model

TfL is led by the TfL Executive Committee who are responsible for setting pan TfL strategy and direction. Members of the committee have clear individual accountabilities and objectives for the businesses they run directly and also collective objectives and accountabilities to be delivered by the organisation as a whole.

In 2022, the TfL Executive team worked to define the highest-level process that describes what we do and how we do it, and create our value chain. Our value chain is:

- Strategise and plan
- Fund and procure
- Build and maintain
- Operate and optimise
- Enable and support

The value chain helps us make sure work isn't duplicated and that we have clear accountabilities in each part of the business. The TfL Executive Committee is organised around the principles of the value chain, with the following roles

- TfL Commissioner – Andy Lord*
- Chief Customer & Strategy Officer – Alex Williams
- Chief Finance Officer – Rachel McLean
- Chief Capital Officer – Stuart Harvey
- Chief Operating Officer – Glynn Barton*
- Chief People Officer – Fiona Brunskill*
- Chief Officer – Pensions Review – Tricia Wright*
- Chief Safety, Health & Environment Officer – Lilli Matson
- General Counsel – Howard Carter
- Director of Communications and Corporate Affairs – Matt Brown

*Interim roles

Strategy and resource allocation

The Mayor's Transport Strategy sets out plans to transform London's streets, improve public transport and create opportunities for new homes and jobs. We develop our strategy in consultation with our stakeholders, to improve the services we provide to our passengers. This includes how we engage and work with suppliers, communities, and our people.

Key priorities in the Mayor's Transport Strategy are: creating healthy streets and healthy people, creating a good public transport experience and delivering new homes and jobs. See page x of the Annual Report.

Narrative Report and Financial Review (continued)

TfL produces business plan, approved by the TfL Board, which sets out the medium term plan for the organisation, demonstrating how it will achieve the Mayor's Transport Strategy. In December 2022, the TfL Board approved the 2023 TfL Business Plan which was the first business plan since the pandemic.

The first full year of the business plan is used as the basis for an annual budget, which allocates resource to individual departments and projects for the year ahead. In March 2023, the TfL Board approved the 2023/24 TfL Budget.

Interests of the Group's employees

We strive to create a workplace that is safe, secure and contributes to an engaged workforce.

Our Vision and Values is a culmination of what our people said our future should look like and how they said we should work together to achieve it. This includes our organisational values – caring, open and adaptable.

Our colleague strategy sets out how we will deliver our ambition to be a great place to work for everyone to thrive. We have introduced a new approach to managing talent and career progression, supporting everyone to have regular conversations about their role and their development.

Whilst the majority of our colleagues are in roles which require them to be at an operational or project location, for our office-based colleagues we are operating a hybrid-working approach, which offers flexibility and is valued by them.

Those who are hybrid working have been expected to be in the office on average two occasions per week, which will increase to three in the near future, for the purpose of what we call the three Cs: Collaboration, Culture and Coaching.

The wellbeing of our employees remains a priority and we continue to offer a range of services and resources to support physical and mental health.

Ensuring we hear the voice of our employees remains important to us. While our Trade Union relationships – with local, functional and company-level meetings take place across different parts of the organisation - play a significant role in achieving this, our staff network groups provide employees the chance to share ideas and support each other in developing our equality agenda in all areas of employment.

A sustainable future

We are working to ensure our priorities support a sustainable future for the capital

Through our network, we aim to create a resilient, attractive, nature- rich, and liveable city, which supports biodiversity and contributes to the mental and physical health of Londoners.

Climate change poses severe risks for us, but it also comes with opportunities to deliver a safer and more sustainable future for the communities we serve. In March 2023, we published our first Climate Change Adaptation Plan, which is a comprehensive and holistic plan of action to manage physical climate risk.

We are taking leadership in the management of physical climate risks by working with stakeholders across London and beyond. Through the London Surface Water Strategic Group, we are working with key stakeholders across the city to procure London's first surface water flood risk management

Narrative Report and Financial Review (continued)

strategy. We are leading work on the Transport Adaptation Steering Group, to improve consistency across the transport sector for Adaptation Reporting Power submissions, as well as exploring how best to assess and score key interdependency risks. Other areas of collaboration include, being a key partner in developing the rail sector adaptation maturity matrix through the Rail Safety and Standards Board project and developing a transport sector handbook for asset managers through the Transport Research and Innovation Board project. We are constantly working to improve our understanding of climate risks. Following the July 2022 heatwave, a PhD project on the impact of high temperatures on London Underground is coming to an end. We are exploring how best to communicate and embed research findings in TfL's activities.

Our target is to be net zero by 2030, and we are working with others to achieve this. TfL has drawn on its experience developing renewable energy contracts to drive efforts to establish GLA Group-wide purchasing of wind and solar energy. By working together, the GLA, TfL, the Metropolitan Police, the London Fire Brigade, and the London Legacy Development Corporation aim to use their enhanced purchasing power to negotiate a Power Purchase Agreement. This would secure new renewable power, provide longer term stability on energy prices, and contribute to the Mayor's ambition for London to reach net zero carbon by 2030. We are also working with the London Anchor Institutes Network; TfL is an active participant in its Green New Deal Working Group. The purpose of the group is for anchors to work collaboratively to support the capital's net zero targets by accelerating public estate decarbonisation and developing an appropriately skilled workforce to meet the demands of a growing green economy. In 2022/23 TfL made commitments in relation to subjects including its carbon literacy training roll-out and the publishing of its climate adaptation plan.

In line with TfL's 2018 Energy Strategy, we have established a clear hierarchy for reducing our operational carbon emissions. At the top of this hierarchy is the removal of fossil fuel use and improving our energy efficiency. We are prioritising energy efficiency measures by carbon and cost savings; starting with the further rolling out of LED lighting replacements across London Underground stations and depots.

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

Narrative Report and Financial Review (continued)

Streamlined Energy and Carbon Reporting helps businesses across the UK in scope of the 2018 Regulations to comply with their legal obligations in respect of energy usage and carbon emissions reporting. *[2022/23 Table outstanding]*

Streamlined Energy & Carbon Reporting 2021/22

Description	Amounts	Units	Comparison 2020/21
Total Electricity consumption	1,542,260,719	kWh	1,464,725,952
Total Gas consumption	80,574,572	kWh	89,969,770
Total Fuel for company fleet	1,510,631	litres	1,489,042
Purchased District Heating and Cooling	4,076,143	kWh	3,298,494

Emissions Breakdown	Amounts	Units	Conversion factor ($kgCO_2e$)
Scope 1 Emissions from combustion of gas	14,815	tCO_2e	0.18387 (natural gas)
Scope 1 Emissions from combustion of fuel for transport purposes	3,793	tCO_2e	2.546 (diesel) 2.168 (petrol)
Scope 2 Emissions from purchased electricity	327,468	tCO_2e	0.21223 (UK grid electricity)
Scope 2 Emissions from purchased heating and cooling	540	tCO_2e	0.1983 (district heating) 0.0517 (district coolth)
Total Gross CO_2e based on the above	**346,616**	**tCO_2e**	
Total Gross CO_2e including energy/fuel purchased by public transport service operators	**831,624**	**tCO_2e**	

Narrative Report and Financial Review (continued)

We have used invoiced consumption and metered data, and have calculated emissions using government conversion factors for company reporting of greenhouse gas emissions 2021. District heating and cooling factors are specific to the Olympic Park district heating system.

Our financial disclosure on climate change

Environmental sustainability is integral to our business and the way we work, but we face huge challenges in a changing world.

London's transport network is woven throughout the city. Together with our stakeholders, we must take a leading role in managing climate risks. Managing climate risks will enable us to provide a safer and more reliable transport network, as well as enabling us to make well-informed investment decisions and reduce our financial liability from climate disasters.

As a transport network, we are the largest user of electricity, and the second biggest landowner in London, therefore we are uniquely positioned to provide opportunities.

In 2017, the Taskforce on Climate-related Financial Disclosures (TCFD) released climate-related financial disclosure recommendations designed to help organisations assess and manage climate-related risks and opportunities. The disclosure recommendations are structured around four thematic areas which provide a framework for us to understand and take action on our climate risks and opportunities. These thematic areas represent core elements of how organisations operate: governance, strategy, risk management, and metrics and targets. Ultimately, widespread adoption of the recommendations is aimed at enabling financial risks and opportunities, related to climate change, to become a natural part of organisations' risk management and strategic planning processes.

Following on from our disclosure last year on physical risks, for 2022/23 we will provide an update on our progress against all four themes, with a plan to provide more detailed disclosures as we mature our adoption of the TCFD recommendations and as we move forward in developing scenario analysis.

Our climate governance

Achievements in 2022/23

- Sustainability Executive committee established, responsible for management of environmental risks and opportunities
- Executive Committee completed Sustainability training
- Over 800 people completed carbon literacy training, including our senior leaders

Responsibility for managing climate risk sits with our Executive Committee, overseen by the TfL Board. Environment management is embedded across the organisation, with all areas represented at our Executive Committee Sustainability Group.

We delivered sustainability training to our Executive Committee in November 2022, enabling our directors to engage and lead with confidence on sustainability. We are also rolling out carbon literacy training across the organisation to increase awareness of the carbon impacts of everyday activities and give people the ability and motivation to reduce emissions. Our training course, accredited by the Carbon Literacy Project, encourages us to incorporate carbon into our decision-making processes.

Our climate strategy

Achievements in 2022/23

- 2023 Business Plan published, prioritises progress against key Green enablers (E.g. decarbonising operations, green infrastructure)
- Green Roadmap established
- Climate Change Adaptation Plan published
- Progress update on delivery of Corporate Environment Plan (CEP) to Board

Our strategy for the environment has been built to support the Mayor's London Environment Strategy (LES). Our response to the LES is set out in the TfL Corporate Environment Plan, published in 2021, which describes our environmental priorities and how we will manage any key risks and opportunities. This includes a focus on how we will respond to the climate emergency by reducing carbon emissions, and how we will adapt to physical climate risks through adaptation.

The CEP provides the foundation for developing environmental strategies and delivery plans. At a business level, this is considered as part of the development of the TfL Business Plan, which determines our strategic plan over the medium-term, the most recent version of which covers the three-year period between 2023/24 and 2025/26. This includes a summary of where we will allocate resources across our various strategic priorities, including our plans for the environment, covering our operations, asset renewals portfolio and capital investment programme. Our 2023 Business Plan also included our first ever submission to the GLA Group 'Climate Budget' process, providing a forecast of the carbon emissions resulting from TfL Operations over the next seven years, and in addition highlighted key risks and opportunities, and potential funding requirements over the longer-term.

The overall business strategy is supported and informed by a number of policies, technical strategies and analysis. For example, our asset management strategies provide a set of options for how we might deliver our green ambitions. Once we have decided on a preferred approach, we are then able to include this in our main plans and/or engineering standards in order to provide clarity regarding specific challenges and environmental interventions.

To deliver the Mayor's Transport Strategy, it is important to consider potential funding requirements over the long-term, beyond the TfL Business Plan. In 2023, this will be undertaken as an internal exercise looking at the next 25 to 50 years, and will include assumptions outlining our key environmental ambitions, risks and opportunities from the CEP. We will work in tandem to develop our longer-term business planning and climate risk scenario analysis.

Types of risk and risk management

- Transition risks - these arise from actions associated with the transition to a low-carbon economy, including the introduction of new climate policies and technologies
- Physical risks - these come from the physical impacts of climate change

Physical climate change poses significant risk to us. Our transition to net zero poses significant risks, as well as opportunities. In March 2023, we published our Climate Change Adaptation Plan, which outlines what we need to do by 2030 to manage our risks from physical climate hazards. Using the Adaptation Reporting Power (ARP) 3 risk assessment, it showed that all our asset categories are, or will be, at risk from climate change by 2050. Without adaptation measures, this risk will increase. As our understanding of physical risk from climate change improves, we will continue to build on our strategic adaptation actions.

For transition risks, we have a target to be net-zero carbon by 2030 in our transport operations. Our strategies to achieve this include electrifying our bus fleet, decarbonising our buildings and Power Purchase Agreement.

Physical risk will increase the likelihood of safety issues for staff and customers, increase the likelihood of operational disruption including delays and cancellations, and have negative financial impacts in terms of recovery from events and reduced revenue. We manage these risks through robust resilience processes. We monitor weather and coordinate emergency plans, as well as organising for recovery after any extreme weather events.

We have allocated up to £2m additional funding per year to improve our understanding of the impacts of climate change and to develop and deliver plans to adapt to it. This is in addition to the £4m Green and Healthy Streets Fund provided by the Mayor to deliver sustainable drainage on both our roads and the boroughs.

Our timeframes

We have set out timeframes that we will use for scenario analysis. Through the ARP, we have chosen to assess physical climate risks in 2022, 2050 and 2080. We will align scenario analysis to these timeframes, as well as linking current business strategies and targets to the timeframes, as risks and opportunities highlighted through scenario analysis, should inform these documents and processes.

Short term - up to 2030

- The Climate Change Adaptation Plan includes actions up to 2030
- Maintenance and franchisee contracts, renewed every five to seven years
- The Business Plan covers a three-year time period
- Scope 1 & 2 net zero to be achieved by 2030

Medium term – 2030 to 2050

- Scope 3 net zero target will fall into this timeframe
- 25-year asset investment plan

Long term - 2050 to 2080

- Developing a 50-year business strategy
- Strategies to maintain assets and infrastructure that have long lifespans

Our climate metrics and targets

Achievements in 2022/23

- Green measures added to TfL scorecard
- Scorecard measure developed for the Sustainable Drainage System (SuDS)
- Add specific results for scope 1 & 2

Carbon emissions is a key metric on TfL's scorecard, the tool by which TfL measures its performance, and will be reported on quarterly across the business in 2023/24.

Narrative Report and Financial Review (continued)

Our target set out in the Mayor's Climate Budget, is to be net zero by 2030 for TfL's operational emissions. This includes all energy and fuel that TfL purchases directly (scope 1 & 2 emissions), along with emissions associated with the operation of branded services.

Our plan to achieve net zero is:

Item	Narrative
Buses	All buses to be zero emission by 2034, with a target to accelerate this to 2030 (subject to funding)
Support fleet	All cars and vans in the TfL support fleet to be zero emission by 2030
Piccadilly line rolling stock	Lighter, more energy efficient trains with regenerative braking
Private wire	Directly receive a proportion of our electricity from zero-carbon, private, dedicated solar installations
Our buildings	Decarbonising our buildings through removal of fossil fuel heating and increasing energy efficiency
Power purchase agreements	50 per cent of our grid purchased electricity will be from fully renewable sources by 2030

We have identified risks to achieving net zero by 2030, these include changes to regulation which could impact progress of PPA procurement. In addition, to achieve our net zero target by 2030, we will require additional funding.

With additional funding, we could lock-in the pathway to making the bus fleet zero emission by our target 2030, which in combination with existing and funded initiatives would save an additional three hundred thousand tonnes of carbon. This would require significant additional funding, although this cost would be spread over the lifetime of the new vehicles which extends beyond 2030. There is currently no certainty on Government funding for capital investment beyond March 2024. The TfL Business Plan makes an assumption on the level of funding that will be made available for rolling stock and signalling replacement. If this funding is not confirmed in future, this will impact the ability to fund all of TfL's capital investment including green initiatives.

Our metrics and targets in relation to physical climate risks are related to tree coverage and Sustainable Drainage Systems. Through the Mayor's Transport Strategy, we have a target to increase tree numbers on TfL owned roads by one per cent per year between 2016 and 2025. We increased the tree coverage on our network to 24,795, planting 453 in 2022/23. This is an increase of 21 trees above target. We also have a target to increase SuDS by 50,000 square metres per annum. These targets will help to protect London from flooding and provide shade and shelter from extreme weather events.

Our next steps

We are continually improving our approach to TCFD by improving our understanding of climate risks and opportunities through more detailed data and research.

In the next 12 months, we plan to:

Governance

Narrative Report and Financial Review (continued)

- Robust tracking of climate risks and opportunities
- All senior leaders to complete Sustainability training
- Over 3,000 colleagues trained on carbon literacy
- Agree a TfL value framework for capital investment
- Start implementing an asset management decision support system

Strategy

- Strategic research programme to continue
- Strategic actions from the adaptation plan to be progressed
- Continue transition of the bus fleet to net zero and deliver buildings decarbonisation projects
- Begin work on risks and opportunities for scenario analysis
- Expand climate budget to include adaptation
- GI and biodiversity plan published
- Launch our transition plan for zero-emission support fleet vehicles

Risk

- Enterprise risk register expanded to cover strategic and tactical risks
- Physical climate risks to be incorporated into the Active Risk Management system
- All risks across enterprise risk framework that link to climate, identified, and tagged

Metrics and targets

- Agree an emissions reduction target for TfL's scope 3 measures
- Deliver SuDS to allow 5,000 square metres of drainage
- 845ktonnes carbon dioxide emissions from our operations and building

Performance

Summary of financial performance for the TfL Group

Total revenues, excluding grant funding, for the year came in at £5,803m, compared with a total of £4,313m for 2021/22, reflecting recovering fares revenues as passengers returned to the network. The expansion of the Ultra Low Emission Zone (ULEZ) to the area within the north and south circular roads in 2021 was implemented to improve air quality, but does generate income whilst compliance levels increase and the full year impact of this increased revenue in 2022/23.

Gross expenditure of £8,428m has increased from the prior year total of £7,771m primarily from higher staff costs following base pay increases and higher levels of ULEZ bad debt.

Narrative Report and Financial Review (continued)

In 2022/23, our net financing and investment expenditure increased from £229m to £648m, primarily reflecting investment property valuations losses of £134m replaced prior year gains of £93m, due to ongoing fluctuations in the property market. Net gains on disposals of investment properties also decreased from £105m to £22m.

Grant income, at £3,500m, was £851m below the level seen in 2021/22, primarily reflecting reduced levels of extraordinary funding grant received in the year.

These items combined with Corporation tax of £1m results in an overall Group surplus after tax for the year of £109m compared to a prior year surplus of £504m. After reserves transfers, this translated to a decrease in usable reserves from £681m as at 31 March 2022 to £387m at 31 March 2023.

In addition to £624m (2021/22 £551m) of spend on renewals works, capital spend included new investment of £188m (2021/22 £568m) on the Crossrail project and £1,173m (2021/22 £890m) on other investment projects. Major projects progressed in the year included the Four Lines Modernisation project, Barking Riverside, Piccadilly line rolling stock, the Bank Station upgrade and the design and planned construction of DLR rolling stock and systems integration.

Funding sources

Our activities are funded from four main sources:

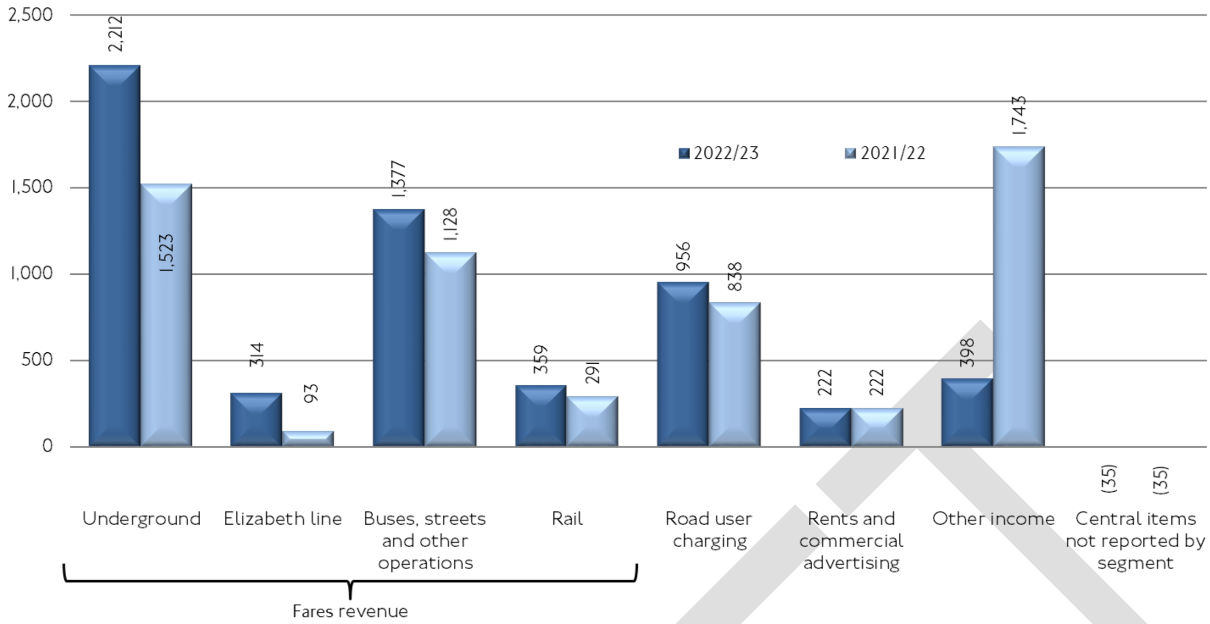
- Passenger fares income – the largest single source of our income
- Other income, including commercial activity and income from the Congestion Charge scheme and the Low Emission Zone / Ultra Low Emission Zone scheme
- Grant income, including extraordinary funding grant from the DfT, and a share of London Business Rates passed down to TfL from the GLA
- Prudential borrowing and cash reserves.

TfL's Business Plan is financially balanced over the medium term, with planned funding sources sufficient to meet planned expenditure. Short-term timing differences between expenditure and funding are managed through transfers to or from our cash reserves. Government recognises that further capital funding beyond the current funding settlement may be required by TfL.

Gross income

Gross income breakdown by type (£m)

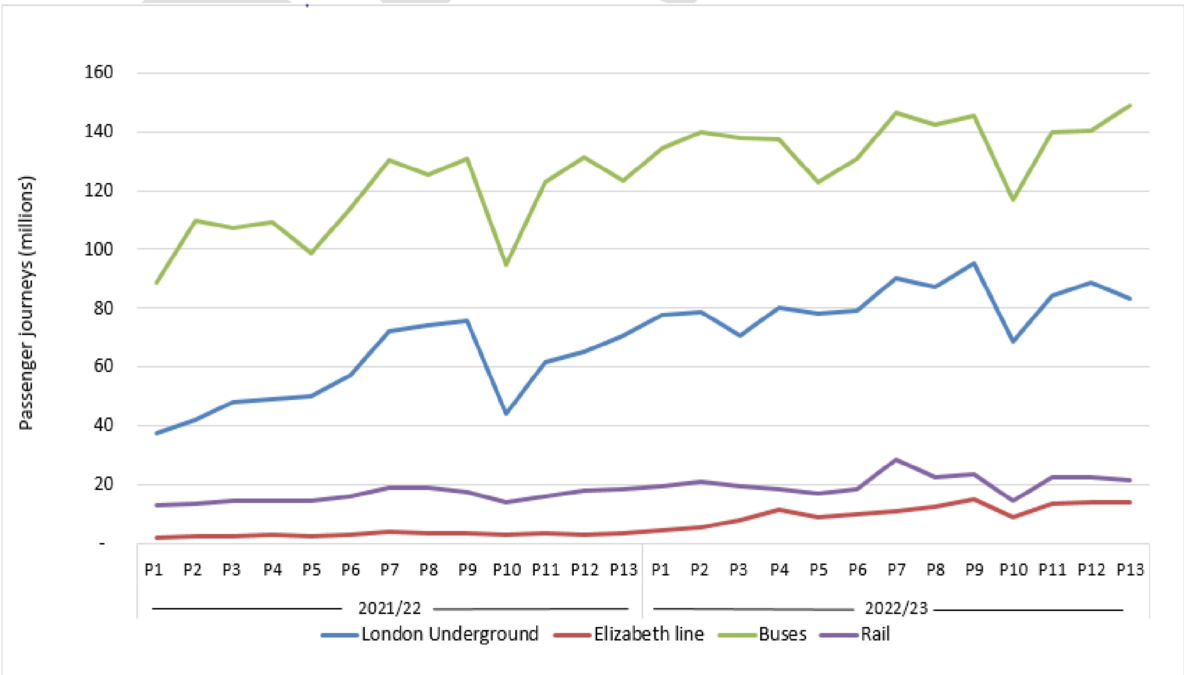
Narrative Report and Financial Review (continued)



Total gross income increased by 35 per cent from £4,313m in 2021/22 to £5,803m in 2022/23, reflecting the increase in passengers returning to the network through work and social activities. In addition, it demonstrates TfL's commitment to growing our revenue so that we are less dependent on the revenue from fares.

TfL's primary source of income comes from passenger fares income. Currently fares make up around 73 per cent of TfL gross income (exclusive of grant revenue). Fares income have increased from £3,154m in 2021/22 to £4,241m in 2022/23, a growth of 34 per cent. Journey numbers are now at 85 per cent of pre-pandemic levels, an increase from 68 per cent in 2021/22.

Passenger journeys per period (in millions)

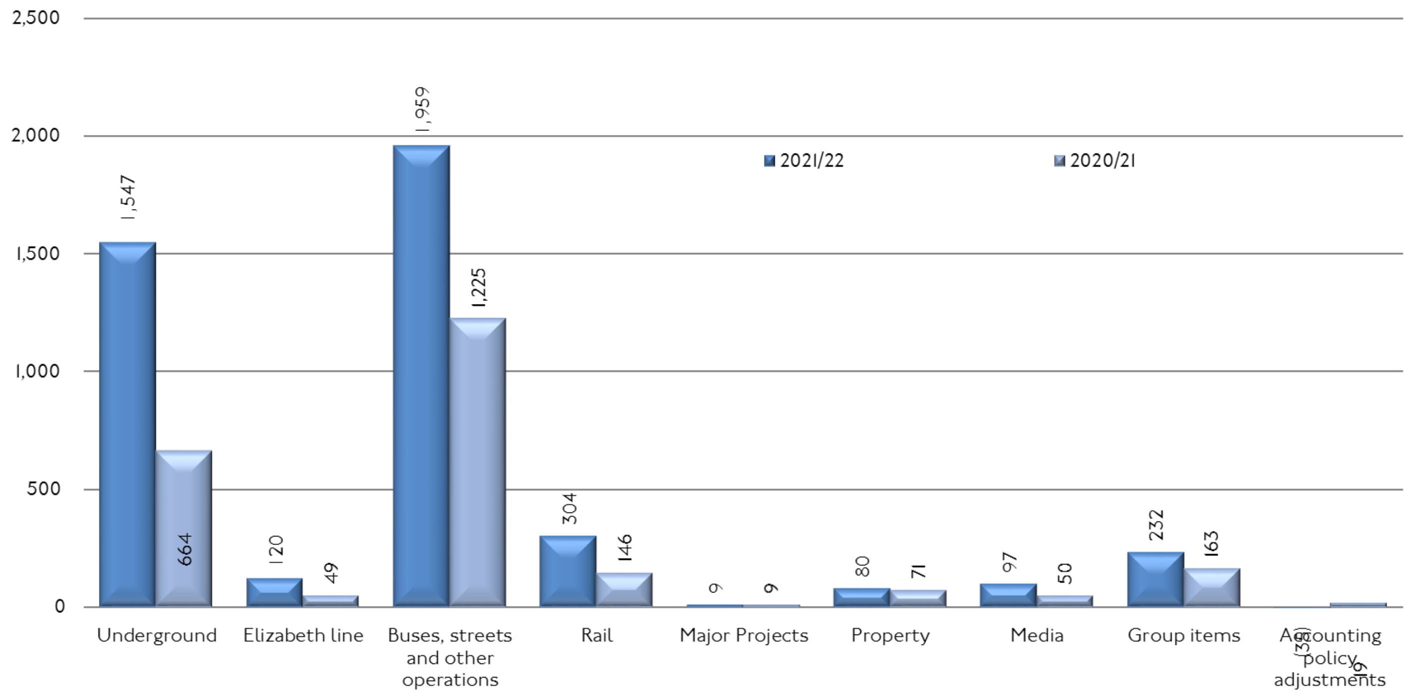


Narrative Report and Financial Review (continued)

As well as the increase in passenger journeys, passenger revenues also reflect fare levels. TfL fares decisions are taken annually by the Mayor who, following five years of fare freezes and taking into account the requirements of Government funding agreements, increased fares initially in March 2021, and again in March 2022 by an average of 4.8 per cent (reflecting RPI plus one per cent) and in March 2023 by 5.9 per cent in line with National Rail fares.

Narrative Report and Financial Review (continued)

Total gross income by operating division (£m)



Total gross operating income for the Underground was £2,241m, which is £696m higher than 2021/22. The fares component made up the majority of this increase as a result of the increase in passenger journeys from 748 million to 1,063 million in 2022/23 (a 42 per cent increase).

Gross income for the Elizabeth line (operating as 'TfL Rail' during the first quarter of financial year) increased by 210 per cent from £105m in 2021/22 to £325m in 2022/23. Within this total, passenger income increased from £93m to £314m. In 2022/23, Elizabeth line had 138 million passenger journeys. This is an increase of 98 million over the previous year. The growth is due to the opening of the Elizabeth line central operating section in May 2022, followed by the commencement of partial through running in November 2022.

Income from Buses, streets and other operations rose 28 per cent from £1,968m in 2021/22 to £2,513m in 2022/23. Within this total, passenger income for the Buses, at £1,377m, was £249m more than the previous year. London's bus network saw an increase in passenger journeys of 296 million with demand steadily improving during the year. Fares income from the IFS Cloud Cable Car, at £9m for the year, was £2m higher than the prior year total.

Road user charging (RUC) income, at £956m, was £272m higher than 2021/22 levels. There has been a reduction in congestion charge revenues for the full year from £423m in 2021/22 to £358m in 2022/23, due to the changes in hours and days of the schemes operation following the end of pandemic restrictions.

Narrative Report and Financial Review (continued)

2022/23 saw a full year of expanded ULEZ, operating to the area within the North and South Circulars, which contributed to income from road user charging rising by £254m to £480m.

In the Rail division, income at £385m was 27 per cent above prior year levels. Within this, passenger income of £359m was £68m above the 2021/22 total. Rail journeys, including London Overground, DLR and Trams, were 77 per cent of pre-pandemic levels, showing rising demand on the network from 209 million in 2021/22 to 270 million 2022/23.

Property development income has risen by 25 per cent from £80m in 2021/22 to £100m in 2022/23 the majority of which was a dividend payment from the joint venture TTL Blackhorse Road properties (£17m). In addition there has been a strong return on car parking revenue.

Income from Group items relates to a variety of activities, including taxi and private hire licensing, media, estates management and travelcard administration.

Government grants and other funding

TfL has a current funding agreement until the end of March 2024, to support the running of our day-to-day operating costs and protecting our growing passenger income following the dramatic fall in our fares. The DfT contributed revenue grant funding totalling £920m to TfL in 2022/23 (2021/22 £1,717m) under a number of Extraordinary Funding and Financing Agreements. In addition, TfL continued to receive funding from the GLA as part of local authority devolved arrangements. The Mayor retains a share of London's business rates and then allocates a proportion of this to TfL as a resource grant.

Other sources of grant income included specific capital grant from the GLA for the Crossrail project and other projects, such as DLR rolling stock replacement, Elephant and Castle infrastructure projects, communication networks on the Underground, and other contributions from third parties.

The total of resource and capital grants receivable by TfL in 2022/23 amounted to £3,500m (2021/22 £4,351m).

Narrative Report and Financial Review (continued)

Prudential borrowing

Movements in borrowing during 2022/23 (m)

Movement in borrowing (£m)	
Opening borrowing at 1 April 2022 per the accounts	12,966
Public Works Loan Board (PWLB) loans – eleven tranches borrowed due between 2033-2068	1,661
Repayment of Bonds	(1,216)
Repayment of DfT Crossrail loans	(35)
Repayment of rolling short-term Commercial Paper	(199)
Repayments on PWLB and European Investment Bank (EIB) loans	(271)
Fair value movements, issue premia/discounts and fee adjustments	4
Closing borrowing at 31 March 2023 per the accounts	12,910

The authorised limit for direct borrowings for the Corporation set by the Mayor for 2022/23 was £13,769m.

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

Gross expenditure

Gross expenditure, which includes day-to-day operating costs as reported to management (see note 2 to the financial statements) and central items not reported on a segmental basis (including depreciation and amortisation) increased by 8 per cent from £7,771m in 2021/22 to £8,428m in 2022/23. Excluding accounting policy adjustments, expenditure increased by nine per cent from £6,462m to £7,055m.

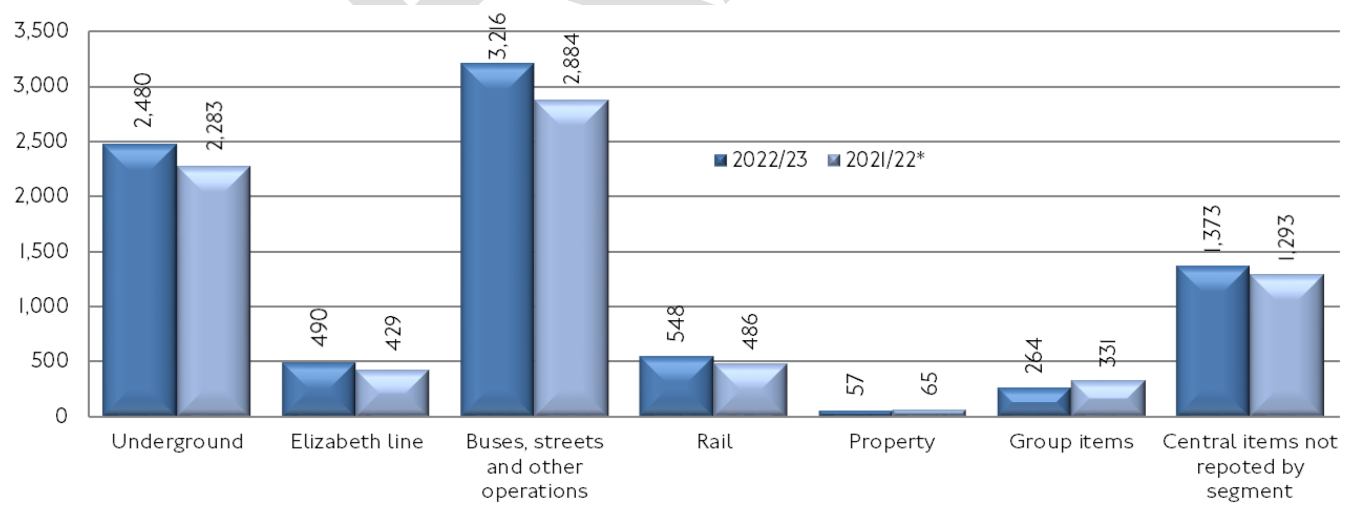
Narrative Report and Financial Review (continued)

Year-on-year costs of operations (£m)

	2022/23	2021/22
Cost of operations per internal management reports	(7,055)	(6,478)
Adjust for one-off items incurred	44	35
Adjust for investment programme operating costs included in operating expenditure	146	157
Adjust for new Elizabeth line services	477	422
Adjust for other new services	177	85
Adjust for reduction in pension deficit payments in 2022/23	(72)	-
Adjust for accounting changes in LEZ/DVS operating costs	47	-
Cost of operations (like-for-like basis)	(6,236)	(5,779)
Adjust for RPI at 12.9 per cent	710	-
Cost of operations (like-for-like basis) in real terms (2021/22 prices)	(5,526)	(5,779)
Year-on-year decrease in real terms	253	
Year-on-year percentage decrease in real terms	-4.4%	

Like-for-like operating costs £457m (7.9 per cent) up on last year due to the high levels of inflation, but down in real terms. We remain focused on increased spend controls and reducing our core costs where possible.

Gross expenditure by operating division (£m)



* figures for 2021/22 have been restated to align with revised internal management structures

Narrative Report and Financial Review (continued)

On the Underground, costs increased by £197m (nine per cent) in the year. 2022/23 saw the final year of the four-year pay deal paid to staff within London Underground, which delivered an 8.4 per cent increase to employees.

Total operating expenditure on the Elizabeth line at £490m was £77m (19 per cent) higher than the prior year figure of £413m, following the opening of the central operating section in May 2022.

The cost of operating Buses, streets and other operations at £3,216m increased by 12 per cent on the prior year figure of £2,884m mainly due to full-year costs of operating the expanded ULEZ.

Operating expenditure for the Rail division increased by eight per cent from £486m in 2021/22 to £548m in 2022/23 with higher costs in London Overground (£34m) and DLR (£10m)

Property costs have decreased during the year – from £65m to £56m partly as a result of maintenance underspend with activity re-profiled to next year.

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

As set out in note 2, Central items not reported on a segmental basis primarily represent charges not included in internal management reporting. The most significant line item within this balance comprises depreciation, amortisation and impairment charges recognised in relation to property, plant and equipment and intangible assets. The total of these charges increased from £1,410m in 2021/22 to £1,533m in 2022/23 This category also absorbs the difference between the accounting methodologies used in the statutory versus the management accounts. The most significant of these relate to the treatment of defined benefit pension schemes, and to the treatment of former operating lease payable arrangements. In our management accounts the costs of these items are recognised within operating expenditure based on cash flows, whereas in the statutory financial statements, as set out in the Accounting Policies notes to the accounts, IFRS 16 Leases and IAS 19 Employee Benefits are applied.

Net interest and finance income/charges

Gross financing and investment expenditure for the year was £750m, £248m above the prior year.

This increase was primarily a reflection of valuation losses of £134m recognised in relation to the Group's investment property portfolio. In 2021/22 £93m of valuation gains had been recognised within financing and investment income.

Narrative Report and Financial Review (continued)

Also within this overall total, interest payable on direct borrowings increased by three per cent from £433m to £444m. This increase is the result of increased market rates achieved on borrowing refinanced during 2022/23. As at 31 March 2023, TfL had a nominal £12.937bn of borrowings, of which approximately £0.7bn was short-term borrowing under the Commercial Paper programme. The weighted average interest rate was 3.4 per cent and the borrowings had a weighted average remaining life to maturity of 19.7 years.

Interest payable on borrowings was offset, to a degree, by the amount of interest capitalised into the cost of qualifying property, plant and equipment. Interest capitalised in 2022/23 totalled £32m (£115m in 2021/22).

Interest payable on leases, including contingent rentals in respect of PFIs, increased from £71m in 2021/221 to £93m in 2022/23, reflecting a portion of lease contracts that are impacted by increasing interest rates. The Group's net interest expense in respect of its defined benefit pension scheme obligations increased from £106m in 2021/22 to £79m in 2022/23.

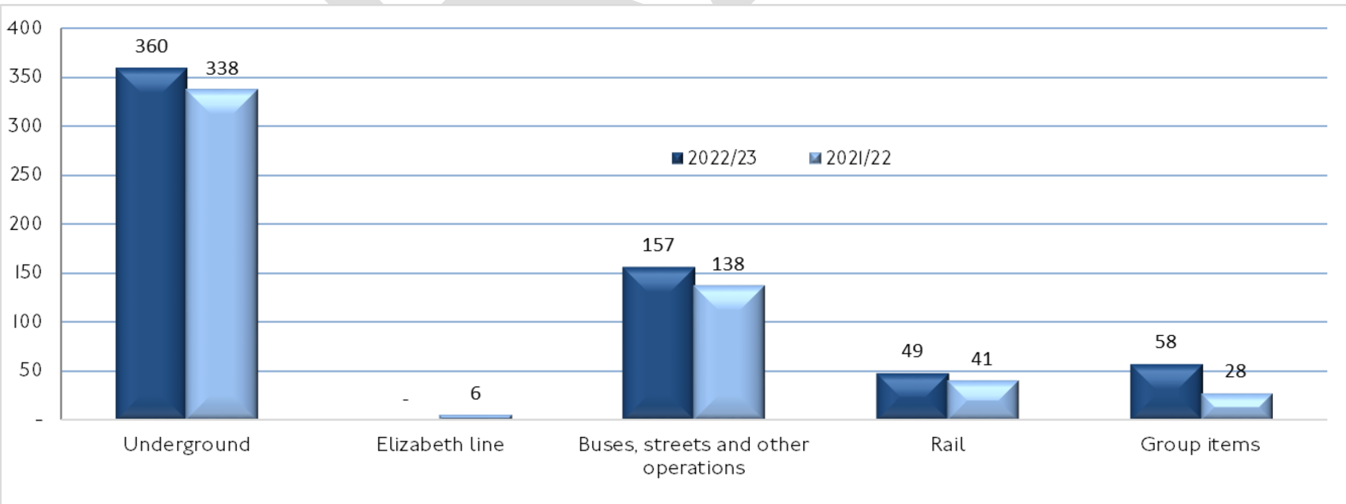
Gross financing and investment income decreased from £203m in 2021/22 to £102m in 2022/23. The decrease was primarily a reflection of £134m of investment property valuation losses recognised within financing and investment expenditure in 2022/23, which replaced valuation gains of £93.4m in 2021/22.

Gains from the disposal of investment properties decreased from £105m in 2021/22 to £22m in 2022/23.

Capital expenditure

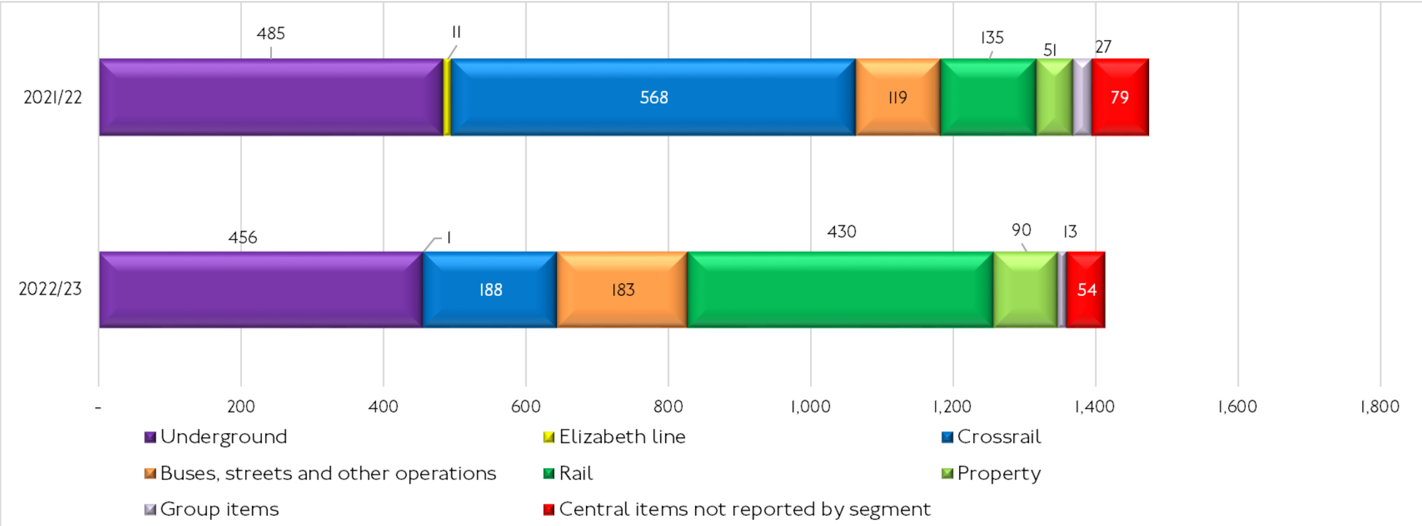
Total Group capital expenditure for the year, including PP&E, intangibles, investment in associates and investment properties totalled £2,040m (2021/22 £2,099m). Within this total £624m was spent on capital renewals (2021/22 £551m).

Capital renewals by business area (£m)



Narrative Report and Financial Review (continued)

New capital investment by business area (£m)



On the Underground, capital expenditure totalled £816m, down slightly from £823m in the prior year. This included £456m of new capital investment and £360m of asset renewals.

A further £53m was invested in the Bank station upgrade this year, which will increase capacity by 40 per cent. The capacity upgrades are alongside additional upgrades improving the passenger flows and overall experience. Improvements include step-free access to the Northern line, improved access to DLR platforms, two new moving walkways, 12 new escalators and two new lifts to serve the Northern line and DLR. There are more direct routes within the station and a new station entrance on Cannon Street. The new street-level entrance on Cannon Street was officially opened by the Mayor of London on 27 February 2023. This includes six further escalators between street level and the Northern line platform level, step-free access to the Northern line for the first time and improved step-free access to the DLR via new lifts. This completes the transformation of Bank Station which is a significant milestone.

£115m was spent on the Four Lines Modernisation project. As part of this programme, we have introduced 192 new S-stock trains on the network. On 11 September 2022, a new timetable was introduced enabling a journey time improvement of around five per cent on average on the Circle and District lines between Monument, Fulham Broadway, Barons Court and Paddington. We continue to make good progress on the programme, which is delivered by progressively installing new signalling onto sections of the railway. The signalling section between Stepney Green and Becontree went live on 15 January 2023. This represented a major achievement for the programme as it completes the roll out of the new signalling on the Hammersmith & City line, further improving reliability for customers. The signalling section between Dagenham East and Upminster went live on 19 March 2023. This is another significant achievement for the programme as it extends the roll-out of the new signalling system on the District line, completes automatic running on the east of the railway, and connects the first depot to the network.

A further £230m was invested in relation to the Piccadilly line upgrade. In December 2022, Siemens completed the manufacture of the second in type key motor car shell for the first new Piccadilly line train. This follows the successful assembly of the first intermediate motor cars in June 2022. In February 2023 we delivered 22 out of 44 power connections in the communication equipment room, a significant step towards enabling train and platform CCTV to be installed. This marks the completion of 50 per cent of planned installations. Once completed, this work will enable the one-person operation and off-train communications equipment to be installed. One person operation CCTV is a safety related system that allows the train operator to view passengers along the platform at the interface with the train.

Total capital expenditure within the Buses, streets and other operations division of £340m is £83m higher than in 2021/22. Within this total, the amount spent on renewals increased from £138m to £157m and on capital expenditure from £119m to £183m.

Work progressed on the Silvertown Tunnel, a new 1.4km long twin-bore public transport focused road tunnel linking the A102 Blackwall Tunnel Approach on the Greenwich Peninsula to the Tidal Basin Roundabout in the Royal Docks area. Tunnelling began on this project at the end of August 2022. Jill, the tunnel boring machine (TBM), reached the rotation chamber in the Greenwich site in February 2023, completing the tunnelling of the first bore, which was a significant milestone for the project. Work has begun to rotate the TBM within the rotation chamber, which is an innovative and complex process.

Construction has begun on the new walking and cycling bridge across the A102, which will replace the existing 1960s footbridge with a new, fully accessible bridge built to modern design standards and with improved lighting. The new bridge will provide a safe and easily accessible crossing for those walking and cycling, including those using cargo bikes, on the Greenwich Peninsula and has taken into consideration future neighbouring development proposals. The main span of the new bridge was installed in March, and the existing bridge will be kept in use until the new bridge is fully opened.

The DfT's active travel fund has now delivered more than 25km of new or improved cycling infrastructure. Boroughs worked tirelessly to deliver ambitious schemes, significantly expanding London's cycle network. Building on the success of the programme, cycling delivery will continue across London via the borough cycling programme. Funding for this programme has now ended and we continue to deliver Active Travel schemes as part of the most recent £63m funding settlement which was confirmed to the boroughs in March 2023. The Cycleways Network Development Programme will deliver £15m of cycling improvements during 2023/24. We continue to reduce road danger in line with the Vision Zero Action Plan, as well as making it easier to walk, cycle and travel by bus across London. It will also accelerate progress towards mode shift, decarbonisation, economic recovery and tackling health inequalities.

Construction has continued at Old Street Roundabout with the highway works on the four approach arms to the junction, including the infilling of Subway 3 on the south-western side of the junction. As well as the green roof for the Main Station Entrance, the project is promoting other environmental initiatives with sustainable drainage systems installed in the disused subways for which there is a £155k funding contribution from Thames Water and last year the site became diesel free so all plant and machinery is now powered by battery or electric.

Total capital expenditure within the Rail division of £479m is £303m higher than in 2021/22. £281m of this increase relates to the purchase of the London Overground class 378 fleet. TfL was exposed to various financial risks, including interest rate and refinancing risks, in relation to the lease agreements for these trains and so to mitigate against these risks the decision was made to purchase the fleet.

The DLR rolling stock programme (including the element funded through the Housing Infrastructure Fund) increased spend this year to £133m. The manufacture of the new rolling stock in Spain is continuing to plan with eleven trains completed this year. The second new train was delivered to Beckton depot in early March 2023, whilst the first train delivered in January 2023 is now undergoing testing on DLR Network in engineering hours. We completed signalling testing of the new software on the DLR network with the existing fleet in preparation for the arrival of the new trains. Following this, we have successfully completed the first stage of signalling integration testing with the new train running under automatic signalling control.

We have received confirmation from the Government to activate an option to purchase eleven additional trains which are funded through the Housing Infrastructure Fund. This will provide additional capacity and unlock further housing benefits in the Royal Docks and Isle of Dogs. We are currently finalising negotiations with the supplier for the delivery of these trains.

A further £6m spend completed the Barking Riverside Extension between Gospel Oak and Barking Riverside which opened on 18 July 2022. We were able to open the station ahead of the previously scheduled autumn completion date due to good progress in driver training, support from Network Rail, and by applying finishing touches to the station. It has been running a good service. Signal assets have also been transferred to Network Rail following the commissioning of the banner repeater signal in January 2023.

We continue to make progress across our estate to deliver new homes for Londoners, and improve our existing property assets which are home to hundreds of small and medium sized businesses across the capital.

We started construction on thousands of homes, including at Bollo Lane and Southall in Ealing, Montford Place and Nine Elms in Lambeth, and Arnos Grove in Enfield. This brings the total number of homes built or in construction to 4,100.

We have appointed Barratt London as our joint venture partner for the project at Bollo Lane, subject to contract completion. Barratt London was appointed after a competitive dialogue procurement process. This new strategic partnership will also have the opportunity to develop other TfL sites across west London, helping to deliver thousands of new and much-needed homes with close access to public transport.

We also launched homes to the market at our site in construction at Wembley Park Gardens. These will consist of 302 one- and two-bedroom properties, spread across five buildings of varying height, with Metropolitan Thames Valley Housing Association delivering a further 152 affordable homes. We expect the first residents to be able to move in from spring 2025, boosting opportunities for first-time buyers to make their step on to the housing ladder. Sustainability is at the heart of Wembley Park Gardens with solar panels, trees and biodiverse green roofs proposed for inclusion in the scheme. The public transport on offer includes the Jubilee and Metropolitan lines, connecting residents to central and outer London in a matter of minutes.

During the year, £188m was spent on the Crossrail project. The Elizabeth line opened on Tuesday 24 May 2022 with services between Paddington and Abbey Wood. TfL Rail services from Reading and Heathrow to Paddington mainline, and Shenfield to Liverpool Street mainline were also rebranded to the Elizabeth line on this day.

Bond Street's Elizabeth line station opened on 24 October 2022. The station can accommodate nearly 140,000 Elizabeth line passengers daily, contributing to an overall station capacity of 225,000 across the Jubilee, Central and Elizabeth lines, providing a new link to one of the busiest shopping districts in Europe. The station features two brand-new, spacious ticket halls which lead passengers to the 255-metre long Elizabeth line platforms. The journey is step-free from street to train, with two lifts, further enhancing accessibility on the Elizabeth line and across the TfL network.

People landing at Heathrow Airport are now able to travel straight through central London on a direct train to areas such as Farringdon and Canary Wharf in as little as 36 and 45 minutes respectively at weekends and 40 and 51 minutes respectively during the week.

New capital investment spent on the Emergency Services Network – a programme, funded by the Home Office, to deliver a new 4G emergency services mobile communications solution. Once live, the network will provide mobile connectivity services to enable emergency services teams throughout the London Underground environment to communicate. Completion of this network has now been incorporated into the Telecommunications Commercialisation Project Concession Agreement. Additionally, through investment by the concessionaire, Commercial Mobile Services will also be offered in addition to the creation of a Fibre Network and the utilisation of TfL's Streetscape Assets for the deployment of small cells enhancing 5G coverage.

Cash and investments

Total cash, cash equivalents and investments with maturities greater than three months held by the Group at 31 March 2023 amounted to £1,402m, a decrease of £7m since the end of 2021/22, allowing us to continue to meet the requirements of our Long-term Funding Settlement with the Government. Of the total cash balance, £165m is held for the Crossrail project, London Transport Museum Limited (LTM), London Transport Insurance (Guernsey) Limited (LTIG) and TTL Properties Limited (TTLP). Our cash position reflects £5.1bn, received from the Government as part of the extraordinary financing and funding packages since the start of the pandemic.

Our liquidity policy requires that we aim to maintain cash reserves equivalent to at least 60 days' worth of forecast annual operating expenditure, on average (around £1.2bn for 2022/23). Our cash reserves remained on average around this level. This is in line with the Long-term Funding Settlement agreed with Government in August 2022 which requires that usable cash reserves are maintained at no more than £1.2bn on average.

The average yield from TfL's cash investments for 2022/23 was 2.21 per cent, an increase from 0.10 per cent in 2021/22. The investment yield reflects the recent interest rates environment and the conservative nature of TfL's investment strategy.

Pensions

As at 31 March 2023, the majority of TfL's employees were members of the TfL Pension Fund.

Every three years, the TfL Pension Fund actuary makes valuations and recommends the level of contributions to be made by the participating employers to ensure the long-term solvency of the Fund. The latest available valuation of the Fund was carried out as at 31 March 2021 by the Actuary, a partner of consulting actuaries Willis Towers Watson, using the projected unit method. A revised Schedule of Contributions was agreed between the Trustee and the employers following the formal funding valuation of the Public Sector Section.

Under the valuation report, the Fund held a surplus of £179m as at 31 March 2021. Assets totalled £13,085m and the defined benefit obligation totalled £12,906m. A revised Schedule of Contributions was agreed between the Trustee and the employers following the formal funding valuation. This set out a future service contribution rate of 27.3 per cent for the employers and five per cent for members.

A separate valuation of the TfL Pension Fund has been prepared, by actuaries at the XPS Pensions Group, for accounting purposes on an IAS 19 basis as at 31 March 2023. The assumptions used by the actuaries are the best estimates chosen from a range of possible actuarial assumptions, while the present value of the schemes' defined benefit obligation is derived from cash flow projections. Due to the timescale covered, neither the assumptions nor the cash flow projections may necessarily be borne out in practice.

On this IAS 19 basis, the Public Sector Section's net deficit/surplus decreased from a £2,997m deficit at the start of the year to a £1,630m surplus at the end of the year, as a result of a change in the financial assumptions adopted. The increase in discount rate significantly reduced the value of the liabilities over the accounting period. This was magnified by a reduction in the inflation assumption which further reduced the value of the liabilities.

The total net surplus recognised in respect of all funded and unfunded pension arrangements at 31 March 2023 amounted to £1,543m (2022 £3,201m deficit).

Narrative Report and Financial Review (continued)

Prospects, outlook, and principal risks

Government funding

TfL is one of the only major cities in Europe not to receive a regular Government grant to cover day-to-day operations, with fares having made up over 70 per cent of our operating budget, pre-pandemic. Our efficiency programme meant that we had been on a path to break even on the cost of operations, maintenance, financing costs and core renewals, having taken almost £1bn out of our net operating costs over the four years prior to the pandemic.

Despite this, even before the pandemic, we still required external support for new capital investment. TfL has lacked certainty on capital funding since around 2018 and before the short-term extraordinary funding settlements during the pandemic, TfL was subject to single-year rollovers and unclear capital funding arrangements.

The pandemic devastated our finances and exposed the inadequacy of our current funding model. TfL's significant exposure to changes in demand due to its high fixed costs and dependence on fares revenue mean that it is particularly susceptible to recessions, changed travel patterns and other travel demand shocks.

To keep the city moving throughout the pandemic while supporting the Government's guidance on social distancing, we had to secure emergency financial support from the Government.

For the period 1 April 2020 to 31 March 2023, the Secretary of State for Transport has provided £5,094m of extraordinary funding grant through five distinct funding agreements. On top of this grant funding, a further £600m of additional borrowing from the PWLB was agreed in 2020/21.

TfL has been rebuilding its finances and has been on a trajectory of declining Government support. It is now on course to achieve operating financial sustainability in 2023/24.

The latest TfL Budget, published in March 2023, shows TfL delivering an operating surplus in 2023/24 of £79m, having received Government base funding of £798m in 2022/23. Whilst the actual level of passenger demand will determine whether DfT revenue top up grant is required to deliver the operating surplus, all DfT base funding in 2023/24 is applied to capital investment. Therefore, TfL is able to demonstrate it is financially sustainable from April 2023 onwards in line with the requirements of the funding settlements.

However, the current Government funding settlement expires on 31 March 2024 and there is no certainty on future capital funding support from Government. In its funding settlement letters, the Government has consistently recognised that TfL – similar to transport authorities around the world – cannot solely finance investment in major capital projects and renewals from its own operating incomes.

Based on these statements, the 2023 TfL Business Plan assumes that further Government capital funding is provided from April 2024 onwards to contribute towards rolling stock and signalling programmes. In 2024/25, TfL is able to fund around three-quarters of its total £2bn capital investment, but a Government funding contribution of £475m is assumed. Without certainty on this funding from Government, TfL will have to descope and defer planned capital investment in its 2024 Business Plan, due to be published in December 2023.

Without a clear picture of future resources, TfL cannot plan for the future of its network and optimise the benefits it can bring nationally. This short-term approach and lack of certainty undermines the ability of the supply chain to invest, limiting job creation, skills development and ability to command more efficient prices for work – for TfL and other transport operators in the UK and beyond.

Passenger income

Rebuilding TfL's ridership has been a key area of focus since the pandemic abated. TfL colleagues have continued to work tirelessly to attract customers back onto its network, including by delivering exceptional customer service, and creating a safe and clean environment on its buses, trains and in stations through its enhanced cleaning regime. By the end of 2022/23 the demand for services had recovered to 85 per cent of pre-pandemic levels.

The central section of the Elizabeth line opened by Queen Elizabeth II on 24 May 2022. Full through running of the Elizabeth line – direct journeys between Shenfield in the east and Heathrow and Reading in the west – began on 21 May 2023, and this marks the final stage of opening of the Elizabeth Line. To the end of 2022/23, the Elizabeth line carried more than 130 million passengers: an outcome reflecting the Elizabeth line's ability to improve and enhance travel across the city for all Londoners.

In March 2023 the Mayor increased TfL fares under his control by 5.9 per cent - a rise in line with the increase in National Rail fares. This rise was lower than the usual RPI+1 per cent formula, reflecting the growth in average earnings in July 2022 and the Secretary of State's desire to strike a balance between passengers who use rail transport, and taxpayers who help pay for them. Notwithstanding the departure from the usual formula, TfL continues to plan on the basis that its fares are uplifted by RPI+1 per cent on average annually from March 2025, noting that this will be subject to a Mayoral decision.

Commercial development activity

On 1 April 2022, TTL Properties Limited (TTLP) was financially separated from TfL as a fully self-financing commercial property company. TTLP has the twin objectives of supporting TfL's financial sustainability through delivering an increasing annual income stream and helping London's post-pandemic recovery, including through building thousands of new homes. TTLP's funding will come from a combination of receipts from property disposals and commercial debt. TTLP's capital programme sits outside the scope of TfL's core business and is not part of its definition of financial sustainability.

Other income sources

As part of commitments made in December 2021 by the Mayor to the DfT to raise £500m in new income by 2023/24, and in addition to the fares options detailed earlier in this section, an increase of £20 in the Band D council tax Mayoral precept was implemented from the beginning of the 2022/23 financial year and paid over to TfL in accordance with the provisions of the 30 August 2022 funding settlement. This raised approximately £61m and the precept will rise by a further £20 in the 2023/24 financial year.

TfL is currently deploying the infrastructure required to ensure that the existing ULEZ is expanded to the Greater London Authority boundary on 29 August 2023 in line with the Mayor's commitment to tackle the triple threat of toxic air, congestion and the climate emergency. Expanding ULEZ will improve London's air quality but it is also expected to result in net revenue for TfL whilst compliance levels improve.

Operating expenditure

Decreasing TfL's reliance on Government base funding was a key aim for 2022/23 and achieving financial sustainability in 2023/24 with all base funding applied to capital investment has required TfL to making significant savings in its cost base. Rising inflation during 2022/23 has posed a significant challenge to TfL's operating costs, albeit TfL benefitted from an additional £15m of inflation-related funding from Government under the terms of the 30 August 2022 funding settlement. Notwithstanding this additional funding, RPI continued to run higher than expected during 2022/23, with the original TfL Budget (approved in March 2022) assuming average full-year RPI to be 5.7 per cent as compared to an actual average rate of 12.9 per cent for 2022/23.

The 30 August 2022 funding settlement recognised the increasing level of inflation and included a mechanism to adjust funding levels for 2023/24 if inflation had materially changed from level expected in the March 2022 TfL Budget. TfL submitted details on the higher inflation to Government in early February 2023. At the time of this report, no response has been received. TfL's 2023/24 Budget assumes an additional £181m of Government funding is provided to help mitigate the impacts of increased inflation.

Whilst no longer being able to mitigate fully the impact of higher inflation, TfL's 2023 Business Plan extended and expanded its recurring savings programme out to 2025/26 in order to identify and deliver sustainable savings that protect service performance, customer satisfaction and revenues as far as possible. This includes extensive modernisation programmes in our customer services, line operations and asset operation functions, contract savings, and operating model changes for our professional services. In 2022/23 TfL delivered £92m of recurring savings, in addition to the £398m of recurring savings delivered between 2019/20 and 2021/22 - contributing to the new and extended target of £998m of recurring savings by the end of 2025/26.

Service levels

With the change in the post-pandemic travel patterns of Londoners, TfL is seeking to adjust service levels to better reflect the changing needs of passengers whilst balancing the need to make savings and efficiencies and to respond to new Mayoral policies such as the expansion of the existing ULEZ in August 2023.

During Summer 2022 TfL launched a consultation on bus service levels in Central London which received over 21,500 responses. In response to the issues raised in the consultation, the Mayor identified additional funding averaging around £25m per year which allowed TfL to reassess proposed changes and, as a result, cancel the most impactful changes resulting in progressing with only four of the original 16 neighbourhood proposals.

In March 2023, the Mayor announced plans for the 'Superloop' – a major expansion of outer London's bus network made up of limited-stop express bus routes around outer London. The Superloop will provide quicker journey times, with the Mayor of London providing £6m funding as an initial catalyst to improvements to outer London orbital bus services. It is proposed to be introduced in stages with some routes that would become part of the Superloop currently in operation, providing quick links across outer London. The Superloop is in addition to the Mayor's existing commitment to add over one million additional kilometres of bus routes in outer London ahead of the expansion of the ULEZ in August 2023.

On the Underground network, the Night Tube returned to the Jubilee and Northern lines in May and June 2022 respectively, and with the return of Night Tube services on the Piccadilly line in late July 2022, all Night Tube services that were suspended during the pandemic have now been fully restored.

The Elizabeth line was officially opened by HM The Queen in May 2022 providing significant additional capacity to London's transport network. At its launch the Elizabeth line operated in three sections, West (Paddington to Heathrow/Reading); Central (Paddington to Abbey Wood); and East (Liverpool Street to Shenfield). In the central section trains operated every five minutes from 06:30 to 23:00

Monday-Saturday and customers wanting to travel between the three sections of the line had to change at Paddington and/or Liverpool Street.

In May 2023 the final Elizabeth line timetable was implemented, increasing peak time frequencies and enabling customers from Shenfield and east London to travel directly to Heathrow Airport for the first time. In its first week of operation, more than 2.5 million journeys were made on the entire Elizabeth line route. Now with journeys from the east and west running through central London, there are an average of around 3.5 million Elizabeth line journeys each week – with around 600,000 journeys on weekdays.

Pay, benefits and pensions

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

TfL honoured the final year of a pre-agreed pay agreement with London Underground colleagues resulting in a pay award of 8.4 per cent for 2022/23. Negotiations are currently underway on pay awards for 2023/24. TfL also deferred all performance award schemes for the 2022/23 financial year, which is subject to, as per 2021/22 awards, an additional performance condition referred to as the 'Financial Overlay Trigger'. This additional condition means that no performance awards can be paid to TfL staff for the financial years 2021/22 and 2022/23 unless TfL achieves financial sustainability by April 2023.

TfL's June 2021 Extraordinary Funding and Financing Agreement contained a requirement from Government for us to carry out a review of the TfL pension scheme. The decision was taken that this review would be conducted independently, to be led by Sir Brendan Barber. An interim report was published in December 2021, which was followed by a Final Report in March 2022.

The Government funding settlement on 30 August 2022 set out further steps for the review of pensions. In line with this, TfL has submitted to Government a response to the Independent Pension Review in September 2022 and a Pensions Position Paper in October 2022. Government responded to this Position Paper with a letter in February 2023. TfL responded to this letter in March 2023 asking for clarification on a number of points. At the time of this report, no response has been received from Government.

There are no current proposals to change the TfL pension scheme and there are no changes assumed in the 2023 TfL Business Plan.

Enterprise Risk Management Framework

The TfL Board has overall accountability for Risk Management and the setting TfL's Risk Appetite and Tolerance levels. TfL's Enterprise Risk Management Framework (ERMF) supports a broader and more integrated approach to managing risks across the organisation, enabling a co-ordinated and less siloed process including the provision of governance and assurance activities.

TfL launched its Vision and Values Roadmaps; Safety and Security, Customer, Colleague, Green and Finance to help deliver its objectives. The ERMF has been updated to reflect these Roadmaps. Our Strategic Risks are directly categorised by the Roadmaps and the Enterprise level risks have been mapped to a relevant Roadmap.

The Enterprise level risks have been assigned to an appropriate Panel or Committee and continue to be presented annually for scrutiny. TfL's Executive Committee (ExCo) reviews and discusses the Enterprise Risks on a quarterly cycle once a full assessment of each enterprise risk has been carried out. There has also been the introduction of thematic ExCo sub groups. The strategic risks will be presented at their assigned ExCo sub group for review. The Audit and Assurance Committee is updated on key risk management activities every quarter and reviews the effectiveness of the risk process at least annually.

TfL's Enterprise risks

TfL's Enterprise Risks have been consolidated down from 14 to 10 risks following the post pandemic review due to some of the risks crystallising. The table below details the key mitigations for the current Enterprise risks.

The table below details the key mitigations for the current Enterprise risks.

Risk	Title	Key Mitigations

Narrative Report and Financial Review (continued)

Risk	Title	Key Mitigations
ER01	Inability to deliver safety objectives and obligations	• Improvements to the Safety, Health & Environment Management System • Contracts and Regulations • Policies and Programmes • Monitoring and benefits realisation • Strategies and targets that promote active, efficient and sustainable transport modes
ER02	Attraction, retention, and wellbeing of our employees	• Annual People Planning Activity • Wellbeing Interventions • Action on inclusion initiative • Talent Management • Reward Management • Critical role identification
ER03	Environment including climate adaptation	• Corporate Environment Plan • Environmental Asset Management Strategy & Objectives • Short term resilience planning • Environmental investment • Environmental training and competence
ER04	Significant security incident	• Security strategy, governance, and culture • Threat intelligence and security liaison • Security risk management systems • Security incident preparedness • TfL whistleblowing policy • Cyber Security Improvement Programme
ER05	Efficient and high performing supply chains and effective procurement	• Financial monitoring • Centralised management of supply chain risks • Supply chain management and risk management analytics

Narrative Report and Financial Review (continued)

Risk	Title	Key Mitigations
		• Supplier communication and engagement • Engagement and collaboration with industry bodies
ER06	Deterioration of operational performance	• New risk – assessments to be completed.
ER07	Financial resilience	• Financial planning cycle: business planning, budgeting, forecasting and review of actuals • Daily cash reporting • Passenger demand forecasting: short-term and longer-term • Maintaining external credit ratings • Treasury Management Policy • Relationship management with government
ER08	Delivery of TfL key investment programmes and projects	• Project Management Office operating model • Capital Improvement Group (CIG) • Capital Efficiencies Plan (CEP) • Central project list and baseline
ER09	Changes in customer demand	• Scenario and risk-based planning • Business planning and budgeting • Transport Innovation • Forecasting methods
ER10	Governance and controls suitability	• Standing orders • Governance framework and management system • Integrated assurance plan • Board effectiveness review • Privacy and Data Protection compliance Programme • Enterprise Risk Management Framework

External audit

Narrative Report and Financial Review (continued)

Appointment, re-appointment and assessment of effectiveness

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

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

During the year Ernst & Young LLP was appointed by the PSAA as auditor of TfL for the duration of the five-year appointing period, covering the audit of the accounts from 2023/24 to 2027/28.

TfL's Audit and Assurance Committee, through the use of questionnaires and reports, formally reviews the performance of the external auditors at least annually against the four criteria of:

- Qualification
- Expertise and resources
- Effectiveness
- Independence

The Audit and Assurance Committee remains satisfied with the quality, integrity and the effectiveness of the work undertaken by Ernst & Young LLP. The Committee carries out regular reviews to ensure that auditor objectivity and independence is maintained at all times.

Non-audit services

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

Under TfL's policy on external audit services, Ernst & Young LLP is required to report to the Committee every six months on fees billed for non-audit services. During 2022/23, the non-audit services provided by Ernst & Young LLP were in respect of audit-related services provided in relation to the use of grant monies received and for procedures relating to regulation 4 of the Railway Safety Levy Regulations 2006. Total non-audit fees for the TfL Group represented one per cent of the total statutory audit fees paid in respect of the combined audit for the TfL and Transport Trading Limited (TTL) Groups, and 14 per cent of the audit fee of the Corporation as a single entity for 2022/23.

Accounting statements

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

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, joint ventures and associated undertakings as set out in notes 16, 17 and 18

Under the GLA Act 1999, the Corporation is treated as a Local Authority for accounting purposes and the Statement of Accounts, which includes the individual financial statements of the Corporation as well as those of the TfL Group, has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code), which is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

TfL's subsidiaries are subject to the accounting requirements of the Companies Act 2006 and separate statutory accounts are prepared for each subsidiary and for the TTL Group. These accounts are prepared under International Financial Reporting Standards as adopted by the UK. Appropriate adjustments are made to the accounting policies of the subsidiaries upon consolidation into the TfL Group financial statements to ensure they are aligned to the requirements of the Code.

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

The Statement of Accounts comprises:

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

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

Purposes of major schedules within the financial statements

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

Comprehensive Income and Expenditure Statement

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

Narrative Report and Financial Review (continued)

The Balance Sheet

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

Narrative Report and Financial Review (continued)

The Cash Flow Statement

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

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by TfL, analysed into usable reserves and other reserves. The surplus or deficit on the provision of services is different from the statutory amounts required to be charged to the General Fund balance. The net increase/decrease before transfers to Earmarked Reserves line shows the statutory General Fund balance before any discretionary transfers to or from Earmarked Reserves.

Statement of Responsibilities for the Accounts

The Corporation is required to:

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

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

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

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

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Corporation and Group at the accounting date and of the income and expenditure for the year ended 31 March 2023.

Patrick Doig

Statutory Chief Finance Officer

[X] July 2023

Independent Auditor’s Report to the Members of Transport for London (continued)

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Group Comprehensive Income and Expenditure Statement

Year ended 31 March	Note	Gross income 2023 £m	Gross expenditure 2023 £m	Net income/ (expenditure) 2023 £m	Gross income 2022 £m	Gross expenditure 2022 £m	Net income/ (expenditure) 2022 £m
Operating segment							
Underground		2,241.0	(2,480.0)	(239.0)	1,545.0	(2,283.0)	(738.0)
Elizabeth line		325.0	(490.0)	(165.0)	121.0	(429.0)	(308.0)
Buses, streets and other operations		2,513.0	(3,216.0)	(703.0)	1,968.0	(2,884.0)	(916.0)
Rail		385.0	(548.0)	(163.0)	304.0	(486.0)	(182.0)
Property		100.0	(57.0)	43.0	80.0	(65.0)	15.0
Other group items		262.0	(264.0)	(2.0)	330.0	(331.0)	(1.0)
	2	5,826.0	(7,055.0)	(1,229.0)	4,348.0	(6,478.0)	(2,130.0)
Central items not reported on a segmental basis	2	(23.2)	(1,373.1)	(1,396.3)	(34.6)	(1,292.7)	(1,327.3)
Net cost of services	2	5,802.8	(8,428.1)	(2,625.3)	4,313.4	(7,770.7)	(3,457.3)
Other net operating expenditure	7			(85.9)			(36.2)
Financing and investment income	8			101.8			202.6
Financing and investment expenditure	9			(749.6)			(501.8)
Grant income	10			3,499.5			4,351.1
Surplus on the provision of services				140.5			558.4
Group share of profit before tax of joint ventures	17			8.8			7.9
Group share of loss before tax of associated undertakings	18			(39.4)			24.0
Group surplus before tax				109.9			590.3
Taxation	11			(1.3)			(86.2)
Group surplus after tax				108.6			504.1

Group Comprehensive Income and Expenditure Statement (continued)

Year ended 31 March	Note	Gross income 2023 £m	Gross expenditure 2023 £m	Net income/ (expenditure) 2023 £m	Gross income 2022 £m	Gross expenditure 2022 £m	Net income/ (expenditure) 2022 £m
Group surplus after tax				108.6			504.1
Other comprehensive income and expenditure							
Items that will not be subsequently reclassified to profit or loss							
Surplus on the revaluation of property, plant and equipment **	13			1.6			21.9
Surplus on the valuation of newly created investment properties	15			6.0			49.0
Deferred tax on the surplus on valuation of newly created investment properties	11			-			(54.7)
Net remeasurement (loss)/gain on defined benefit pension schemes **	35			5,087.3			2,790.9
				5,094.9			2,807.1
Items that may be subsequently reclassified to profit or loss							
Movement in fair value of derivative financial instruments *	37			17.6			51.9
Derivative fair value loss reclassified to income and expenditure *	37			9.4			10.2
Discontinued hedging relationship	37			13.5			(15.0)
				40.5			47.1
				5,135.4			2,854.2
Total comprehensive income and expenditure				5,244.0			3,358.3

* There is no tax effect of these items on other comprehensive income and expenditure in the years ended 31 March 2023 or 2022 (see note 11).

Group Balance Sheet

	Note	31 March 2023 £m	31 March 2022 £m
Long-term assets			
Intangible assets	12	257.1	256.5
Property, plant and equipment	13	44,589.8	43,791.5
Right-of-use assets	14	1,954.5	2,209.9
Investment property	15	1,574.6	1,713.3
Investment in joint ventures	17	79.7	47.3
Investment in associated undertakings	18	169.0	197.5
Derivative financial instruments	30	26.2	13.2
Finance lease receivables	19	9.1	23.2
Retirement benefit surplus	35	1,631.4	-
Debtors	21	60.0	72.2
		50,351.4	48,324.6
Current assets			
Inventories	20	78.7	58.1
Debtors	21	673.4	523.7
Assets held for sale	22	53.7	160.9
Derivative financial instruments	30	1.7	1.4
Finance lease receivables	19	5.2	13.8
Other investments	23	15.0	19.0
Cash and cash equivalents	24	1,387.5	1,390.2
		2,215.2	2,167.1
Current liabilities			
Creditors	25	(2,107.2)	(1,846.9)
Borrowings	26	(693.7)	(1,423.0)
Right-of-use lease liabilities	14	(299.6)	(334.1)
PFI liabilities	27	(14.3)	(10.6)
Other financing liabilities	28	(6.6)	(6.4)
Derivative financial instruments	30	(3.4)	(6.5)
Provisions	29	(113.7)	(99.3)
		(3,238.5)	(3,726.8)

Group Balance Sheet (continued)

	Note	31 March 2023 £m	31 March 2022 £m
Long-term liabilities			
Creditors	25	(87.6)	(82.3)
Borrowings	26	(12,216.6)	(11,543.3)
Right-of-use lease liabilities	14	(1,915.9)	(2,102.2)
PFI liabilities	27	(76.7)	(91.0)
Other financing liabilities	28	(115.1)	(121.7)
Derivative financial instruments	30	(10.1)	(14.2)
Deferred tax liabilities	11	(376.5)	(375.2)
Provisions	29	(49.9)	(86.6)
Retirement benefit obligation	35	(88.1)	(3,201.5)
		(14,936.5)	(17,618.0)
Net assets		34,391.6	29,146.9
Reserves			
Usable reserves		398.8	681.2
Unusable reserves	37	33,992.8	28,465.7
Total reserves		34,391.6	29,146.9

The notes on pages 69 to 241 form part of these financial statements. These financial statements were approved by the Board on [ ] July 2023 and signed on its behalf by:

Sadiq Khan
Chair of TfL

Group Movement in Reserves Statement

	Note	General Fund £m	Earmarked Reserves £m	General Fund and Earmarked Reserves £m	Street Works Reserve £m	Capital grants unapplied account £m	Usable reserves £m	Corporation unusable reserves	Total Corporation reserves	Share of Group Unusable reserves £m	Total reserves £m
At 1 April 2021		500.0	362.1	862.1	24.8	-	886.9	10,355.1	11,242.0	14,545.7	25,787.7
Movement in reserves during 2021/22											
Group surplus after tax		2,875.8	-	2,875.8	-	-	2,875.8	-	2,875.8	(2,371.7)	504.1
Other comprehensive income and expenditure		-	-	-	-	-	-	2,774.0	2,774.0	80.2	2,854.2
Total comprehensive income and expenditure		2,875.8	-	2,875.8	-	-	2,875.8	2,774.0	5,649.8	(2,291.5)	3,358.3
Adjustments between group and authority accounts		(2,741.3)		(2,741.3)			(2,741.3)	-	(2,741.3)	2,741.3	-
Net (decrease)/increase before transfers		134.5	-	134.5	-	-	134.5	2,774.0	2,908.5	449.8	3,358.3
Derivative fair value loss reclassified to the Balance Sheet	37	-	-	-	-	-	-	-	-	0.9	0.9
Adjustments between accounting basis and funding basis under statutory provisions	38	(340.6)	-	(340.6)	0.4	-	(340.2)	340.2	-	-	-
Net (decrease)/increase before transfer to/from Earmarked Reserves		(206.1)	-	(206.1)	0.4	-	(205.7)	3,114.2	2,908.5	450.7	3,359.2
Transfer to/from Earmarked Reserves		206.1	(206.1)	-	-	-	-	-		-	-
(Decrease)/increase in 2021/22		-	(206.1)	(206.1)	0.4	-	(205.7)	3,114.2	2,908.5	450.7	3,359.2
Balance at 31 March 2022		500.0	156.0	656.0	25.2	-	681.2	13,469.3	14,150.5	14,996.4	29,146.9
Movement in reserves during 2022/23											
Group surplus after tax		1,927.6	-	1,927.6	-	-	1,927.6	-	1,927.6	(1,819.0)	108.6
Other comprehensive income and expenditure			-	-	-	-	-	5,039.9	5,039.9	95.5	5,135.4
Total comprehensive income and expenditure		1,927.6	-	1,927.6	-	-	1,927.6	5,039.9	6,967.5	(1,723.5)	5,244.0
Adjustments between group and authority accounts		(2,058.1)	-	(2,058.1)	-	-	(2,058.1)	-	(2,058.1)	2,058.1	-
Net (decrease)/increase before transfers		(130.5)	-	(130.5)	-	-	(130.5)	5,039.9	4,909.4	334.6	5,244.0
Derivative fair value loss reclassified to the Balance Sheet	37	-	-	-	-		-	-	-	0.6	0.6
Adjustments between accounting basis and funding basis under statutory provisions	38	(256.1)	-	(256.1)	2.0	102.2	(151.9)	151.9	-	-	-
Net (decrease)/increase before transfer to/from Earmarked Reserves		(386.6)	-	(386.6)	2.0	102.2	(384.6)	5,191.8	4,807.2	335.2	5,244.6
Transfer to/from Earmarked Reserves		156.0	(156.0)	-	-	-	-	-	-	-	-
(Decrease)/increase in 2022/23		(230.6)	(156.0)	(386.6)	2.0	102.2	(282.4)	5,191.8	4,909.4	335.2	5,244.6
Balance at 31 March 2023		269.4	-	269.4	27.2	102.2	398.8	18,661.1	19,059.9	15,331.6	34,391.5

Group Movement in Reserves Statement

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

Capital receipts received in the Corporation are fully applied during the year and a Capital Receipts Reserve has not been shown in this statement. Refer to Note 39.

Adjustments between group and authority accounts represent intra-group transactions between the Corporation and subsidiaries. This includes capital and revenue grants and interest income. The balance is adjusted against the Group deficit after tax.

Group Statement of Cash Flows

Year ended 31 March	Note	2023 £m	2022 £m
Surplus on the provision of services		140.5	558.4
Adjustments to the surplus on the provision of services for non-cash movements	36 b	2,088.2	1,689.2
Adjustments to the surplus on the provision of services for non-cash movements for investing or financing activities	36 c	(2,155.3)	(2,170.6)
Net cash flows from operating activities		73.4	77.0
Investing activities	36 d	320.3	(64.2)
Financing activities	36 e	(396.3)	(332.8)
Decrease in net cash and cash equivalents in the year		(2.6)	(320.0)
Net cash and cash equivalents at the start of the year		1,390.2	1,710.2
Net cash and cash equivalents at the end of the year	24	1,387.6	1,390.2

Corporation Comprehensive Income and Expenditure Statement

Year ended 31 March	Note	2023 £m	2022 £m
Highways and Transport Services			
Gross income		1,160.0	857.7
Gross expenditure	4	(1,756.3)	(1,477.0)
Net cost of services		(596.3)	(619.3)
Other net operating expenditure	7	(0.3)	(2.7)
Financing and investment income	8	489.8	540.4
Financing and investment expenditure	9	(559.2)	(547.0)
Grant income	10	3,452.6	4,289.5
Grant funding of subsidiaries		(2,917.0)	(3,526.5)
Surplus/(deficit) on the provision of services		(130.4)	134.4
Other comprehensive income and expenditure			
Items that will not be subsequently reclassified to profit or loss			
Surplus/(deficit) on the revaluation of property, plant and equipment	13	(0.9)	0.1
Surplus on the valuation of newly created investment properties		-	0.8
Net remeasurement gain/(loss) on defined benefit pension schemes	35	5,040.8	2,773.2
		5,039.9	2,774.1
Total comprehensive income and expenditure		4,909.5	2,908.5

Corporation Balance Sheet

	Note	31 March 2023 £m	31 March 2022 £m
Long-term assets			
Intangible assets	12	167.6	184.5
Property, plant and equipment	13	4,379.6	4,181.7
Right-of-use assets	14	339.8	368.5
Investment property	15	86.9	97.1
Investments in subsidiaries	16	13,062.5	12,782.5
Retirement benefit surplus	35	1,630.0	-
Debtors	21	12,326.9	12,360.9
		31,993.3	29,975.2
Current assets			
Debtors	21	378.0	262.9
Assets held for sale	22	3.0	12.1
Cash and cash equivalents	24	1,131.3	1,231.8
		1,512.3	1,506.8
Current liabilities			
Creditors	25	(859.2)	(558.1)
Borrowings	26	(693.7)	(1,423.0)
Right-of-use lease liabilities	14	(27.0)	(27.0)
PFI liabilities	27	(14.3)	(10.6)
Provisions	29	(51.6)	(53.3)
		(1,645.8)	(2,072.0)

Corporation Balance Sheet (continued)

	Note	31 March 2023 £m	31 March 2022 £m
Retirement benefit surplus	35	1,630.0	-
Long-term liabilities			
Creditors	25	(52.2)	(54.4)
Borrowings	26	(12,221.5)	(11,547.3)
Right-of-use lease liabilities	14	(341.1)	(367.1)
PFI liabilities	27	(76.7)	(91.0)
Provisions	29	(20.3)	(41.0)
Retirement benefit obligation	35	(88.1)	(3,158.8)
		(12,799.9)	(15,259.6)
Net assets		19,059.9	14,150.4
Reserves			
Usable reserves		398.8	681.2
Unusable reserves	37	18,661.1	13,469.2
Total reserves		19,059.9	14,150.4

The notes on pages 69 to 241 form part of these financial statements. These financial statements were approved by the Board on [ ] July 2022 and signed on its behalf by:

Sadiq Khan
Chair of TfL

Corporation Movement in Reserves Statement

	Note	General Fund £m	Earmarked Reserves £m	General fund and earmarked reserves £m	Street Works Reserve £m	Capital grants unapplied account £m	Usable reserves £m	Unusable reserves £m	Total reserves £m
At 1 April 2021		500.0	362.1	862.1	24.8	-	886.9	10,355.1	11,242.0
Movement in reserves during 2021/22									
Surplus on the provision of services		134.5	-	134.5	-	-	134.5	-	134.5
Other comprehensive income and expenditure		-	-	-	-	-	-	2,774.0	2,774.0
Total comprehensive income and expenditure		134.5	-	134.5	-	-	134.5	2,774.0	2,908.5
Adjustments between accounting basis and funding basis under statutory provisions	38	(340.6)	-	(340.6)	0.4	-	(340.2)	340.2	-
Net (decrease)/increase before transfer to/from Earmarked Reserves		(206.1)	-	(206.1)	0.4	-	(205.7)	3,114.2	2,908.5
Transfer to/from Earmarked Reserves		206.1	(206.1)	-	-	-	-	-	-
(Decrease)/increase in 2021/22		-	(206.1)	(206.1)	0.4	-	(205.7)	3,114.2	2,908.5
Balance at 31 March 2022		500.0	156.0	656.0	25.2	-	681.2	13,469.3	14,150.5
Movement in reserves during 2022/23									
Deficit on the provision of services		(130.5)	-	(130.5)	-	-	(130.5)	-	(130.5)
Other comprehensive income and expenditure		-	-	-	-	-	-	5,039.9	5,039.9
Total comprehensive income and expenditure		(130.5)	-	(130.5)	-	-	(130.5)	5,039.9	4,909.4
Adjustments between accounting basis and funding basis under statutory provisions	38	(256.1)	-	(256.1)	2.0	102.2	(151.9)	151.9	-
Net (decrease)/increase before transfers to/from Earmarked Reserves		(386.6)	-	(386.6)	2.0	102.2	(282.4)	5,191.8	4,909.4
Transfer to/from Earmarked Reserves		156.0	(156.0)	-	-	-	-	-	-
(Decrease)/increase in 2022/23		(230.6)	(156.0)	(386.6)	2.0	102.2	(282.4)	5,191.8	4,909.4
Balance at 31 March 2023		269.4	-	269.4	27.2	102.2	398.8	18,661.1	19,059.9

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

Capital receipts received in the Corporation are fully applied during the year and a Capital Receipts Reserve has not been shown in this statement. Refer to Note 39.

Corporation Statement of Cash Flows

Year ended 31 March	Note	2023 £m	2022 £m
Surplus on the provision of services		(130.4)	134.4
Adjustments to surplus on the provision of services for non-cash movements	36 b	757.3	449.7
Adjustments to surplus on the provision of services for investing or financing activities	36 c	(2,102.2)	(2,058.6)
Net cash flows from operating activities		(1,475.3)	(1,474.5)
Investing activities	36 d	1,467.0	1,115.8
Financing activities	36 e	(92.1)	(37.9)
Decrease in net cash and cash equivalents in the year		(100.4)	(396.6)
Net cash and cash equivalents at the start of the year		1,231.8	1,628.4
Net cash and cash equivalents at the end of the year	24	1,131.4	1,231.8

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 2022/23 (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 2022/23 is based on International Financial Reporting Standards (IFRS) adopted by the UK (Adopted IFRS) and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. It requires that local authorities prepare their financial statements in accordance with the International Accounting Standards Board (IASB) 'Framework for the Preparation and Presentation of Financial Statements' as interpreted by the Code.

CIPFA/LASAAC announced its plans to delay mandatory implementation of IFRS 16 Leases in the Code until 1 April 2024. IFRS 16 Leases (mandatory for years beginning on or after 1 January 2019 under Adopted IFRS) replaces the previous guidance in IAS 17 on leases. However, as a significant proportion of the Group's activities are conducted through subsidiary companies, which were obliged, under UK Adopted IFRS, to apply IFRS 16 from 1 April 2019, CIPFA included a provision in the Code that permits TfL to adopt IFRS 16 from the same date. The Group has therefore adopted IFRS 16 in its financial statements from 1 April 2019.

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

Capital grants and contributions

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

FRS 102 The Financial Reporting Standard: Heritage assets

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

Accounting Policies (continued)

IAS 36 Impairment of Assets

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

Peppercorn rents

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

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

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

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

b) Basis of preparation

The accounts are made up to 31 March 2023. The Corporation is a single service authority and all expenditure is attributable to the provision of highways, roads and transport services. The Corporation has granted a standing delegation in its Standing Orders by which each wholly owned subsidiary (Subsidiary Entity) is delegated power to discharge any functions of TfL relevant to that Subsidiary Entity's role and responsibilities within the Group, except those functions reserved to the TfL Board. Those subsidiaries therefore directly discharge TfL's statutory functions and do so within the scope of the same statutory arrangements that apply to TfL itself.

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

The financial statements 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.

Accounting Policies (continued)

c) Basis of consolidation

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

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

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

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

The Corporation is required to make adjustments between the accounting basis and funding basis under statutory provisions. Further detail regarding these adjustments is included within Note 39. For the alignment of accounting policies for the purposes of Group accounts, the Group transfers amounts between the Retained Earnings Reserve in its subsidiaries and the Group Capital Adjustment Account on the same basis as if those statutory provisions applied to its subsidiaries. Further details regarding this alignment is included within Note 38.

d) Going concern

[This section is left intentionally blank – placeholder for Going concern conclusion]

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 UK) 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:

- Property, Plant and Equipment: Proceeds Before Intended Use

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

  The amendments to IAS 16 were assessed to have a minimal impact on TfL's financial statements for the year ending 31 March 2023

- Onerous Contracts – Costs of Fulfilling a Contract

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

  The amendments to IAS 37 were assessed to have a minimal impact on TfL's financial statements for the year ending 31 March 2023.

- Reference to the Conceptual Framework – Amendments to IFRS 3

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

  The amendments to IFRS 3 were assessed to have a minimal impact on TfL's financial statements for the year ending 31 March 2023.

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

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

The amendments to IFRS 1 did not have any impact on TfL's financial statements for the year ending 31 March 2023.

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

The amendments to IFRS 9 were assessed to have a minimal impact on TfL's financial statements for the year ending 31 March 2023.

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 UK, but have not been applied in these financial statements:

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

  IFRS 17 will replace IFRS 4 and provides an accounting model for insurance contracts that is more useful and consistent for insurers than existing standards. This standard is not expected to have a significant impact for the TfL Group.

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

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

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

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

- Amendment to IAS 8 on Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023) - The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

- Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements (effective for annual periods beginning on or after 1 January 2023) - The entity is now required to disclose its 'material' accounting policy information.

Accounting Policies (continued)

- Amendment to IAS 12 on Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023) - The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense).

- Amendments to IAS 1 on classification of liabilities as current or non-current (effective for annual periods beginning on or after 1 January 2024) – further guidance is included to specify that a liability should be recorded as non-current if the entity has the right to defer settlement for at least 12 months after the reporting date.

  Amendments to IAS 1 on non-current liabilities with covenants (effective for annual periods beginning on or after 1 January 2024). The amendments clarify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current.

- Amendments to IFRS 16 on lease liabilities in a sale and leaseback transaction (effective for annual periods beginning on or after 1 January 2024). The amendments focus on providing additional guidance as to how a seller-lessee should measure the right-of-use asset arising from a leaseback with variable lease payments. The amendments clarify that the seller-lessee must only record a gain or loss relating to the rights transferred to the buyer-lessor.

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

g) Discontinued operations

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

h) Uses of estimates, judgements and errors

The preparation of financial statements in conformity with the Code requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed below. In assessing the Group's judgements and sources of estimation uncertainty, consideration has been given to the impact of climate change risk on these. Aside from useful economic lives of assets, climate risks have not been deemed to have any impact on the Group's significant judgements or estimates. 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)

Use of judgement

Determining whether an arrangement contains a lease

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

For arrangements where TfL is a lessor there is significant judgement involved in respect of whether the arrangement is a finance or an operating lease.

Classification of investment properties

The Code requires that properties be classified as investment properties where they are held solely for the purpose of capital appreciation or to earn rentals. The Group own or lease 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 can be separately identified and classified as investment properties in accordance with the requirements of the Code. 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 as a lessor

From the lessor's perspective in assessing whether a lease is an operating lease or a finance lease, judgement needs to be exercised in determining whether or not substantially all the risks and rewards of ownership of the leased asset are retained by the Group or are transferred to the lessee. Given that assets leased under a finance lease are derecognised from the Balance Sheet, and assets leased out under operating leases are not, this can have a significant effect on the reported financial position of the Group.

Availability of future capital funding

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

Capitalisation of assets with third party interest

In assessing situations where TfL assets are constructed on, or have significant involvement with, external third parties, judgement is exercised in determining whether substantially all the risks and rewards of ownership of the asset are held by the Group.

Use of estimates

Useful economic life of property, plant and equipment

In determining the useful economic life of property, plant and equipment management estimate the length of time that the assets will be operational. In assessing the appropriateness of useful economic

Accounting Policies (continued)

lives, the impact of the Group's Climate Change Adaptation Plan has been considered, it was concluded there was no material impact or impairment to the Group's assets.

Post-retirement benefits

The pension costs and defined benefit plan obligations of the Group's defined benefit plans are calculated on the basis of a range of assumptions, including the discount rate, inflation rate, salary growth and mortality. Differences arising as a result of actual experience differing from the assumptions, or future changes in the assumptions will be reflected in subsequent periods. A small change in assumptions can have a significant impact on the valuation of the liabilities. More details are given in note 36.

Financial derivative instruments

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

Provisions

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

In assessing whether a contract is onerous only directly related costs are included, general and admin costs are excluded from the assessment to the extent they are not explicitly rechargeable to the counterparty under the contract.

Expected credit loss allowance

The expected credit loss allowance recognised in respect of financial assets is based on a forward-looking probability-weighted measure considering reasonable and supportable information on past events, current conditions and the time value of money. As at 31 March 2021 and 20222023, management were required to make estimates regarding future losses based on the impact of the coronavirus outbreak on ongoing economic factors on credit risk. Given this, a greater than usual level of judgement was involved in reaching this estimate.

Taxes

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

The Group has tax losses carried forward with a tax value of £596.8m (2022 £1,313.4m). These losses relate to subsidiaries that have a history of losses, do not expire, and may be used to offset future taxable income in those subsidiaries. If the Group was able to recognise all unrecognised deferred tax assets, profit and equity would have increased by £600.0m (2022 £2,950.1m).

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.

Owner-occupied office buildings

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

Leases

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

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

Valuation of peppercorn leases

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

Defined benefit plans

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

Accounting Policies (continued)

benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

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

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

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

Further details about pension obligations are provided in note 36.

i) Revenue recognition

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

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

Fares revenue

Revenue from annual or periodic tickets and Travelcards is recognised in the Comprehensive Income and Expenditure Statement on a straight-line basis over the period of validity of the ticket or Travelcard as TfL has a stand ready obligation to provide unlimited travel over the period of validity of the ticket or Travelcard. Oyster pay as you go revenue is recognised on usage and one-day Travelcards and single tickets are recognised on the day of purchase.

Revenue received in advance is not recognised in the Comprehensive Income and Expenditure Statement and is recorded on the Balance Sheet within current liabilities as contract liabilities. Contract liabilities represent receipts in advance for Travelcards, bus passes and Oyster cards.

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

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

Congestion Charging

Accounting Policies (continued)

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

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

Road network compliance

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

Taxi licensing

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

Commercial advertising

TfL grants a concessionaire partner control over certain advertising assets to facilitate the generation of advertising income across its estate and receives income from this arrangement. This is considered a lease arrangement for accounting purposes.

Where the arrangement is viewed as an operating lease under IFRS 16, revenue is recognised on a straight-line basis over the term of the contract.

Where the arrangement is viewed as a finance lease (where the lease transfers substantially all the risks and rewards of ownership of the underlying asset to the third party), a lease receivable is recognised. Finance income is recognised over the term of the lease, based on a pattern reflecting a constant periodic rate of return on the lease receivable. Lease receipts are allocated between reducing the principal balance and interest income.

TfL, through its concessionaire partner, also sells advertising space to customers and receives income from such arrangements under a revenue share agreement with its concessionaire. Revenue share income is dependent upon the revenue generated by the concessionaire and is therefore contingent in nature. Such revenue is recognised in the period when it is earned.

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

Rental income

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

Accounting Policies (continued)

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

Third party contributions to operating costs

Revenue from third-party contributions to operating costs is earned on services performed by TfL in conjunction with other organisations or Government in relation to works such as dropping curbs, building roundabouts, installing traffic lights, installing shelters, escalators or elevators in stations, installing bus shelters, etc.

Revenue from third-party contributions is measured on the basis of progress towards completion, calculated using the proportion of costs incurred to date in relation to the total costs to be incurred on the entire project.

Revenue from telecoms concessionaire arrangements

Revenue from the concessionaire arrangements relates to the exclusive right granted to the concessionaire to access TfL's broader asset base to install and maintain its new telecommunications assets. The Fixed Concession Fee is recognised on a straight-line basis over the period of the concessionaire term. Revenue share fees are recognised as income when they occur.

Cycle hire scheme revenues

Sponsorship revenue is recognised on a straight-line basis over the term of the contract as it represents an obligation to provide branding promotion to the customer during the period of the contract.

Annual memberships scheme revenue is recognised on a straight-line basis over the membership period, as it represents an obligation to provide specific numbers of memberships to clients during the membership period.

Daily access fees are recognised upon providing the customer with access to the bicycles.

Museum income

Store sales

Revenue from store sales is recognised at the point of sale to the customer.

Venue hire revenue

Revenue from venue hire is recognised on the date when the space is provided to the customer.

Venue hire catering commission

Venue hire catering commission is recognised upon completion of the event based on the estimated consideration receivable from the customer.

Corporate membership scheme

Accounting Policies (continued)

Corporate membership scheme revenue is recognised on a straight-line basis over the period of membership, as it represents a stand-ready obligation to provide unlimited entry during the period of membership.

Café concessionaire commission

Revenue from café concessionaire commission income is recognised over the term of the concessionaire contract and measured based on the estimated consideration receivable from the concessionaire in each period.

Ticket and photocard commission income

Revenue from ticket and photocard commission income is recognised upfront when the ticket or photocard is issued.

j) Segmental reporting

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

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

- Underground – Provision of passenger rail services on the London Underground and refurbishment and maintenance of certain parts of the rail network
- Elizabeth line – Delivery of passenger rail services on the Elizabeth line
- Buses, streets and other operations – Provision of bus services; maintenance of London's roads and cycle routes; and provision of other operations, including Dial-a-Ride, London River Services, Taxi and Private Hire, Santander Cycles, Victoria Coach Station and the IFS Cloud Cable Car
- Rail – Provision of passenger rail services through contracted third-party operators on the DLR, London Overground and London Trams
- Property development – Investment in our commercial and residential estate and building portfolio

Amounts included in TfL Group level management reporting, but excluded from divisional breakdowns are referred to as "Group items".

TfL's management reports to the TfL Board are presented using a basis of preparation that differs to the accounting requirements of the CIPFA Code. A reconciliation between the operating performance of the Group as reported to the Board to amounts included in the Group Comprehensive Income and Expenditure Statement is set out in note 2.

k) Exceptional items

Exceptional costs are costs that are unusual, infrequent and which do not occur in the normal course of operations. An unusual event or transaction has a high degree of abnormality and is clearly unrelated to

Accounting Policies (continued)

(or only incidentally related to) the ordinary activities of the organisation, taking into account the operating environment. Infrequent refers to events and transactions that would not reasonably be expected to recur in the foreseeable future, taking into account the operating environment.

l) Grants and other funding

The main source of grant funding during 2022/23 and 2021/22 was the Extraordinary Funding Support Grant from the DfT and share of Business Rate Retention received from the GLA, which is classified as a resource grant; and specific capital grants from the GLA for the Crossrail project.

In the accounts of the Corporation and Group, all non-specific grants are credited to the Comprehensive Income and Expenditure Statement upon receipt or when there is reasonable assurance that the grant will be received. If a capital grant is received but certain conditions remain before it may be applied, it will be held, in the first instance, as capital grant received in advance, within the payables section of the Balance Sheet. Once any relevant conditions have been met, the capital grant is credited to the Comprehensive Income and Expenditure Statement.

Where expenditure on property, plant and equipment is financed either wholly or partly by capital or non-specific grants or other contributions, the amount of the grant applied is credited to the Capital Adjustment Account through the Movements in Reserves Statement. Amounts not utilised in the year are credited to the Capital Grants Unapplied Account, a usable reserve, for application in future periods.

Amounts of non-specific grants not used in the year are credited to the General Fund balance or to an Earmarked Reserve for specific use in future periods, where appropriate.

m) Overheads

Overheads are recognised in the Comprehensive Income and Expenditure Statement on an accruals basis.

n) Financing and investment income and expenses

Financing and investment income comprises interest income on funds invested, interest received in relation to finance leases, and premia received on the early settlement of borrowings. Interest income is recognised in the Comprehensive Income and Expenditure Statement as it accrues, using the effective interest rate method.

Financing and investment costs comprise the interest expense on borrowings and lease liabilities and the net financing cost on defined benefit pension obligations. Also included are premia paid on the early settlement of borrowings and interest rate derivatives. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the Comprehensive Income and Expenditure Statement using the effective interest rate method (see also Accounting Policy z) Borrowing costs).

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

o) VAT

Accounting Policies (continued)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

p) Taxation

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the Comprehensive Income and Expenditure Statement except to the extent that they relate to a business combination, or to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are disclosed net to the extent that they relate to taxes levied by the same authority and the Group has the right of offset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

q) Business combinations

On the acquisition of a business, fair values are attributed to the identifiable assets and liabilities and contingent liabilities unless the fair value cannot be measured reliably in which case the value is subsumed into goodwill. Where fair values of acquired contingent liabilities cannot be measured reliably, the assumed contingent liability is not recognised but is disclosed in the same manner as other contingent liabilities. Contingent assets acquired as part of a business combination are not recognised.

Goodwill is the difference between the fair value of the consideration payable and the fair value of net assets acquired.

r) Intangible assets

Goodwill

Where the cost of a business combination exceeds the fair values attributable to the net assets acquired, the resulting goodwill is capitalised and tested for impairment at each Balance Sheet date.

Accounting Policies (continued)

Goodwill is allocated to income-generating units for the purpose of impairment testing. Forecast cashflows used for impairment testing incorporate current known cashflows in relation to addressing climate change risks, including those in associated with the Group's Climate Change Adaptation Plan commitments.

Other intangible assets

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

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

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

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

Software costs	Straight-line	Up to 10 years

s) Property, plant and equipment

Recognition and measurement

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

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

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

Valuations are performed annually. Movements in the value of the property are taken to the Revaluation Reserve, with the exception of permanent diminutions in value which are recognised in profit or loss.

Accounting Policies (continued)

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009, and any other costs directly attributable to bringing the assets to a working condition for their intended use. Where there is a legal obligation to remove the asset and/or restore the site on which it is located at the end of its useful economic life, the costs of dismantling and removing the items and restoring the site on which they are located are also included in the cost of the asset. Proceeds generated from an asset prior to its intended use are not deducted from the cost of the asset and area instead charged to the Comprehensive Income and Expenditure Statement as generated.

Where major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items 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.

Where there are similar assets with identical useful lives e.g. cabling, these assets are accounted for as pooled items of property, plant and equipment and are depreciated over their useful lives. When pooled items are fully depreciated the gross acquisition value and accumulated depreciation are derecognised.

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

Depreciation

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

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

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

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

Tunnels and embankments	up to 120 years
Bridges and viaducts	up to 120 years
Track	up to 120 years

Accounting Policies (continued)

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

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate, the effect of such adjustment being prospectively recognised as a change of estimate. In assessing the appropriateness of useful economic lives, the impact of the Group's Climate Change Adaptation Plan has been considered, it was concluded there was no material impact or impairment to the Group's assets.

t) Heritage assets

Property, plant and equipment includes a number of assets classified as heritage assets in accordance with the Code. Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. These provisions apply to the collection of transport-related artefacts held at London Transport Museum. Due to the diverse nature of the assets held and the lack of comparable market values, the cost of obtaining a valuation of TfL's heritage assets is such that it would not be commensurate with the benefits provided to users of the financial statements. TfL has therefore taken the exemption available under the Code to hold its heritage assets at historical cost less any accumulated depreciation or impairment losses.

u) Investment property

Investment property is property held solely either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes.

Investment property is measured initially at cost, including transaction costs, and subsequently measured at fair value with any change therein recognised in profit or loss within financing and investment income or expenditure. During 2020/21, 2021/22 and 2022/23, as part of an exercise undertaken by management to create a consolidated commercial property portfolio, new lease structures created allowed the recognition of newly separable investment property assets which were recorded within investment property at fair value at the date of creation of the lease structure. Due to the fact that these assets were created through the separation of new lease structures from larger items of transport infrastructure (included within property, plant and equipment) and the revaluation uplift recorded on initial recognition does not fairly represent the increase in value in the period of the underlying assets, these valuation gains were recognised directly within other comprehensive income.

Accounting Policies (continued)

Movement in the fair values of existing investment properties continued to be recognised within financing income or expenditure.

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

Investment properties are valued annually at fair value by external, professionally qualified surveyors in accordance with RICS Guidelines. Fair value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. The methodology assumes the valuation is based on the highest and best use of the asset. In determining the fair value, the capitalisation of net income method and the discounting of future cash flows to their present value has been used. This is based upon various assumptions including the anticipated future rental income, maintenance costs and the appropriate discount rate, making reference to market evidence of transaction prices for similar properties. A deduction is made to reflect purchaser's acquisition costs. Properties are therefore categorised as Level 3 in the fair value hierarchy, as the measurement technique uses significant unobservable inputs to determine the fair value measurements.

Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. Any such gains and losses recognised by the Corporation are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and transferred to the Capital Adjustment Account.

v) Investment in joint ventures

A joint venture is a type of joint arrangement wherein the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are accounted for using the equity method. Under the equity method, the investment is initially recognised on the Balance Sheet at cost and is thereafter adjusted to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture.

w) Investment in associated undertakings

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

x) Inventories

Inventories consist primarily of fuel, uniforms, and materials required for the operation of services and maintenance of infrastructure. Equipment and materials held for use in a capital programme are accounted for as inventory until they are issued to the project, at which stage they become part of assets under construction.

Accounting Policies (continued)

Inventories are stated at cost less a provision for excess and obsolete inventories. Cost comprises direct materials, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

y) Assets held for sale

Long-term assets (and disposal groups comprising a group of assets and potentially some liabilities that an entity intends to dispose of in a single transaction) are classified as held for sale if; their carrying amount will be recovered principally through sale rather than continuing use, they are available for immediate sale and sale is highly probable.

On initial classification as held for sale, long-term assets or disposal groups are measured at the lower of their previous carrying amount and fair value less costs to sell. No amortisation or depreciation is charged on long-term assets (including those in disposal groups) classified as held for sale.

z) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (those necessarily taking a substantial period of time to get ready for their intended use) are added to the cost of those assets, until such time as the assets are ready for their intended use. The Group has opted to use the date of transition to IFRS (1 April 2009) as the effective date for applying IAS 23 Borrowing Costs (IAS 23).

All other finance and borrowing costs are recognised in the Comprehensive Income and Expenditure Statement in the period in which they are incurred.

aa) Provisions

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

ab) Foreign currencies

Transactions in currencies other than sterling are recognised at the rates of exchange prevailing at the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Accounting Policy aj) below for hedging accounting policies).

ac) Leases (the Group as lessee)

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

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

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

The lease payments are discounted using the TfL Group's incremental borrowing rate, being the rate the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

For the current year, TfL's incremental borrowing rate for each tenor consists of Public Works Loan Board (PWLB) as this is the source of borrowing we have used during the pandemic.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate takes effect, then the lease liability is re-measured using the changed cash flows and changed discount rate. Further, a corresponding adjustment is also made to the right-of-use asset.

Lease payments are allocated between the repayment of principal and a finance cost. The finance cost is charged to the Comprehensive Income and Expenditure Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use assets are measured at cost comprising the following:

- The amount of initial measurement of lease liability
- Any lease payments made at or before the commencement date, less any lease incentives received
- Any initial direct costs
- Restoration costs

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

Accounting Policies (continued)

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

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

Peppercorn leases

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

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

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

ad) Leases (the Group as lessor)

Lease income from operating leases is recognised as income on a straight-line basis over the lease term. Rent free periods, incentives, or fixed annual increases in the lease payments are spread on a straight-line basis over the lease term. Any inflation linked annual increases in rentals are treated as contingent rents and are recognised as income when they occur. Rental income based on turnover is considered variable and therefore is recognised in the period in which it is earned. The respective leased assets are included in the Balance Sheet within property, plant and equipment based on their nature. Any lease modifications are treated as new leases from the date of modification.

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

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

- Rent-free periods are generally considered to constitute a lease modification under IFRS 16, with the lease incentive deferred over the remaining lease term. The lease incentive balance will be assessed for impairment at each reporting date. If the pandemic continues and if the level of tenant failures is higher than expected, the impairment of tenant incentives and bad debt expense is also expected to increase
- Lease income from finance leases is recognised over the lease term at an amount that produces a constant periodic rate of return on the remaining balance of the net investment in the lease. The net investment in the lease is the sum of lease payments receivable during the lease term discounted at the interest rate implicit in the lease
- On lease commencement the carrying value of the asset is derecognised, the net investment in the lease is recognised as a finance lease receivable and any selling profit or loss is recognised in the Comprehensive Income and Expenditure Statement

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

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

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

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

Services received

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

Assets

Assets are recognised as property, plant and equipment or intangible assets when they come into use. The assets are measured initially at fair value in accordance with IPSAS 32 Service Concession Arrangements – Grantor (IPSAS 32).

Where the operator enhances assets already recognised in the Balance Sheet the fair value of the enhancement in the carrying value of the asset is recognised as an asset.

Liabilities

Accounting Policies (continued)

A PFI liability is recognised at the same time as the assets are recognised. It is measured initially at the same amount as the fair value of the PFI assets and is subsequently measured as a finance lease liability in accordance with IAS 17.

An annual finance cost is calculated by applying the implicit interest rate in the lease to the opening lease liability for the year and is charged to financing and investment expenditure within the Comprehensive Income and Expenditure Statement.

The element of the unitary payment that is allocated as a finance lease rental is applied to meet the annual finance cost and to repay the lease liability over the contract term.

Life cycle replacement

Components of the asset replaced by the operator during the contract (lifecycle replacement) are capitalised where they meet the Group's criteria for capital expenditure. They are capitalised at the time they are provided by the operator and are measured initially at their fair value.

af) Impairment of non-financial assets

Goodwill recognised separately as an intangible asset is tested for impairment annually and whenever there is indication that the goodwill may be impaired. Other intangible assets, property, plant and equipment and investments in subsidiaries, joint ventures and associates are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. In assessing whether impairment indicators exist Management have considered climate change risks and the impact of any commitments under the Group's Climate Change Adaptation Plan.

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.

Where an impairment loss is reversed subsequently, the reversal is credited to the Impairment line of the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

In accordance with the Code, when an asset is not held primarily for the purpose of generating cash flows but for service provision, value in use is the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential. This is the case for the majority of the Group's assets.

ag) Employee benefits

Defined benefit pension plans

The majority of the Group's employees are members of the Group's defined benefit plans, which provide benefits based on final pensionable pay. The assets of schemes are held separately from those of the Group.

Accounting Policies (continued)

On retirement, members of the schemes are paid their pensions from a fund which is kept separate from the Group. The Group makes cash contributions to the funds in advance of members' retirement.

Every three years the Group's schemes are subject to a full actuarial funding valuation using the projected unit method. Separate valuations are prepared for accounting purposes on an IAS 19 basis as at the Balance Sheet date. Pension scheme assets are measured using current market bid values. Pension scheme defined benefit obligations are measured using a projected unit credit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the defined benefit obligation.

The difference between the value of the pension scheme assets and pension scheme liabilities is a surplus or a deficit. A pension scheme surplus is recognised to the extent that it is recoverable and a pension scheme deficit is recognised in full. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is reflected immediately in the Balance Sheet with a charge or credit recognised in other comprehensive income in the period in which it occurs. Remeasurement recognised in other comprehensive income will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit obligation or asset. Defined benefit costs are categorised between; (a) service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), (b) net interest expense or income, and (c) remeasurement. The Group presents the first two components in profit or loss within the surplus on the provision of services before tax. Curtailment gains and losses are accounted for as past service costs.

Multi-employer exemption

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

Group schemes under common control

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

Unfunded pension schemes

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

Defined contribution plans

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

Other employee benefits

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

ah) Reserves

Reserves consist of two elements, usable and unusable.

Usable reserves are those that can be applied to fund expenditure. They are made up of the General Fund, Earmarked Reserves, the Capital Grants Unapplied Account and the Street Works Reserve. Amounts in the Street Works Reserve represent the net income/expenditure generated from lane rental revenues. These net revenues may only be employed in funding the reduction of disruption and other adverse effects caused by street works.

Unusable reserves cannot be applied to fund expenditure as they are not cash backed. They include the Capital Adjustment Account, Pension Reserve, the Hedging Reserve, the Financial Instruments Revaluation Reserve, the Financial Instruments Adjustment Account, the Retained Earnings Reserve in subsidiaries and the Fixed Asset Revaluation Reserve.

Management has determined that the Retained Earnings Reserve in subsidiaries are unusable unless the subsidiary declares a dividend to the Corporation, and they are able to fund these via their own cash reserves. The majority of assets held in subsidiaries are related to transport infrastructure and are not readily convertible to cash.

The Group's investment property assets are held within a separate property investment vehicle for the purpose of creating an estate of commercial, income-producing assets and development opportunities. They are not available to fund the expenditure of the Corporation.

ai) Expenditure and Funding Analysis

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

aj) Financial instruments

Financial instruments within the scope of IFRS 9 Financial Instruments (IFRS 9) are classified as:

Accounting Policies (continued)

- Financial assets measured at amortised cost
- Financial assets measured at fair value through other Comprehensive Income and Expenditure (FVTOCI)
- Financial assets measured at fair value through the Comprehensive Income and Expenditure Statement (FVTPL)
- Financial liabilities measured at amortised cost
- Financial liabilities at fair value through the Comprehensive Income and Expenditure Statement (FVTPL)

The Group determines the classification of its financial instruments at initial recognition. Financial assets may be reclassified only when the Group changes its business model for managing financial assets, at which point all affected financial assets would be reclassified. Financial liabilities are not reclassified subsequent to initial recognition.

When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus any directly attributable transaction costs. The exception to this is for assets and liabilities measured at fair value through the Comprehensive Income and Expenditure Statement, where transaction costs are immediately expensed.

The subsequent measurement of financial instruments depends on whether they are financial assets or financial liabilities and whether specified criteria are met.

Financial assets are measured at amortised cost if:

- it is the objective of the Group to hold the asset in order to collect contractual cash flows; and
- the contractual terms give rise to cash flows, which are solely repayments of a principal value and interest thereon.

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

Financial assets are measured at FVTOCI if:

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

After initial recognition, interest is taken to the Comprehensive Income and Expenditure Statement using the effective interest rate method and the assets are measured at fair value with gains or losses being recognised in Other Comprehensive Income and Expenditure (and taken to the Financial Instruments Revaluation Reserve), except for impairment gains or losses, until the investment is derecognised, or reclassified at which time the cumulative fair value gain or loss previously reported in reserves is included in the Comprehensive Income and Expenditure Statement. For equity instruments, unlike debt instruments, there is no transfer of accumulated amounts in Other Comprehensive Income to the Comprehensive Income and Expenditure Statement.

Financial assets are measured at FVTPL if they are:

- Derivatives
- Not held as amortised cost or at FVTOCI
- Financial assets that were elected to be designated as measured at FVTPL

After initial recognition, assets are carried in the Balance Sheet at fair value with gains or losses recognised in the Comprehensive Income and Expenditure Statement.

Financial liabilities are measured at amortised cost if they are non-derivative with limited exceptions.

After initial recognition, non-derivative financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities are measured at FVTPL if they are:

- Derivatives
- Other liabilities held for trading
- Financial liabilities that were elected to be designated as measured at FVTPL

Loans to subsidiaries

Loans to subsidiaries are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Loans are classified as amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and investments that are readily convertible to cash and with an outstanding maturity, at the date of acquisition, of less than or equal to three months. Cash and cash equivalents are classified as financial assets at amortised cost.

Other investments

Short-term investments with an outstanding maturity, at the date of acquisition, of greater than three months and less than or equal to a year, are classified as short-term investments on the basis that they are not readily convertible to cash. Short-term investments are classified as financial assets at amortised cost.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently classified as financial assets at amortised cost.

Finance lease receivables

Accounting Policies (continued)

Finance lease receivables are recognised initially at fair value and subsequently classified as financial assets at amortised cost.

Trade and other creditors

Trade and other creditors are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method.

Interest bearing loans and borrowings

All loans and borrowings are classified as financial liabilities measured at amortised cost.

Obligations under leases and PFI arrangements

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

Other financing liabilities

Other financing liabilities are classified as financial liabilities measured at amortised cost.

Financial derivative instruments

The Group uses financial derivative instruments to manage certain exposures to fluctuations in foreign currency exchange rates and interest rates. The Group does not hold or issue derivative instruments for speculative purposes. The use of derivatives is governed by the Group's Treasury Management policies, approved by the Board.

Derivative assets and derivative liabilities are classified as FVTPL. Such financial derivative instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated in an effective as a hedge relationship, 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 derivatives are classified as a long-term asset or a long-term liability if the remaining maturity of the derivative contract is more than 12 months and as a short-term asset or a short-term liability if the remaining maturity of the derivative contract is less than 12 months.

Hedge accounting

In order to qualify for hedge accounting, at inception of the transaction the Group formally designates and documents the hedging relationship, which includes the Group's risk management strategy and objective for undertaking the hedge, identification of the hedging instrument, the hedged item, the ratio between the amount of hedged item and the amount of hedging instrument, the nature of the risk being hedged and how the Group assesses that the hedging instrument is highly effective including analysis of potential sources of hedge ineffectiveness.

Accounting Policies (continued)

At the inception of the hedge relationship and prospectively on an ongoing basis, the Group assesses three criteria in determining the hedge is effective and qualifies for hedge accounting, namely:

- An economic relationship exists such that the fair value or cash flows attributable to the hedged risk will be offset by the fair value of the hedged instrument
- Credit risk does not dominate changes in the value of the hedging instrument or hedged item
- The hedge ratio used for hedge accounting purposes is the same as that used for risk management purposes and is to be maintained as initially set throughout the hedge relationship

Where derivatives or portions of hedges do not qualify for hedge accounting, they are recorded at fair value through the Comprehensive Income and Expenditure Statement and any change in value is immediately recognised in the Comprehensive Income and Expenditure Statement.

Cash flow hedges

Hedge relationships 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 and could affect profit or loss. Derivative instruments qualifying as cash flow hedges are principally interest rate swaps (where floating rate interest is swapped to fixed) and foreign currency forward exchange contracts.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred in reserves. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in reserves are recycled to profit or loss in the periods when the hedged items (the hedged asset or liability) affect the Comprehensive Income and Expenditure Statement. When the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in reserves are transferred from reserves and are included in the initial measurement of the cost of the related asset or liability. For transaction-related hedged items, this will occur once the hedged transaction has taken place. For time-period related hedged items, the amount that is accumulated in reserves is amortised on a systematic and rational basis as a reclassification adjustment.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in reserves at that time remains in reserves and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in reserves is recognised immediately in profit or loss.

Fair value measurement of financial instruments

The fair value of quoted investments is determined by reference to bid prices at the close of business on the Balance Sheet date, within Level 1 of the fair value hierarchy as defined within IFRS 13.

Accounting Policies (continued)

Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and pricing models.

In the absence of quoted market prices, derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the Balance Sheet date). Hence, derivatives are within Level 2 of the fair value hierarchy as defined within IFRS 13.

Impairment of financial assets

At each reporting date, the Group assesses whether the credit risk on a significant financial asset measured at amortised cost or FVTOCI has increased significantly since initial recognition and subsequently measures an expected credit loss allowance for that financial instrument.

The expected loss allowance is a measurement based on the probability of default over the lifetime of the contract for trade receivables, lease receivables or contract assets in scope of IFRS 15. For other financial assets, the allowance is based on the probability of default occurring in 12 months providing credit risk is assessed as low.

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

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

Embedded derivatives

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

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

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

ak) Climate change

Accounting Policies (continued)

In preparing the Group's financial statements, consideration has been given to the impact of both physical and transition climate change risks as descripted within the Task Force on Climate-related Financial Disclosures (TCFD) section of the Narrative Report, and how these impact the financial statements. Whilst Management do not believe that the climate change risks will have a material impact on the Group's financial statements, further narrative disclosure has been included within each of the applicable accounting policies:

- Going Concern
- Significant accounting judgements, estimates and assumptions
- Property, plant and equipment
- Impairment of non-financial assets

Policies and market changes in response to climate change are continually developing and therefore the financial statements cannot capture all possible outcomes as these are not yet known. The degree of uncertainty of these changes may also mean they cannot be considered in the determination of asset and liability valuations and the timing of future cashflows.

Notes to the Financial Statements

1. Gross income

a) Group gross income

Year ended 31 March	2023 £m	% of total	2022 £m	% of total
Passenger income	4,046.6	69.7	2,880.2	66.8
Revenue in respect of free travel for older and disabled customers	194.2	3.3	273.7	6.3
Congestion Charging	358.1	6.2	423.3	9.8
Ultra Low Emission Zone charges	479.9	8.3	225.7	5.2
Low Emission Zone charges	118.2	2.0	34.6	0.8
Charges to London Boroughs and Local Authorities	14.2	0.2	12.6	0.3
Charges to transport operators	53.1	0.9	21.3	0.5
Road Network compliance income	86.5	1.5	68.3	1.6
Commercial advertising receipts	144.9	2.5	105.1	2.4
Rents receivable	77.1	1.3	78.4	1.8
Contributions from third parties to operating costs	30.8	0.5	28.6	0.7
Taxi licensing	37.9	0.7	32.9	0.8
Ticket and photocard commission income	14.9	0.3	11.6	0.3
General fees and charges	16.6	0.3	11.2	0.3
ATM and car parking income	16.6	0.3	10.5	0.2
Museum income	12.2	0.2	8.3	0.2
Training and specialist services	22.9	0.4	26.2	0.6
Cycle hire scheme	14.5	0.2	15.2	0.4
Other	63.6	1.2	45.7	1.0
	5,802.8	100.0	4,313.4	100.0

1. Gross income (continued)

b) Corporation gross income

Year ended 31 March	2023 £m	% of total	2022 £m	% of total
Congestion Charging	358.1	30.9	423.3	49.4
Ultra Low Emission Zone charges	479.9	41.4	225.7	26.3
Low Emission Zone charges	118.2	10.2	34.6	4.0
Charges to London Boroughs and Local Authorities	12.9	1.1	11.8	1.4
Road Network compliance income	86.5	7.5	68.3	8.0
Rents receivable	0.1	-	0.7	0.1
Contributions from third parties to operating costs	29.5	2.5	24.3	2.8
Taxi licensing	37.9	3.3	32.9	3.8
General fees and charges	4.4	0.4	4.0	0.5
Training and specialist services	15.4	1.3	17.1	2.0
Other	17.1	1.4	15.0	1.7
	1,160.0	100.0	857.7	100.0

c) Congestion Charging

Year ended 31 March	Group and Corporation 2023 £m	Group and Corporation 2022 £m
Income	358.1	423.3
Toll facilities and traffic management	(133.2)	(107.5)
	224.9	315.8
Administration, support services and depreciation	(2.4)	(8.5)
Net income from Congestion Charging	222.5	307.3

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

1. Gross income (continued)

d) Combined Emission Zone Charging

Year ended 31 March	Group and Corporation 2023 £m	Group and Corporation 2022 £m
Income	598.1	260.3
Toll facilities and traffic management	(373.8)	(107.7)
	224.3	152.6
Administration, support services and depreciation	(15.7)	(7.4)
Net income	208.6	145.2

Emission zone charging comprises the Low Emission Zone (LEZ) and Ultra Low Emission Zone (ULEZ).

1. Gross income (continued)

e) Street works

Year ended 31 March	Group and Corporation 2023 £m	Group and Corporation 2022 £m
Income	10.6	8.9
Allowable operating costs of managing the lane rental scheme	(2.4)	(2.0)
Application of Street Works Reserve to projects reducing the adverse effects caused by street works	(6.2)	(6.4)
Net income recognised within net cost of services	2.0	0.5
Allowable capital costs of managing the lane rental scheme	-	(0.1)
Net income for the year transferred to the Street Works Reserve	2.0	0.4

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

2. Segmental analysis

2a) Segmental analysis

The breakdown of performance reporting by segment is presented in the Expenditure and Funding Analysis in Note 3. The analysis only shows Group segmental information and no disclosures are included for the Corporation. This is because the Corporation's results are not reported to the TfL Board on a segmental basis.

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

2b) Reconciliation of the internal management reports income statement to the Group Comprehensive Income and Expenditure Statement

The segmental information presented in the Expenditure and Funding Analysis reflects the presentation of the internal management reports income statement, published on TfL's website in the form of Quarterly Performance Reports (www.tfl.gov.uk/corporate/publications-and-reports/quarterly-progress-reports). The methodology for preparation and the presentation of figures within the internal management reports differs in several respects from the Group Comprehensive Income and Expenditure Statement as presented in these financial statements. To aid understanding of TfL information as reported in Quarterly Performance Reports, a reconciliation to the Group Comprehensive Income and Expenditure Statement is presented on the following pages.

2. Segmental analysis (continued)

Reconciliation of internal management reports to the Group Comprehensive Income and Expenditure Statement (CI&E)

Year ended 31 March 2023	Internal management reports Income Statement £m	Items included in the CI&E but excluded from management reports £m	Items included in management reports but excluded from the CI&E £m	Reclassifications between line items £m	Items with different accounting treatment (see note 2c) £m	Group Comprehensive Income and Expenditure Statement £m
Gross external income/(total operating income)	5,826.0	-	-	-	(23.2)	5,802.8
Gross expenditure/(operating cost)	(7,055.0)	(2,115.3)	711.5	-	30.7	(8,428.1)
Net cost of services before exceptional items/(divisional net operating deficit excluding grant income)	(1,229.0)	(2,115.3)	711.5	-	7.5	(2,625.3)
Net cost of services after exceptional items	(1,229.0)	(2,115.3)	711.5	-	7.5	(2,625.3)
Other net operating expenditure	-	(85.9)	-	-	-	(85.9)
Grant income	2,898.0	-	-	-	601.5	3,499.5
Group share of profit before tax of joint ventures	-	8.8	-	-	-	8.8
Group share of loss before tax of associated undertakings	-	(39.4)	-	-	-	(39.4)
(Capital renewals)	(624.0)	-	624.0	-	-	-
(Net cost of operations before financing)	1,045.0	(2,231.8)	1,335.5	-	609.0	757.7
Financing and investment income	-	68.7	-	33.1	-	101.8
Financing and investment expenditure	-	(295.4)	-	(457.1)	2.9	(749.6)
(Net interest costs)	(424.0)	-	-	424.0	-	-
Group surplus before tax/(net cost of operations after extraordinary grant)	621.0	(2,458.5)	1,335.5	-	611.9	109.9
Taxation expense	-	(1.3)	-	-	-	(1.3)
Group surplus after tax	621.0	(2,459.8)	1,335.5	-	611.9	108.6

2. Segmental analysis (continued)

Reconciliation of internal management reports to the Group Comprehensive Income and Expenditure Statement (CI&E)

Year ended 31 March 2022	Internal reports as reported to management £m	Items included in the CI&E but excluded from the internal reports £m	Items included in the internal reports but excluded from the CI&E £m	Reclassifications between line items £m	Items with different accounting treatment (see note 2c) £m	Group Comprehensive Income and Expenditure Statement £m
Gross external income/(total operating income)	4,348.0	-	-	-	(34.6)	4,313.4
Gross expenditure/(operating cost)	(6,478.0)	(2,071.3)	750.9	-	27.7	(7,770.7)
Net cost of services/(divisional net operating deficit excluding grant income)	(2,130.0)	(2,071.3)	750.9	-	(6.9)	(3,457.3)
Net cost of services after exceptional items	(2,130.0)	(2,071.3)	750.9	-	(6.9)	(3,457.3)
Other net operating expenditure	-	(36.2)	-	-	-	(36.2)
Grant income	2,704.0	2,014.3	-	-	(367.2)	4,351.1
Group share of profit before tax of joint ventures	-	7.9	-	-	-	7.9
Group share of loss before tax of associated undertakings	-	24.0	-	-	-	24.0
(Capital renewals)	(551.0)	-	551.0	-	-	-
(Net cost of operations before financing)	23.0	(61.3)	1,301.9	-	(374.1)	889.5
Financing and investment income	-	198.6	-	4.0	-	202.6
Financing and investment expenditure	-	(51.7)	-	(443.0)	(7.1)	(501.8)
(Net interest costs)	(439.0)	-	-	439.0	-	-
Group surplus before tax/(net cost of operations after extraordinary grant)	(416.0)	85.6	1,301.9	-	(381.2)	590.3
Taxation income	-	(86.2)	-	-	-	(86.2)
Group surplus after tax	(416.0)	(0.6)	1,301.9	-	(381.2)	504.1

Where line item descriptors differ between the internal reports and the Comprehensive Income and Expenditure Statement, those used in the internal reports are shown within parentheses in the above tables.

2. Segmental analysis (continued)

2c) Detailed reconciliation of segmental information reported in internal management reports to amounts included in the Group (deficit)/surplus

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. Where there are accounting policy differences between management reports and the statutory accounts, statutory accounting adjustments are not recorded by segment in the underlying accounting records. It is not therefore possible to produce a segmental breakdown of the Group financial statements on a statutory basis of reporting. Differences between the methodologies are explained in the paragraphs and table below.

- Depreciation, amortisation of intangibles and impairment charges are not included in the segmental analysis
- The cost of retirement benefits is recognised within gross expenditure in the internal management report's Income Statement as a charge based on cash contributions paid during the year, rather than the pension service cost and net interest charge on defined benefit pension obligations recognised in the Comprehensive Income and Expenditure Statement. This better reflects the actual charge made to the General Fund in respect of pension costs which is calculated based on actual contributions paid as opposed to the charges flowing through the Comprehensive Income and Expenditure Statement as calculated under IAS 19
- The internal management report's Income Statement excludes the net gain on disposal of investment properties and the change in fair value of investment properties that are included within financing and investment income in the Comprehensive Income and Expenditure Statement. Fair value movements are excluded from management reporting as these gains or losses are unrealised. The net proceeds from disposals, meanwhile, are included in the Capital Account for management reporting purposes, as these income streams may only be employed by the Corporation to fund capital expenditure and do not represent an ongoing revenue stream that can be employed to meeting the day-to-day operating costs of the network
- Similarly, the internal management report's Income Statement excludes gains and losses on the disposal of property, plant and equipment and intangible assets recognised within other operating expenditure, and instead includes the net proceeds from these disposals in the Capital Account
- Internal management reporting includes a charge within operating expenditure for the costs of right-of-use leases, based on cash payments made in the period in relation to those leases. In the net cost of services in the Comprehensive Income and Expenditure Statement, this charge has been stripped out and replaced with the amortisation charge in respect of right-of-use assets within net cost of services and a financing charge included within financing and investment expenditure
- The internal management report's Income Statement includes a charge for capital renewals expenditure which, in the statutory financial statements, is included within additions to property, plant and equipment. Renewals expenditure is included for management reporting purposes to present the ongoing, full, day-to-day cost of running and maintaining our existing network

2. Segmental analysis (continued)

- The internal management report's Income Statement excludes the adjustment to financing expenditure made in respect of borrowing costs capitalised into qualifying assets (see note 9). Instead this charge is left within net interest costs so that amounts charged to the internal management report's Income Statement reflect the full cost to the Group of financing its debt
- Certain grants received are treated as capital grant for management reporting purposes and are thus excluded from the internal management report's Income Statement (being instead included in the Capital Account). For statutory reporting purposes, however, all grant is recognised as income in the Comprehensive Income and Expenditure Statement. Moreover, certain grants badged as 'capital grant' for management reporting purposes, under law constitute resource grants, and may only be classified as capital grant where they have been applied to fund capital expenditure during the year
- The results of joint ventures and associated undertakings are excluded from the internal management report's Income Statement as the TfL Group does not hold a controlling interest in these undertakings
- Other minor differences between the Comprehensive Income and Expenditure Statement and the internal management reports are collectively referred to as Central items and are not included in reports to management

2. Segmental analysis (continued)

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

	Note	2023 £m	2023 £m	2022 £m	2022 £m
Operating surplus/(deficit) per internal management reports			621.0		(416.0)
Adjustments between management and statutory reports:					
Add amounts included in the Comprehensive Income and Expenditure Statement not reported in management reports					
Depreciation	4	(1,133.9)		(940.4)	
Amortisation of right-of-use assets	4	(357.5)		(361.6)	
Amortisation of software intangibles	4	(59.9)		(50.2)	
Impairment	4	18.7		(57.8)	
Pension service costs including scheme expenses	35	(582.7)		(661.3)	
			(2,115.3)		(2,071.3)
Other net operating expenditure	7		(85.9)		(36.2)
Group share of profit before tax of joint ventures	17		8.8		7.9
Group share of loss before tax of associated undertakings	18		(39.4)		24.0
Change in fair value of investment properties included in financing and investment income	8	-		93.4	
Premium receivable on settlements	8	46.3			
Net gain on disposal of investment properties	8	22.4		105.2	
			68.7		198.6
Net interest on defined benefit obligation	9	(79.3)		(105.9)	
Interest payable on lease and PFI liabilities	9	(81.7)		(60.4)	
Contingent rentals on PFI liabilities	9	(11.2)		(10.5)	
Change in fair value of investment properties included in financing and investment expenditure	9	(155.0)		-	
Amounts capitalised into qualifying assets	9	31.8		114.6	
			(295.4)		(62.2)
Capital grant income *	10		-		2,014.3
Tax	11		(1.3)		(86.2)
			(2,459.8)		(11.1)
Less items included in the management reports but excluded from the Comprehensive Income and Expenditure Statement					
Cash payments under PFI and lease arrangements		392.0		373.0	
Pension payments charged to operating costs		319.5		377.9	
			711.5		750.9
Capital renewals			624.0		551.0
			1,335.5		1,301.9
Amounts subject to differing accounting treatment between management reports and the Comprehensive Income and Expenditure Statement					

Notes to the Financial Statements

Specific grant income	601.5	(367.2)
Central items	10.4	(3.5)
	611.9	(370.7)
Group surplus after tax per the Comprehensive Income and Expenditure Statement	108.6	504.1

* Capital Business Rates Retention is now included in the internal management Income Statement. Some specific grants have a different accounting treatment.

Notes to the Financial Statements

3 Expenditure and Funding Analysis

	For the year ended 31 March 2023			For the year ended 31 March 2022		
	Net expenditure chargeable to the General Fund £m	Adjustments*	Net expenditure in the Comprehensive Income and Expenditure Statement £m	Net expenditure chargeable to the General Fund £m	Adjustments*	Net expenditure in the Comprehensive Income and Expenditure Statement £m
Underground	(239.0)	-	(239.0)	(738.0)	-	(738.0)
Elizabeth line	(165.0)	-	(165.0)	(308.0)		(308.0)
Buses, streets and other operations	(703.0)	-	(703.0)	(916.0)	-	(916.0)
Rail	(163.0)	-	(163.0)	(182.0)	-	(182.0)
Property	43.0	-	43.0	15.0	-	15.0
Group items	(2.0)	-	(2.0)	(1.0)	-	(1.0)
Central items not reported on a segmental basis	1,174.9	2,571.2	(1,396.3)	2,113.5	3,440.8	(1,327.3)
Net cost of services	(54.1)	2,571.2	(2,625.3)	(16.5)	3,440.8	(3,457.3)
Other income and expenditure	(332.8)	(3,066.7)	2,733.9	(189.9)	(4,151.3)	3,961.4
(Deficit)/surplus after tax	(386.9)	(495.5)	108.6	(206.4)	(710.5)	504.1
Opening general fund and earmarked reserves balance	655.7			862.1		
(Deficit)/surplus on the general fund	(386.9)			(206.4)		
Closing general fund and earmarked reserves balance	268.8			655.7		

* Management has concluded that the Expenditure and Funding Analysis presents a true and fair view of the Group's financial performance. Central items are not reported to management or maintained on a segmental basis. The effect of this is presented on a separate line item and disclosed in Note 2.

3 Expenditure and Funding Analysis (continued)

For the year ended 31 March 2023

	Capital adjustments £m	Pension adjustments £m	Other Statutory adjustments £m	**Total statutory adjustments £m**	Non-statutory adjustments £m	**Total adjustments £m**
Underground	-	-	-	-	-	-
Elizabeth line	-	-	-	-		-
Buses, streets and other operations	-	-	-	-	-	-
Rail	-	-	-	-	-	-
Other segments	-	-	-	-	-	-
Group items	-	-	-	-	-	-
Central items not reported on a segmental basis	205.4	340.1	(3.4)	542.1	2,029.0	2,571.1
Net Cost of Services	**205.4**	**340.1**	**(3.4)**	**542.1**	**2,029.0**	**2,571.1**
Other income and expenditure	(684.6)	-	(113.9)	(798.5)	(2,268.0)	(3,066.5)
(Deficit)/surplus after tax	**(479.2)**	**340.1**	**(117.3)**	**(256.4)**	**(239.0)**	**(495.4)**

3 Expenditure and Funding Analysis (continued)

For the year ended 31 March 2022

	Capital adjustments £m	Pension adjustments £m	Other Statutory adjustments £m	**Total statutory adjustments £m**	Non-statutory adjustments £m	**Total adjustments £m**
Underground	-	-	-	-	-	-
Elizabeth line	-	-	-	-	-	-
Buses, streets and other operations	-	-	-	-	-	-
Rail	-	-	-	-	-	-
Other segments	-	-	-	-	-	-
Group items	-	-	-	-	-	-
Central items not reported on a segmental basis	219.1	385.7	(2.0)	**602.8**	2,838.0	**3,440.8**
Net Cost of Services	**219.1**	**385.7**	**(2.0)**	**602.8**	**2,838.0**	**3,440.8**
Other income and expenditure	(931.6)	-	(11.8)	(943.4)	(3,207.9)	(4,151.3)
(Deficit)/surplus after tax	**(712.5)**	**385.7**	**(13.8)**	**(340.6)**	**(369.9)**	**(710.5)**

4. Gross expenditure

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

Year ended 31 March	Note	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Staff costs:					
Wages and salaries **		1,524.0	1,431.5	404.7	394.2
Social security costs		187.1	165.4	49.1	45.7
Pension costs	35	563.5	652.5	335.5	379.6
		2,274.6	2,249.4	789.3	819.5
Other service expenditure ***		4,175.6	3,926.5	328.7	266.6
Credit loss expense		445.3	184.8	432.9	171.7
Depreciation	13	1,133.9	940.4	151.2	142.0
Amortisation right-of-use assets	14	357.5	361.6	29.1	29.8
Amortisation of software intangibles	12	59.9	50.2	34.7	26.7
Impairment*	13	(18.7)	57.8	(9.6)	20.7
		8,428.1	7,770.7	1,756.3	1,477.0

* Impairment includes impairment reversals where management have determined assets are no longer impaired.

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

*** Included in the Corporation's other service expenditure is £71.3m (2021/22 £81.9m) relating to financial assistance to London Boroughs and other third parties (see note 41 for detailed analysis).

The average number of persons employed in the year was:

Year ended 31 March	Group 2023 Number	Group 2022 Number	Corporation 2023 Number	Corporation 2022 Number
Permanent staff (including fixed term contracts)	26,044	25,408	7,345	7,282
Agency staff	1,962	1,586	1,342	1,093
	28,006	26,994	8,687	8,375

5. External audit fees

External audit fees are made up as follows:

Year ended 31 March	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Auditor's remuneration:				
for statutory audit services	1.8	1.6	0.1	0.1
for non-audit services *	-	-	-	-
	1.8	1.6	0.1	0.1

* 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.

6. Remuneration

Disclosures in respect of the remuneration of employees (including senior employees) and of termination payments made during the year may be found in the Remuneration Report on pages **[Draft included in the June Audit & Assurance Committee Papers. Final version will be incorporated in to the combined Annual Report and Statement of Accounts]**

7. Other operating expenditure

Year ended 31 March	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Net loss on disposal of investment property	0.1	-	0.1	-
Net gain on termination of right of use assets	(13.7)	-	-	-
Fair value loss on office buildings	1.2	-	-	-
Net loss on disposal of property, plant and equipment	98.3	36.2	0.2	2.7
Total other operating expenditure	85.9	36.2	0.3	2.7

8. Financing and investment income

Year ended 31 March	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Interest income on bank deposits and other investments	27.9	1.6	26.6	1.5
Interest income on loans to subsidiaries	-	-	403.5	403.3
Change in fair value of investment properties (including those classified as held for sale)	-	93.4	-	50.5
Net gain on disposal of investment properties	22.4	105.2	11.5	85.0
Premium receivable on settlements	46.3	-	46.3	-
Interest receivable on finance lease receivables	0.8	1.1	-	-
Other investment income	4.4	1.3	1.9	0.1
	101.8	202.6	489.8	540.4

9. Financing and investment expenditure

Year ended 31 March	Note	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Interest payable on loans and derivatives		443.7	433.3	435.6	414.5
Interest payable on right-of-use lease liabilities		77.3	55.5	10.4	11.0
Interest payable on PFI liabilities		4.4	4.9	4.4	4.8
Contingent rentals on PFI contracts		11.2	10.5	11.2	10.2
Change in fair value of investment properties (including those classified as held for sale)		155.0	-	14.0	-
Net interest on defined benefit obligation	35	79.3	105.9	78.2	104.8
Other financing and investment expenditure		10.5	6.3	5.4	1.7
		781.4	616.4	559.2	547.0
Less: amounts capitalised into qualifying assets	13	(31.8)	(114.6)	-	-
		749.6	501.8	559.2	547.0

10. Grant income

Year ended 31 March	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Non ring-fenced resource grant from the DfT used to fund operations	919.6	1,716.8	919.6	1,716.8
Non ring-fenced Business Rates Retention from the GLA used to fund operations	198.4	494.1	198.4	494.1
Other revenue grant received	137.9	74.3	137.1	72.4
Council tax precept	114.0	51.6	114.0	51.6
Total grants allocated to revenue	1,369.9	2,336.8	1,369.1	2,334.9
Ring-fenced grant from the GLA used to fund capital expenditure relating to Crossrail	271.0	554.0	271.0	554.0
Non ring-fenced Business Rates Retention from the GLA used to fund capital	1,620.6	1,350.2	1,620.6	1,350.2
Other capital grants and contributions received	238.0	110.1	191.9	50.4
Total grants allocated to capital	2,129.6	2,014.3	2,083.5	1,954.6
Total grants	3,499.5	4,351.1	3,452.6	4,289.5

Allocation of capital grants

Year ended 31 March	Note	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Capital grant funding of subsidiaries*		-	-	1,342.3	1,216.0
Applied capital grants	37	2,027.4	2,014.3	639.0	738.6
Transfer from unapplied capital grants	38	102.2	-	102.2	-
Total capital grants		2,129.6	2,014.3	2,083.5	1,954.6

*Capital grant funding of subsidiaries in the Corporation represent revenue expenditure funded from capital under statute (REFCUS). The sources of finance are all applied during the year. Refer to Note 40.

11. Taxation

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

a) Corporation Tax

The Group tax expense for the year, based on the rate of Corporation Tax of 19 per cent (2021/22 19 per cent) comprised:

Year ended 31 March	Group 2023 £m	Group 2022 £m
UK Corporation Tax - current year charge	-	-
UK Corporation Tax - adjustments in respect of prior years	-	-
Total current tax income	-	-
Deferred tax - current year charge/(credit)	1.3	86.2
Total tax charge/(credit) for the year	1.3	86.2

Reconciliation of tax expense

Year ended 31 March	Group 2023 £m	Group 2022 £m
Surplus/(deficit) on the provision of services before tax	109.9	590.3
Surplus/(deficit) on the provision of services before tax multiplied by standard rate of Corporation Tax in the UK of 19% (2021/22 19%)	20.9	112.2
Effects of:		
Non-taxable income/non-deductible expenses	(135.1)	(65.9)
Permanent difference in TfL Corporation	(40.8)	(97.1)
Amount charged to current tax for which no deferred tax was recognised	90.5	138.9
Utilisation of tax losses carried forward for which no deferred tax was recognised	(0.9)	(0.9)
Overseas earnings	(0.8)	(1.0)
Total tax charge/(credit) for the year	(66.2)	86.2

11. Taxation (continued)

b) Unrecognised deferred tax assets

The Group has a potential net deferred tax asset of £2,983.5m (2021 £2,119.9m) in respect of the following items:

	Group 2023 £m	Group 2022 £m
Deductible temporary differences	3.2	1,636.7
Tax losses	596.8	1,313.4
Unrecognised deferred tax asset	600.0	2,950.1

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

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

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

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

For the year ended 31 March 2023	Balance at 1 April 2022 £m	Movement in the provision of services £m	Movement in other comprehensive income during the year £m	Balance at 31 March 2023 £m
Deferred tax assets				
Property, plant and equipment	59.0	(59.0)	-	-
Deferred government grants	-	781.8	-	781.8
Derivative financial instruments	11.6	(7.0)	-	4.6
Total	70.6	715.8	-	786.4
Deferred tax liabilities				
Investment properties	(429.4)	62.2	-	(367.2)
Assets held for sale	(16.4)	3.7	-	(12.7)
Property, plant and equipment (net of losses)	-	(783.0)	-	(783.0)
Total	(445.8)	(717.1)	-	(1,162.9)
Net deferred tax liability	(375.2)	(1.3)	-	(376.5)

11. Taxation (continued)

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

For the year ended 31 March 2022	Balance at 1 April 2021 £m	Movement in the provision of services £m	Movement in other comprehensive income during the year £m	Balance at 31 March 2022 £m
Deferred tax assets				
Property, plant and equipment	14.5	44.5	-	59.0
Derivative financial instruments	20.7	(9.1)	-	11.6
Total	35.2	35.4	-	70.6
Deferred tax liabilities				
Investment properties	(254.7)	(120.0)	(54.7)	(429.4)
Assets held for sale	(14.8)	(1.6)	-	(16.4)
Total	(269.5)	(121.6)	(54.7)	(445.8)
Net deferred tax liability	(234.3)	(86.2)	(54.7)	(375.2)

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

- The deferred tax liability arising on investment properties, including those classified as assets held for sale, has decreased due to the revaluation movements recognised in financing and investment income and Other Comprehensive Income during the year
- Certain properties that had not previously been held at a value were reclassified as investment property and valued at open market value prior to transfer to TTL Properties Limited (a subsidiary of the Corporation) during the year. It is not considered that sufficient deferred tax assets will be available to offset this deferred tax liability in full. A deferred tax liability has been recognised in Other Comprehensive Income in relation to the revaluation gain recognised in Other Comprehensive income in respect of these assets
- The property, plant and equipment deferred tax balance has changed in the period due to a change in methodology for calculating the tax base of certain assets held in London Underground Limited. Other movements in the year arise due to assets acquired in the year, movements in the market value of assets held and capital allowances claimed
- Included in the deferred tax balances for property, plant and equipment is the deferred tax movement on revaluation gains recognised in Other Comprehensive Income
- The deferred tax asset arising in respect of derivative financial instruments has decreased during 2022/23 due to movement in the fair value of derivatives

UK Corporation Tax is calculated at a rate of 19 per cent (2021/22: 19 per cent). In the Spring Budget 2021, it was announced that the main rate of Corporation Tax will increase to 25 per cent with effect from 1 April 2023, this amendment was substantively enacted in May 2021. As the Group's deferred tax balances are not expected to be settled until after 1 April 2023, deferred tax balances at 31 March 2023 have been calculated at a rate of 25 per cent.

Notes to the Financial Statements

No deferred tax asset has been recognised on the Corporation's pension deficit as the principal employer is not a taxpaying entity. Future tax deductions for some contributions will be made in the taxable entities, however, as at 31 March 2022, no deferred tax assets have been recognised in these entities.

12. Intangible assets

a) Group intangible assets

	Note	Software costs £m	Intangible assets under construction £m	Goodwill £m	Total £m
Cost					
At 1 April 2021		529.7	18.3	351.8	899.8
Additions		52.6	6.0	-	58.6
Net transfers from property, plant and equipment	13	8.0	91.2	-	99.2
Transfers between asset classes		87.4	(87.4)	-	-
Disposals		(167.8)	-	-	(167.8)
At 31 March 2022		509.9	28.1	351.8	889.8
Additions		33.0	7.4	-	40.4
Net transfers from property, plant and equipment	13	17.2	2.9	-	20.1
Transfers between asset classes		18.9	(18.9)	-	-
Disposals		(8.1)	-	-	(8.1)
Write offs		(0.9)	-	-	(0.9)
At 31 March 2023		570.0	19.5	351.8	941.3
Amortisation and impairment					
At 1 April 2021		401.3	-	349.2	750.5
Amortisation charge for the year	4	50.2	-	-	50.2
Transfers from property, plant and equipment		0.4	-	-	0.4
Disposals		(167.8)	-	-	(167.8)
At 31 March 2022		284.1	-	349.2	633.3
Amortisation charge for the year	4	59.9	-	-	59.9
Disposals		(8.3)	-	-	(8.3)
Write offs		(0.7)	-	-	(0.7)
At 31 March 2023		335.0	-	349.2	684.2
Net book value at 31 March 2023		235.0	19.5	2.6	257.1
Net book value at 31 March 2022		225.8	28.1	2.6	256.5

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

12. Intangible assets (continued)

b) Corporation intangible assets

	Note	Software costs £m	Intangible assets under construction £m	Total £m
Cost				
At 1 April 2021		365.9	7.9	373.8
Additions		8.0	32.9	40.9
Net transfers from property, plant and equipment	13	8.0	75.7	83.7
Transfers between asset classes		104.3	(104.3)	-
Disposals		(167.7)	-	(167.7)
At 31 March 2022		318.5	12.2	330.7
Additions		9.9	5.4	15.3
Net transfers from property, plant and equipment	13	0.5	2.2	2.7
Transfers between asset classes		8.7	(8.7)	-
Write offs		(0.9)	-	(0.9)
At 31 March 2023		336.7	11.1	347.8
Amortisation and impairment				
At 1 April 2021		286.9	-	286.9
Amortisation charge for the year	4	26.7	-	26.7
Impairment	4	0.4	-	0.4
Disposals		(167.8)	-	(167.8)
At 31 March 2022		146.2	-	146.2
Amortisation charge for the year	4	34.7	-	34.7
Write offs		(0.7)	-	(0.7)
At 31 March 2023		180.2	-	180.2
Net book value at 31 March 2023		156.5	11.1	167.6
Net book value at 31 March 2022		172.3	12.2	184.5

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

Notes to the Financial Statements

13. Property, plant and equipment

a) Group property, plant and equipment at 31 March 2023 comprised the following elements:

	Note	Office building £m	Infrastructure £m	Rolling stock £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost or valuation							
At 1 April 2022 (restated) *		301.4	33,567.7	5,087.5	1,861.3	18,786.9	59,604.8
Additions		-	493.9	320.8	51.3	1,113.6	1,979.6
Transfers to intangible assets	12	-	-	-	-	(20.1)	(20.1)
Transfers to investment properties	15	(23.0)	0.2	-	-	(3.5)	(26.3)
Transfers between asset classes		-	16,888.9	39.0	69.1	(16,997.0)	-
Disposals		-	(21.0)	-	(4.9)	-	(25.9)
Reversal of impairments		-	-	-	-	34.2	34.2
Write offs		-	(76.1)	-	(1.0)	-	(77.1)
Revaluation		(2.0)	(3.0)	-	-	-	(5.0)
At 31 March 2023		276.4	50,850.6	5,447.3	1,975.8	2,914.1	61,464.2
Depreciation and impairment							
At 1 April 2022 (restated) *		47.4	12,059.7	2,506.7	1,143.2	56.3	15,813.3
Depreciation charge for the year	4	9.3	874.7	131.7	118.2	-	1,133.9
Impairment charge for the year	4	-	-	-	-	6.4	6.4
Transfers to investment properties	15	0.5	(1.0)	-	-	-	(0.5)
Disposals		-	(20.9)	-	(4.9)	-	(25.8)
Write offs		-	(47.3)	-	(0.8)	-	(48.1)
Revaluation		(0.4)	(4.4)	-	-	-	(4.8)
At 31 March 2023		56.8	12,860.8	2,638.4	1,255.7	62.7	16,874.4
Net book value at 31 March 2023		219.6	37,989.8	2,808.9	720.1	2,851.4	44,589.8
Net book value at 31 March 2022		254.0	21,508.0	2,580.8	718.1	18,730.6	43,791.5

13. Property, plant and equipment (continued)

b) Group property, plant and equipment at 31 March 2022 comprised the following elements:

	Note	Office buildings £m	Infrastructure £m	Rolling stock £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost or valuation							
At 1 April 2021 (restated) *		290.9	31,326.1	5,050.7	1,888.6	20,038.7	58,595.0
Additions		-	421.1	23.1	34.1	1,525.6	2,003.9
Transfers to intangible assets	12	-	(8.0)	-	-	(91.2)	(99.2)
Transfers to investment properties	15	(5.2)	(0.1)	-	-	(106.5)	(111.8)
Transfer to assets held for sale		-	-	-	-	(83.4)	(83.4)
Transfers between asset classes		0.7	2,384.4	13.7	66.6	(2,465.4)	-
Disposals (restated) *		-	(553.9)	-	(122.7)	-	(676.6)
Write offs		-	-	-	(5.3)	(30.9)	(36.2)
Revaluation		15.0	(1.9)	-	-	-	13.1
At 31 March 2022		301.4	33,567.7	5,087.5	1,861.3	18,786.9	59,604.8
Depreciation							
At 1 April 2021 (restated) *		47.0	11,916.4	2,383.6	1,149.2	4.9	15,501.1
Depreciation charge for the year	4	9.3	693.5	123.1	114.5	-	940.4
Impairment charge for the year		-	-	-	6.4	51.4	57.8
Transfers to investment properties	15	(0.4)	(0.1)	-	-	-	(0.5)
Transfers to intangible assets		-	(0.4)	-	-	-	(0.4)
Disposals (restated) *		-	(549.4)	-	(126.9)	-	(676.3)
Revaluation		(8.5)	(0.3)	-	-	-	(8.8)
At 31 March 2022		47.4	12,059.7	2,506.7	1,143.2	56.3	15,813.3

Notes to the Financial Statements

* During the year management identified £4.4bn of fully depreciated assets that were not derecognised from gross cost and accumulated depreciation in line with the pooled assets accounting policy of the Group (£nil net book value). As this is a prior period error, opening balances as at 1 April 2021 and 1 April 2022 have been restated. There is no impact on the primary statements or other notes to the accounts.

1 April 2021 - £3,855m gross cost and accumulated depreciation.

1 April 2022 - £552m gross cost and accumulated depreciation.

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

13. Property, plant and equipment (continued)

Borrowing costs are included in the costs of qualifying assets to the extent that the asset is funded by borrowings. As a result, the total borrowing costs capitalised during the year were £31.8m (2022 £114.6m). The cumulative borrowing costs capitalised are £955.2m (2022 £923.4m). Borrowings are capitalised at the rate of interest directly incurred on the specific borrowings taken out to fund the asset in question.

At 31 March 2023, the Group had capital commitments which are contracted for but not provided for in the financial statements amounting to £1,856.6m (2022 £1,103.7m).

On 21 November 2019, the Corporation entered into an agreement with RiverLinx Limited for the Design, Build, Financing, Operations and Maintenance of Silvertown Tunnel, connecting the Greenwich Peninsula and the Royal Docks in London. Our financial obligations to make payments to RiverLinx Limited will start once the tunnel is open, currently planned in early 2025 (the 'Permit to Use Date'). From the Permit to Use Date, the Corporation will make performance-based availability payments, initially at £65m annually and indexed until the expiry date of the agreement in January 2050.

c) Group PFI assets

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

	Infrastructure and office buildings £m	Rolling stock £m	Plant and equipment £m	Total £m
Gross cost	432.9	45.3	16.7	494.9
Accumulated depreciation	(183.0)	(45.3)	(16.7)	(245.0)
Net book value at 31 March 2023	249.9	-	-	249.9
Net book value at 31 March 2022	249.9	-	-	249.9

d) Depreciation charge

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

Year ended 31 March	Note	2023 £m	2022 £m
Depreciation of owned assets		1,129.0	935.5
Depreciation of assets held under PFI arrangements		4.9	4.9
Total depreciation	4	1,133.9	940.4

13. Property, plant and equipment (continued)

e) Group office buildings

The existing use value of owner-occupied office buildings at 31 March 2023 has been arrived at on the basis of a valuation carried out at that date by CBRE, a real estate advisory business not connected with the Group, and by chartered surveyors working for TfL. In determining the existing use value, the capitalisation of net income method and the discounting of future cash flows to their present value has been used. This is based upon various assumptions including the anticipated future rental income, maintenance costs and the appropriate discount rate, making reference to market evidence of transaction prices for similar properties. A deduction is made to reflect purchaser's acquisition costs.

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

f) Group and Corporation heritage assets

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

These assets are primarily former operational assets of the TfL Group whose legal title is retained by the Corporation or another of its operating subsidiaries. Due to the diverse nature of the assets held and the lack of comparable market values, the cost of obtaining a valuation of TfL's heritage assets is such that it would not be commensurate with the benefits provided to users of the financial statements. The assets therefore remain recorded in the accounts at historical cost less accumulated depreciation. The collections have been externally valued for insurance purposes only. Management do not consider these insurance valuations to be necessarily indicative of open market fair value and hence have not incorporated the insurance values into the financial statements. No valuation was carried out during the year. The last valuation was carried out as at 31 March 2021 resulting in a value of £37.5m. The net book value of these assets at 31 March 2023 was £nil (2022 £nil)

.13 Property, plant and equipment (continued)

g) Corporation property, plant and equipment at 31 March 2023 comprised the following elements:

	Note	Office buildings £m	Infrastructure £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost or valuation						
At 1 April 2022		0.7	6,060.5	248.5	410.0	6,719.7
Additions		-	77.2	19.3	247.2	343.7
Net transfers to intangible assets	12	-	-	-	(2.7)	(2.7)
Transfers to investment properties	15	-	-	-	(0.4)	(0.4)
Transfers between asset classes		-	75.4	42.8	(118.2)	-
Disposals		-	(1.0)	(2.1)	-	(3.1)
Reversal AUC impairments		-	-	-	9.6	9.6
Write offs		-	(0.2)	(0.7)	-	(0.9)
Revaluation		-	(5.6)	-	-	(5.6)
At 31 March 2023		0.7	6,206.3	307.8	545.5	7,060.3
Depreciation						
At 1 April 2022		-	2,384.3	133.0	20.7	2,538.0
Depreciation charge for the year	4	-	121.7	29.5	-	151.2
Disposals		-	(1.1)	(2.2)	-	(3.3)
Write offs		-	(0.1)	(0.6)	-	(0.7)
Revaluation		-	(4.5)	-	-	(4.5)
At 31 March 2023		-	2,500.3	159.7	20.7	2,680.7
Net book value at 31 March 2023		0.7	3,706.0	148.1	524.8	4,379.6
Net book value at 31 March 2022		0.7	3,676.2	115.5	389.3	4,181.0

13 Property, plant and equipment (continued)

h) Corporation property, plant and equipment at 31 March 2022 comprised the following elements:

	Note	Office buildings £m	Infrastructure £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost or valuation						
At 1 April 2021		10.2	5,161.2	276.9	1,301.3	6,749.6
Additions		-	43.6	20.3	156.6	220.5
Transfers to intangible assets	12	-	(8.0)	-	(75.7)	(83.7)
Transfers to investment properties	15	-	-	-	(34.4)	(34.4)
Transfers between asset classes		-	907.7	27.2	(934.9)	-
Disposals		-	(44.1)	(75.9)	(2.9)	(122.9)
Write offs		(9.5)	-	-	-	(9.5)
Revaluation		-	0.1	-	-	0.1
At 31 March 2022	-	0.7	6,060.5	248.5	410.0	6,719.7
Depreciation						
At 1 April 2021		-	2,310.9	185.0	-	2,495.9
Depreciation charge for the year	4	-	118.1	23.9	-	142.0
Impairment charge for the year	4	-	-	-	20.7	20.7
Transfers to intangible assets	12	-	(0.4)	-	-	(0.4)
Disposals		-	(44.3)	(75.9)	-	(120.2)
At 31 March 2022		-	2,384.3	133.0	20.7	2,538.0

Notes to the Financial Statements

The Corporation holds its office buildings at valuation. All other items of property, plant and equipment are held 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 (2022 £nil). The cumulative borrowing costs capitalised are also

i) Corporation PFI assets

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

	Infrastructure and office buildings £m	Plant and equipment £m	Total £m
Gross cost	209.1-	16.7-	225.8-
Depreciation	(101.5)-	(16.7)-	(118.2)-
Net book value at 31 March 2023	107.6-	-	107.6-
Net book value at 31 March 2022	110.1	-	110.1

j) Depreciation charge

The total depreciation charge for the Corporation comprised:

Year ended 31 March	Note	2023 £m	2022 £m
Depreciation of owned assets		148.5	139.2
Depreciation of assets held under PFI		2.7	2.7
Total depreciation	4	151.2	141.9

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

The existing use value of owner-occupied office buildings at 31 March 2023 has been arrived at on the basis of a valuation carried out at that date by CBRE, a real estate advisory business not connected with the Group, and by chartered surveyors working for TfL. In determining the existing use value, the capitalisation of net income method and the discounting of future cash flows to their present value has been used. This is based upon various assumptions including the anticipated future rental income, maintenance costs and the appropriate discount rate, making reference to market evidence of transaction prices for similar properties. A deduction is made to reflect purchaser's acquisition costs.

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

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

This note provides information for leases where the Group and/or Corporation is a lessee. For leases where the Group and/or Corporation is a lessor, see note 19.

As described in note e) to the Accounting Policies, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the coronavirus pandemic. In a few instances, particularly on property leases, a rent concession in the form of a rent holiday was received in 2020/21. We applied the practical expedient where TfL as a lessee elected not to assess whether a COVID-19-related rent concession from a lessor was a lease modification. This resulted in a remeasurement of the lease liability with a corresponding adjustment to the right-of-use asset.

a) Group right-of-use assets at 31 March 2023 comprised the following elements:

	Note	Infrastructure and office buildings £m	Rolling stock £m	Buses £m	Motor vehicles £m	Other equipment £m	Total £m
Cost or valuation							
At 1 April 2022		585.3	1,546.5	1,175.9	14.0	120.5	3,442.2
Additions		14.4	13.5	166.1	0.3	(1.3)	193.0
Lease terminations		(1.4)	(163.6)	-	-	-	(165.0)
Valuation adjustment		-	(0.9)	-	-	(0.6)	(1.5)
At 31 March 2023		598.3	1,395.5	1,342.0	14.3	118.6	3,468.7
Amortisation							
At 1 April 2022		116.5	405.0	650.8	8.5	51.5	1,232.3
Charge for the year	4	39.7	83.3	214.8	2.3	17.5	357.6
Disposals		-	(75.7)	-	-	-	(75.7)
At 31 March 2023		156.2	412.6	865.6	10.8	69.0	1,514.2
Net book value at 31 March 2023		442.1	982.9	476.4	3.5	49.6	1,954.5
Net book value at 31 March 2022		468.8	1,141.5	525.1	5.5	69.0	2,209.9

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

b) Group right-of-use assets at 31 March 2022 comprised the following elements:

	Note	Infrastructure and office buildings £m	Rolling stock £m	Buses £m	Motor vehicles £m	Other equipment £m	Total £m
Cost or valuation							
At 1 April 2021		577.5	1,495.7	1,006.6	13.7	119.3	3,212.8
Additions		8.7	44.5	176.5	0.3	6.6	236.6
Lease terminations		-	-	(7.2)	-	(5.4)	(12.6)
Valuation adjustment		(0.9)	6.3	-	-	-	5.4
At 31 March 2022		585.3	1,546.5	1,175.9	14.0	120.5	3,442.2
Amortisation							
At 1 April 2021		77.4	324.4	438.4	5.5	37.6	883.3
Charge for the year	4	39.1	80.6	219.6	3.0	19.3	361.6
Disposals		-	-	(7.2)	-	(5.4)	(12.6)
At 31 March 2022		116.5	405.0	650.8	8.5	51.5	1,232.3

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

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

At 31 March	2023 £m	2022 £m
Principal outstanding		
Short-term liabilities	299.6	334.1
Long-term liabilities	1,915.9	2,102.2
	2,215.5	2,436.3

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

At 31 March	2023 £m	2022 £m
Contractual undiscounted payments due in:		
Not later than one year	359.5	365.5
Later than one year but not later than two years	297.0	328.4
Later than two years but not later than five years	555.7	580.3
Later than five years	1,898.6	1,799.6
	3,110.8	3,073.8
Less:		
Present value discount	(895.3)	(637.4)
Exempt cashflows	-	(0.1)
Present value of minimum lease payments	2,215.5	2,436.3

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

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

Year ended 31 March	Note	2023 £m	2022 £m
Amortisation of right-of-use assets	4	357.5	361.6
Interest payable on right-of-use lease liabilities (before impact of interest rate hedges)		75.0	59.5
Expense relating to short-term leases (included in gross expenditure)		1.5	3.0
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in gross expenditure)		0.1	0.1
Income from sub-leasing right-of-use assets (included in gross income)		14.8	12.5

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

The total cash outflow in the Group in respect of leases was £393.4m (2021/22 £376.6m).

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

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

The accounting for these leases is described within the Accounting Policies, note ac).

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

Variable lease payments

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

Extension and termination options

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

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

i) Corporation right-of-use assets at 31 March 2023 comprised the following elements:

	Note	Infrastructure and office buildings £m	Other equipment £m	Total £m
Cost or valuation				
At 1 April 2022		430.8	22.3	453.1
Additions		3.6	(3.2)	0.4
Disposals		-	-	-
Revaluation		-	-	-
At 31 March 2023		434.4	19.1	453.5
Amortisation				
At 1 April 2022		75.5	9.1	84.6
Charge for the year	4	25.3	3.8	29.1
Disposals		-	-	-
At 31 March 2023		100.8	12.9	113.7
Net book value at 31 March 2023		333.6	6.2	339.8
Net book value at 31 March 2022		355.3	13.2	368.5

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

j) Corporation right-of-use assets at 31 March 2022 comprised the following elements:

	Note	Infrastructure and office buildings £m	Other equipment £m	Total £m
Cost or valuation				
A 1 April 2021		430.8	19.1	449.9
Additions		-	7.0	7.0
Disposals		-	(3.8)	(3.8)
At 31 March 2022		430.8	22.3	453.1
Amortisation				
At 1 April 2021		50.4	8.2	58.6
Charge for the year	4	25.1	4.7	29.8
Disposals		-	(3.8)	(3.8)
At 31 March 2022		75.5	9.1	84.6
Net book value at 31 March 2022		355.3	13.2	368.5

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

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

At 31 March	2023 £m	2022 £m
Principal outstanding		
Short-term liabilities	27.0	27.0
Long-term liabilities	341.1	367.1
	368.1	394.1

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

At 31 March	2023 £m	2022 £m
Contractual undiscounted payments due in:		
Not later than one year	36.7	37.3
Later than one year but not later than two years	34.6	37.0
Later than two years but not later than five years	99.2	102.9
Later than five years	278.8	307.7
	449.3	484.9
Less:		
Present value discount	(81.2)	(90.8)
Present value of minimum lease payments	368.1	394.1

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

Year ended 31 March	Note	2023 £m	2022 £m
Amortisation of right-of-use assets	4	29.1	29.8
Interest payable on right-of-use lease liabilities		10.4	11.0
Expense relating to short-term leases (included in gross expenditure)		-	-
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in gross expenditure)		-	-
Income from sub-leasing right-of-use assets (included in gross income)		-	-

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

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

The total cash outflow in the Corporation in respect of leases in 2022/23 was £36.7m (2021/22 £37.3m).

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

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

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

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

Variable lease payments

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

Extension and termination options

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

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

As at 31 March 2023 the Corporation is not party to any lease arrangements to which the Corporation as a lessee is committed but for which it has not yet recognised any right-of-use asset or liability on the Balance Sheet (2022 none).

q) Peppercorn leases in the Group and Corporation

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

15. Investment properties

	Note	Group £m	Corporation £m
Valuation			
At 1 April 2021		1,458.7	11.6
Additions		27.2	4.0
Transfer to assets held for sale	22	(10.3)	(0.7)
Transfers from assets held for sale	22	19.5	27.3
Transfers from property, plant and equipment	13	111.3	34.4
Disposals		(18.1)	(9.5)
Fair value adjustments	8	125.0	30.0
At 31 March 2022		1,713.3	97.1
Additions		13.2	1.0
Transfers to subsidiary undertakings		-	-
Tranfers to assets held for sale	22	(3.6)	-
Net transfers from assets held for sale	22	4.6	1.3
Transfers from property, plant and equipment	13	25.8	0.4
Disposals		(37.3)	(0.1)
Fair value adjustments	8	(141.4)	(12.8)
At 31 March 2023		1,574.6	86.9

The fair value of the Group's investment properties at 31 March 2023 has been arrived at on the basis of valuations at that date by CBRE, a real estate advisory business not connected with the Group, and by chartered surveyors working for TfL. In determining the fair value, the capitalisation of net income method and the discounting of future cash flows to their present value has been used. This is based upon various assumptions including the anticipated future rental income, maintenance costs and the appropriate discount rate; making reference to market evidence of transaction prices for similar properties. A deduction is made to reflect purchaser's acquisition costs. Values are therefore calculated under level 3 of the fair value hierarchy. In estimating fair value, the highest and best use of the properties is assumed to be their current use. There were no transfers of properties in or out of level 3 of the fair value hierarchy during the year (2021/22 none).

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

15. Investment properties (continued)

In order to create a consolidated commercial property portfolio, assets previously held at a depreciated historical cost value within property, plant and equipment, have been identified and transferred into a designated investment portfolio alongside a range of existing investment properties. In addition, the creation of new lease structures allowed the recognition, for the first time, of newly separable investment property assets which have been recorded at fair value at the date of creation of the lease structure. These assets have been combined into a vehicle to deliver homes under the Mayor's Transport Strategy, and a growing sustainable income stream, as well as to facilitate the ability to generate both debt and equity to fund capital requirements. In the year to 31 March 2023, a total net revaluation loss of £149m (including movements on investment properties held for sale) was recognised for the Group (2021/22 a net revaluation gain of £142.4m). Of this, a gain of £6.0m (2021/22 £49.0m) in relation to the initial valuation of newly created assets was recognised within other comprehensive income. The remaining £155m net loss (2021/22 £93.4m net gain) relating to movements in the valuation of assets already held at valuation has been reflected within financing income/expenditure.

Rental income earned in relation to investment properties is disclosed in note 1. Operating expenditure for the year in respect of investment properties totalled £39.8m for the Group (2021/22 £39.8m).

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

All other factors being equal:

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

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

15. Investment properties (continued)

Information about fair value measurements for the TfL Group using unobservable inputs (level 3) for the year ended 31 March2023.

		Estimated value £m	% change from baseline	Estimated value £m	% change from baseline	Estimated value £m	% change from baseline	Estimated value £m	% change from baseline	Estimated value £m	% change from baseline
		Yield shift (0.5)%	Yield shift (0.5)%	Yield shift (0.25)%	Yield shift (0.25)%	Yield shift 0.0%	Yield shift 0.0%	Yield shift 0.25%	Yield shift 0.25%	Yield shift 0.5%	Yield shift 0.5%
Estimated rental value	(10)%	1,630.5	3.55%	1,542.5	(2.04)%	1,464.4	(7.00)%	1,436.8	(8.75)%	1,354.2	(14.00)%
	(5)%	1,693.5	7.55%	1,601.4	1.70%	1,519.6	(3.49)%	1,491.0	(5.31)%	1,404.7	(10.79)%
	0%	1,756.0	11.52%	1,659.6	5.40%	1,574.6	0.00%	1,545.3	(1.86)%	1,455.1	(7.59)%
	5%	1,818.5	15.49%	1,718.7	9.15%	1,630.3	3.54%	1,599.3	1.57%	1,505.3	(4.40)%
	10%	1,881.2	19.47%	1,777.3	12.87%	1,685.6	7.05%	1,653.6	5.02%	1,556.0	(1.18)%

The table above shows the sensitivity of the valuation of the investment property portfolio to a 5 or 10 per cent increase/(decrease) in estimated rental values, combined with a 0.5 or 0.25 per cent increase/(decrease) in yield from the baseline assumptions used to calculate the values as recorded in these accounts.

16. Investments in subsidiaries

Cost	Corporation 2023 £m	Corporation 2022 £m
At 1 April	12,782.5	12,222.5
Investments in year	280.0	560.0
At 31 March	13,062.5	12,782.5

During the year, the Corporation increased its investment in the ordinary share capital of Transport Trading Limited (TTL) by £280m (2021/22 £560m). TTL subsequently increased its investment in the ordinary share capital of Crossrail Limited by £280m.

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

Notes to the Financial Statements

16. Investments in subsidiaries (continued)

The Group's subsidiaries are:

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

17. Investment in joint ventures

Connected Living London (BTR) Limited

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

As the Group has joint control over the net assets and operations of its investment through equal representation on the board and equal voting rights, it has equity accounted for its investment as a joint venture in these consolidated financial statements. The financial year end of CLL is 30 September.

During 2022/23 the Group no new investment in the equity of CLL (2021/22 £2.8m). Summarised financial information in respect of the Group's investment is set out below. Amounts presented are taken from unaudited management accounts made up to 31 March.

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

At 31 March	Group 2023 £m	Group 2022 £m
Long-term assets		
Investment property under construction	80.3	17.9
	80.3	17.9
Current assets		
Cash	9.6	4.5
Other short-term assets	0.5	-
	10.1	4.5
Current liabilities		
Other short-term liabilities	(0.1)	(2.9)
	(0.1)	(2.9)
Long-term liabilities		
Borrowings	-	-
Other long-term liabilities	-	-
	-	-

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

At 31 March	Group 2023 £m	Group 2022 £m
Net assets at 100%	90.3	19.5
Percentage held by the TfL Group	49%	49%
Carrying amount of the Group's equity interest in CLL	44.1	9.6

17. Investment in joint ventures (continued)

Group share of comprehensive income and expenditure of CLL

Year ended 31 March	Group 2023 £m	Group 2022 £m
Group share of loss from continuing operations	(0.7)	(1.7)
Group share of other comprehensive income	-	-
Total Group share of comprehensive income and expenditure for the year	(0.7)	(1.7)

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

b) Kidbrooke Partnership LLP

The Group, through its subsidiary, TTL Kidbrooke Properties Limited, holds a 49 per cent holding in the members' interest of Kidbrooke Partnership LLP (KP LLP), a property development partnership. Through a combination of its voting rights, Board representation and other rights embedded in the relevant management agreements, the Group is assessed as having joint control. The investment has therefore been accounted for as a joint venture using the equity method in these financial statements.

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

During 2022/23 the Group had no additional investment in the equity of KP LLP (2021/22 £nil). Summarised financial information in respect of the Group's investment in KP LLP is set out below. Amounts presented are taken from unaudited management accounts made up to 28 February.

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

At 31 March	Group 2023 £m	Group 2022 £m
Current assets		
Cash	2.0	8.9
Other short-term assets	39.7	31.0
	41.7	39.9
Current liabilities		
Other short-term liabilities	(4.4)	(2.5)
	(4.4)	(2.5)

17. Investment in joint ventures (continued)

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

At 31 March	Group 2023 £m	Group 2022 £m
Net assets at 100%	37.3	37.4
Percentage held by the TfL Group	49%	49%
Carrying amount of the Group's equity interest in KP LLP	18.2	18.3

17. Investment in joint ventures (continued)

Group share of comprehensive income and expenditure of Kidbrooke Partnership LLP

Year ended 31 March	Group 2023 £m	Group 2022 £m
Group share of loss from continuing operations	(0.1)	(0.1)
Group share of other comprehensive income	-	-
Total Group share of comprehensive income and expenditure for the year	(0.1)	(0.1)

c) Blackhorse Road Properties LLP

In 2019/20 the Group acquired a 49 per cent holding in the members' interest of Blackhorse Road Properties LLP (BRP LLP), a newly created property development partnership, for a cash consideration of £11.3m. The investment was purchased through a newly incorporated subsidiary of the Group, TTL Blackhorse Road Properties Limited. Through a combination of its voting rights, Board representation and other rights embedded in the relevant management agreements, the Group is assessed as having joint control. The investment has therefore been accounted for as a joint venture using the equity method.

During 2019/20, the Group granted a 999 year lease over land at Blackhorse Road to BRP LLP for a consideration of £15.9m. The financial year end of BRP LLP is 30 June.

Summarised financial information in respect of the Group's investment in BRP LLP is set out below. Amounts presented are taken from unaudited management accounts made up to 28 February.

17. Investment in joint ventures (continued)

Balance sheet of BRP LLP at the 100 per cent level

At 31 March	Group 2023 £m	Group 2022 £m
Current assets		
Cash	2.5	21.3
Other short-term assets	1.5	21.5
	4.0	42.8
Current liabilities		
Other short-term liabilities	(2.4)	(8.2)
	(2.4)	(8.2)

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

At 31 March	Group 2023 £m	Group 2022 £m
Net assets at 100%	1.6	34.6
Percentage held by the TfL Group	49%	49%
Carrying amount of the Group's equity interest in BRP LLP	0.8	17.0

Group share of comprehensive income and expenditure of BRP LLP

Year ended 31 March	Group 2023 £m	Group 2022 £m
Group share of profit from continuing operations	7.2	7.3
Group share of other comprehensive income	-	-
Total Group share of comprehensive income and expenditure for the year	7.2	7.3

d) Landmark Court Partnership Limited

In 2021/22 the Group acquired a 49 per cent holding in the members' interest of Landmark Court Partnership Limited (LCP Limited), a newly created property development partnership, for a cash consideration of £1. The investment was purchased through a newly incorporated subsidiary of the Group, TTL Landmark Court Properties Limited. Through a combination of its voting rights, Board representation and other rights embedded in the relevant management agreements, the Group is assessed as having joint control. The investment has therefore been accounted for as a joint venture using the equity method.

During 2021/22, the Group granted a 299 year lease over land at Liberty, Southwark site, at 15-33 Southwark Street to LCP Limited for a consideration of £41.8m. The financial year end of LCP Limited is 31 March.

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

17. Investment in joint ventures (continued)

Balance sheet of LMCP Limited at the 100 per cent level

At 31 March	Group 2023 £m	Group 2022 £m
Current assets		
Cash	-	1.3
Other short-term assets	24.9	46.5
	24.9	47.8
Current liabilities		
Other short-term liabilities	(15.3)	(38.2)
	(15.3)	(38.2)

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

At 31 March	Group 2023 £m	Group 2022 £m
Net assets at 100%	9.6	9.6
Percentage held by the TfL Group	49%	49%
Net assets at 49%	4.7	4.7
Adjustment for distribution of land receipt*	-	(2.3)
Carrying amount of the Group's equity interest in LMCP Limited	4.7	2.4

* Available profits in relation to the land receipt are distributed at 25% to TTL Landmark Court Properties Limited

Group share of comprehensive income and expenditure of LMCP Limited

Year ended 31 March	Group 2023 £m	Group 2022 £m
Group share of profit from continuing operations adjusted for distribution of land receipt	2.3	2.4
Group share of other comprehensive income	-	-
Total Group share of comprehensive income and expenditure for the year	2.3	2.4

17. Investment in joint ventures

Wembley Park LLP

[Placeholder for commentary]

Balance Sheet of Wembley Park Limited at the 100 per cent level

At 31 March	Group 2023 £m	Group 2022 £m
Long-term assets		
Investment property under construction	-	-
	-	-
Current assets		
Cash	7.9	-
Other short-term assets	23.3	-
	31.2	-
Current liabilities		
Other short-term liabilities	(6.7)	-
	(6.7)	-
Long-term liabilities		
Borrowings	-	-
Other long-term liabilities	-	-
	-	-

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

At 31 March	Group 2023 £m	Group 2022 £m
Net assets at 100%	24.5	-
Percentage held by the TfL Group	49%	0%
Carrying amount of the Group's equity interest in Wembley Park	12.0	-

17. Investment in joint ventures (continued)

Group share of comprehensive income and expenditure of Wembley Park LLP

Year ended 31 March	Group 2023 £m	Group 2022 £m
Group share of loss from continuing operations	-	-
Group share of other comprehensive income	-	-
Total Group share of comprehensive income and expenditure for the year	-	-

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

18. Investment in associated undertakings

a) Earls Court Partnership Limited

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

The Group has invested share capital and non-interest bearing loans into ECP. The loan notes are non-interest bearing and have no fixed repayment date. They have therefore been treated in these financial statements as an investment in the equity of ECP. As at 31 March 2023 the Group had invested £44.4m (2022 £44.4m) in share capital and a further £429m (2022 £423m) in loan notes.

The financial year end of ECP is 31 December. For the purposes of applying the equity method of accounting, the financial statements of ECP for the year ended 31 December have been used. There were no material movements in net income/expenditure or in the net assets of ECP between 31 December 2022 and 31 March 2023.

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

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

At 31 December	Group 2023 £m	Group 2022 £m
Current assets	8.1	8.1
Long-term assets	541.0	596.0
Current liabilities	(11.0)	(1.7)
Long-term liabilities	(95.9)	(74.7)

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

	Group 2023 £m	Group 2022 £m
Net assets at 100% at 31 December	442.2	527.7
Percentage held by the TfL Group	37%	37%
TfL Group share of net assets at 31 December	163.4	195.3
Investment in equity loan notes between 31 December and 31 March	5.6	2.2
Carrying amount of the Group's equity interest in Earls Court Partnership Limited at 31 March	169.0	197.5

18. Investment in associated undertakings (continued)

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

Year ended 31 March	Group 2023 £m	Group 2022 £m
Group share of (loss)/profit from continuing operations	(39.4)	24.0
Group share of other comprehensive income	-	-
Total Group share of comprehensive income and expenditure for the year	(39.4)	24.0

19. Finance lease receivables

Group finance lease receivables

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

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

As at 31 March	2023 £m	2022 £m
Principal outstanding		
Short-term	5.2	13.8
Long-term	9.1	23.2
	14.3	37.0

	2023 £m	2022 £m
Principal outstanding		
At 1 April	37.0	44.0
Additions	0.5	8.7
Interest	0.8	(1.9)
Lease terminations	(4.1)	-
Repayments	(19.9)	(13.8)
	14.3	37.0

At 31 March	2023 £m	2022 £m
Minimum cash receipts in:		
Not later than one year	5.2	14.7
Later than one year but not later than five years	10.6	23.7
	15.8	38.4
Less unearned finance income	(1.5)	(1.4)
	14.3	37.0

20. Inventories

As at 31 March	Group 2023 £m	Group 2022 £m
Raw materials and consumables	77.9	57.3
Goods held for resale	0.8	0.8
	78.7	58.1

There is no material difference between the balance sheet value of Group inventories and their net realisable value. The Corporation had no inventories as 31 March 2023 or 31 March 2022.

The movement on inventories was as follows:

	Group £m
Balance at 1 April 2021	51.5
Purchases in the year	78.0
Recognised as an expense in the year:	
Consumed/sold in the year	(70.1)
Goods sold in the year	(1.2)
Net write offs in the year	(0.1)
Balance at 31 March 2022	58.1
Purchases in the year	120.7
Recognised as an expense in the year:	
Consumed in the year	(90.1)
Goods sold in the year	(0.5)
Net write offs in the year	(9.5)
Balance at 31 March 2023	78.7

21. Debtors

At 31 March	Group 2023 £m	Group 2022 £m
Short-term		
Trade debtors	133.7	133.7
Capital debtors	3.2	55.3
Other debtors	39.4	28.0
Other tax and social security	200.5	62.4
Grant debtors	87.9	48.2
Interest debtors	3.2	2.6
Contract assets: accrued income	53.0	40.6
Prepayments for goods and services	152.5	152.9
	673.4	523.7
Long-term		
Other debtors	40.0	45.1
Prepayments for goods and services	20.0	27.1
	60.0	72.2

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

As at 31 March 2023, £994.7m (2022 £607.8m) was recognised as a provision for expected credit losses on trade and other debtors (see note 34).

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

21. Debtors (continued)

At 31 March	Corporation 2023 £m	Corporation 2022 £m
Short-term		
Trade debtors	57.8	51.5
Amounts due from subsidiary companies	183.5	128.7
Capital debtors	2.3	0.5
Other debtors	3.7	7.3
Other tax and social security	9.0	10.8
Grant debtors	74.6	30.4
Interest debtors	2.9	0.2
Contract assets: accrued income	18.1	11.5
Prepayments for goods and services	26.1	22.0
	378.0	262.9
Long-term		
Loans made to subsidiary companies	12,290.9	12,325.9
Other debtors	28.4	26.4
Prepayments for goods and services	7.6	8.6
	12,326.9	12,360.9

Trade debtors are non-interest bearing and are generally paid within 28 days. As at 31 March 2023, £965.6m (2022 £580.2m) was recognised as a provision for expected credit losses on trade debtors (see note 34).

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

Long-term loans made to subsidiary companies are interest-bearing loans, primarily representing the pass-down of external third-party borrowings to the subsidiaries that hold the assets which have been funded by that borrowing. These loans accrue market rates of interest reflecting rates achieved on debt issued to third parties by the Corporation. The average rate of interest accruing on loans outstanding at 31 March 2023 was 3.5 per cent (2022 3.1 per cent).

22. Assets held for sale

	Note	Group £m	Corporation £m
Balance at 1 April 2021		95.5	17.5
Assets newly classified as held for sale			
Property, plant and equipment	13	83.4	-
Investment properties	15	10.3	0.7
Net assets transferred from held for sale to investment property			
Investment properties	15	(19.5)	(27.3)
Revaluation gains/(losses)			
Investment properties		17.4	21.3
Disposals			
Investment properties		(26.2)	(0.1)
Balance at 31 March 2022		160.9	12.1
Assets newly classified as held for sale			
Investment properties	15	3.6	1.0
Net assets transferred from held for sale to investment property			
Investment properties	15	(4.6)	(1.3)
Revaluation gains/(losses)			
Investment properties		(0.1)	(1.5)
Disposals			
Property, plant and equipment		(83.3)	-
Investment properties		(22.8)	(7.3)
Balance at 31 March 2023		53.7	3.0

As at 31 March 2023, certain development sites and surplus land were being actively marketed for sale. Disposals are expected to complete within the next 12 months, or, where agreements to sell have already been put in place, in line with the timing of those agreements.

23. Other investments

At 31 March	Group 2023 £m	Group 2022 £m
Short-term		
Investments held at amortised cost	15.0	19.0

At 31 March	Corporation 2023 £m	Corporation 2022 £m
Short-term		
Investments held at amortised cost	-	-

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

24. Cash and cash equivalents

At 31 March	Group 2023 £m	Group 2022 £m
Cash at bank	285.3	201.6
Short-term investments with a maturity of less than three months	1,090.0	1,177.6
Cash in hand and in transit	12.2	11.0
	1,387.5	1,390.2

At 31 March	Corporation 2023 £m	Corporation 2022 £m
Cash at bank	41.3	54.2
Short-term investments with a maturity of less than three months	1,090.0	1,177.6
	1,131.3	1,231.8

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

25. Creditors

a) Group creditors at 31 March comprised:

	Group 2023 £m	Group 2022 £m
Short-term		
Trade creditors	225.0	208.6
Accrued interest	106.4	111.2
Capital works	666.4	555.6
Retentions on capital contracts	5.5	5.6
Capital grants received in advance	43.4	40.1
Wages and salaries	161.8	122.3
Other taxation and social security creditors	57.5	47.5
Contract liabilities: receipts in advance for Travelcards, bus passes and Oyster cards	186.9	120.9
Contract liabilities representing other deferred income	54.0	59.1
Accruals and other payables	600.3	576.0
	2,107.2	1,846.9
Long-term		
Capital grants received in advance	4.1	10.5
Retentions on capital contracts	(2.0)	(0.1)
Contract liabilities representing other deferred income	29.0	29.1
Accruals and other payables	56.5	42.8
	87.6	82.3

25. Creditors (continued)

The level of outstanding long-term liabilities as at 31 March 2023 are broadly consistent with the prior year.

The performance obligations related to deferred income balances recorded as at 31 March 2023, which are expected to be met in more than one year, relate to:

i. License revenue and funding received from developers for improvements to bus services, which together total £22.2m (2022 £21.5m), of which £nil, (2022 £nil) relates to obligations that are due to be satisfied withing one to two years, £20.1m (2022 £8.2m) relates to obligations that are to be satisfied within two to three years, and £1.5m (2022 £6.9m) within five years an £0.6m (2022 £6.4m) over five years

ii. Maintenance income of £5.2m (2022 £7.5m) expected to be released over 30 years

iii. Other miscellaneous contracts, together totalling £1.5m (2022 £0.1m)

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

Year ended 31 March	Group 2023 £m	Group 2022 £m
Amounts included in contract liabilities at 1 April	43.0	163.0
Performance obligations satisfied in previous years	-	-

25. Creditors (continued)

b) Corporation creditors at 31 March comprised:

At 31 March	Corporation 2023 £m	Corporation 2022 £m
Short-term		
Trade creditors	85.6	56.0
Accrued interest	106.4	111.1
Capital works	131.3	91.3
Capital grants received in advance	24.3	30.1
Amounts due to subsidiary companies	277.8	46.3
Wages and salaries	46.5	20.5
Other taxation and social security creditors	4.5	0.7
Contract liabilities representing other deferred income	17.1	23.7
Accruals and other payables	165.7	178.4
	859.2	558.1
Long-term		
Capital grants received in advance	0.9	7.7
Retentions on capital contracts	0.3	(0.1)
Contract liabilities representing other deferred income	16.1	16.7
Accruals and other payables	34.9	30.1
	52.2	54.4

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

At 31 March 2023, the significant balance of remaining performance obligations in relation to contract liabilities expected to be recognised in more than one year represents deferred license revenue totalling £9.4m (2022 £9.2m), of which £9.4m is expected to be satisfied within five years (2022 £9.8m) and £nil (2022 £0.3,) over five years. Maintenance income of £5.2m (2022 £7.5m) is expected to be released over 30 years. Balances relating to other miscellaneous contracts totalled £1.5m (2022 £nil).

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

Year ended 31 March	Corporation 2023 £m	Corporation 2022 £m
Amounts included in contract liabilities at 1 April	9.4	11.9
Performance obligations satisfied in previous years	-	-

26. Borrowings and overdrafts

At 31 March	Group 2023 £m	Group 2022 £m
Short-term		
Borrowings	693.7	1,423.0
Long-term		
Borrowings	12,216.6	11,543.3

At 31 March	Corporation 2023 £m	Corporation 2022 £m
Short-term		
Borrowings	693.7	1,423.0
Long-term		
Borrowings	12,221.5	11,547.3

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

We have direct access to the UK Debt Management Office (DMO) via the Public Works Loan Board (PWLB) and a £2bn Commercial Paper programme in place, with both sources utilised throughout the financial year to manage liquidity requirements. Additionally, we have a £750m loan facility, with the DfT, ringfenced for the purposes of the Crossrail project, of which we repaid £35m during the year.

26. Borrowings and overdrafts (continued)

Changes in liabilities arising from financing activities

	Group 2023 £m	Group 2022 £m
Balance at 1 April		
Short-term	1,543.5	1,543.5
Long-term	14,179.3	14,179.3
	15,722.8	15,722.8
Borrowings drawn down	1,661.0	801.9
Net (repayment of)/additions to other financing liabilities	(6.4)	(6.2)
Repayment of borrowings	(1,720.7)	(803.7)
Repayment of PFI liabilities	(10.6)	(10.0)
Repayment of right-of-use lease liabilities	(323.0)	(314.8)
Non-cash increase in right-of-use lease liabilities	102.2	242.0
Other movements *	3.7	0.3
At 31 March	15,429.0	15,632.3
Short-term	1,014.2	1,774.1
Long-term	14,324.3	13,858.2
	15,338.5	15,632.3

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

26. Borrowings and overdrafts (continued)

Changes in liabilities arising from financing activities

	Corporation2023 £m	Corporation2022 £m
Balance at 1 April		
Short-term	1,234.4	1,234.4
Long-term	12,262.5	12,262.5
	13,496.9	13,496.9
Borrowings drawn down	1,661.0	801.9
Repayment of borrowings	(1,720.7)	(803.7)
Repayment of PFI lease liabilities	(20.2)	(9.6)
Repayment of right-of-use lease liabilities	(26.4)	(26.4)
Non-cash increase in right-of-use-lease liabilities	(19.0)	7.0
Other movements *	2.7	(0.1)
At 31 March	13,374.3	13,466.0
Short-term	735.0	1,460.6
Long-term	12,639.3	12,005.4
	13,374.3	13,466.0

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

27. Private finance initiative contracts

Private Finance Initiative contracts

The Group is party to the following PFI arrangements where the Group controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement. These arrangements are treated as service concession arrangements and, as stipulated by the Code, are accounted for in accordance with IPSAS 32 Service Concession Arrangements – Grantor (IPSAS 32).

The Group therefore recognises PFI assets as items of plant, property and equipment together with a liability to pay for them (see note 13 for details of PFI assets). The fair values of services received under the contract are recorded as operating expenses.

The unitary charge is apportioned between the repayment of the liability, financing costs and charges for services. The service is recognised as an expense in net operating costs and the finance costs are charged to financial expenses in the Comprehensive Income and Expenditure Statement.

Contract	Contract dates	Description
TfL		
A13 Thames Gateway contract	2000 to 2030	Design and construction of improvements to the A13 infrastructure (including communication and traffic signals systems) and ongoing maintenance and operation of the A13 between Butcher Row and Wennington. The contract requires TfL to make an annual unitary payment, charged monthly and calculated according to the service provided by the concession company and the payment mechanisms defined in the contract.

27. Private finance initiative contracts (continued)

Contract	Contract dates	Description
London Underground Limited (LU)		
British Transport Police (London Underground)	1999 to 2022	Provision and ongoing management and maintenance of operational infrastructure to support efficient policing of the Jubilee Line Extension and the delivery of the long-term policing strategy for LU. The contract requires LU to make a base annual unitary payment which is adjusted for indexation and performance as specified in the contract. The contract expired in March 2022.

27. Private finance initiative contracts (continued)

PFI finance lease liabilities

	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
At 1 April	101.6	111.6	101.6	111.2
Payments	(15.0)	(14.9)	(15.0)	(14.4)
Interest	4.4	4.9	4.4	4.8
At 31 March	91.0	101.6	91.0	101.6

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 2023				
Less than 1 year	4.0	14.3	30.2	48.5
Between 1 and 5 years	9.1	64.1	126.0	199.2
Between 6 and 10 years	0.8	12.6	47.3	60.7
	13.9	91.0	203.5	308.4
At 31 March 2022				
Less than 1 year	4.4	10.6	34.3	49.3
Between 1 and 5 years	11.9	64.7	127.6	204.2
Between 6 and 10 years	1.9	26.3	76.0	104.2
	18.2	101.6	237.9	357.7

27. Private finance initiative contracts (continued)

Corporation

Amounts payable under the PFI arrangements cover payments for repayment of capital, payments of interest and payment of service charges. The total amount payable breaks down as follows:

	Payments of interest £m	Repayment of capital £m	Payments for service charges £m	Total amount payable under non-cancellable PFI arrangements £m
At 31 March 2023				
Less than 1 year	4.0	14.3	30.2	48.5
Between 1 and 5 years	9.1	64.1	126.0	199.2
Between 6 and 10 years	0.8	12.6	47.3	60.7
	13.9	91.0	203.5	308.4
At 31 March 2022				
Less than 1 year	4.4	10.6	34.3	49.3
Between 1 and 5 years	11.9	64.7	127.6	204.2
Between 6 and 10 years	1.9	26.3	76.0	104.2
	18.2	101.6	237.9	357.7

28. Other financing liabilities

Group other financing liabilities at 31 March comprised:

	Group 2023 £m	Group 2022 £m
Short-term		
Deferred capital payments	6.6	6.4
Long-term		
Deferred capital payments	115.1	121.7

Other financing liabilities comprise deferred capital payments in respect of the acquisition of property, plant and equipment. Gross payments with a nominal value of £141.3m (2022 £151.7m) fall due over the period to March 2033. These have been discounted back at an effective rate of interest of 3.2 per cent (2022 3.2 per cent) to the present value recorded in the table above.

29. Provisions

a) Group provisions

	At 1 April 2022 £m	Payments in the year £m	Charge for the year £m	Releases in the year £m	At 31 March 2023 £m
Compensation and contractual	70.4	(8.0)	33.3	(15.3)	80.4
Capital investment activities	58.5	(10.6)	2.4	(0.5)	49.8
Environmental harm	7.8	(1.1)	3.8	(0.4)	10.1
Severance and other	49.2	(7.2)	10.7	(29.4)	23.3
	185.9	(26.9)	50.2	(45.6)	163.6

At 31 March	2023 £m	2022 £m
Due		
Short-term	113.7	99.3
Long-term	49.9	86.6
	163.6	185.9

b) Corporation provisions

	At 1 April 2022 £m	Payments in the year £m	Charge for the year £m	Releases in the year £m	At 31 March 2023 £m
Compensation and contractual	16.5	(2.5)	2.4	5.7	22.1
Capital investment activities	58.5	(10.6)	-	(0.5)	47.4
Severance and other	19.3	(1.8)	1.7	(16.8)	2.4
	94.3	(14.9)	4.1	(11.6)	71.9

At 31 March	2023 £m	2022 £m
Due		
Short-term	51.6	53.3
Long-term	20.3	41.0
	71.9	94.3

29. Provisions (continued)

c) Nature of provisions

Compensation and contractual

The Group has provisions for expected compensation and contractual claims that arise in respect of disputes arising in the ordinary course of business. The provisions recorded as at 31 March are based on management's best estimate at the Balance Sheet date of the likely loss to be incurred through settlement. Reflecting the inherent uncertainty with many legal proceedings and claim settlements, the timing and amount of the outflows could differ from the amount provided. Based on current estimates management expects that these amounts, which are based on known facts and take account of past experience for similar items, will be settled within the next one to five years. Where material the provision held is discounted to its present value.

Capital investment activities

Capital investment activities include compulsory purchases, claims in respect of structural damage or diminution in value of properties affected by transport schemes, and other related third-party claims. Estimates are made with reference to relevant market trends. Compulsory Purchase Order provision amounts have been based on the professional estimates of lawyers and surveyors of the land acquisition, development value, disturbance, statutory interest and professional fees for both sides of the negotiation on a case by case basis. Due to the nature of these liabilities and the need to negotiate settlement amounts, there is considerable uncertainty regarding when Compulsory Purchase Order cases will be settled and payments made. At present management expects these provisions to be settled within the next five years.

Environmental harm

Environmental harm relates to potential costs associated with damage to the environment as a result of actions taken in the past. Management expects this provision to be settled within the next five years.

Severance and other

Severance and other provisions include voluntary severance costs arising from reorganisations and other smaller claims. Management expects these provisions to be settled within the next year.

30. Derivative financial instruments

Group derivatives in cash flow hedge relationships

At 31 March	Fair value 2023 £m	Notional amount 2023 £m	Fair value 2022 £m	Notional amount 2022 £m
Long-term assets				
Interest rate swaps	26.2	96.0	13.0	215.6
Foreign currency forward contracts	-	14.6	0.2	5.8
	26.2	110.6	13.2	221.4
Current assets				
Foreign currency forward contracts	1.0	41.3	1.4	23.8
	1.0	41.3	1.4	23.8
Current liabilities				
Interest rate swaps	-	-	-	-
Foreign currency forward contracts	(3.4)	59.8	(4.5)	57.3
	(3.4)	59.8	(4.5)	57.3
Long-term liabilities				
Interest rate swaps	(1.5)	51.0	-	-
Foreign currency forward contracts	(8.6)	144.0	(14.2)	203.4
	(10.1)	195.0	(14.2)	203.4

Group derivatives not in hedge relationships

At 31 March	Fair value 2023 £m	Notional amount 2023 £m	Fair value 2022 £m	Notional amount 2022 £m
Current assets				
Foreign currency forward contracts	0.7	105.6	-	-
	0.7	105.6	-	-
Current liabilities				
Foreign currency forward contracts	-	-	(2.0)	238.9
	-	-	(2.0)	238.9
Long-term liabilities				

The Corporation has not entered into any derivative financial instrument contracts. Further detail on the Group's derivative instruments is set out in note 34.

31. Contingencies

There are a number of uncertainties surrounding projects, including claims in the course of negotiations, which may affect the Group's financial performance. Where claims are possible but not probable, or are 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

32. Guarantees

Section 160 of the GLA Act 1999 sets out the conditions under which the Corporation may give certain guarantees, indemnities or similar arrangements. Under section 161 of the GLA Act 1999 TfL is obliged to disclose in its Annual Report details of all guarantees etc. so given.

TfL and its subsidiaries have entered into joint and several guarantees in favour of HSBC Bank plc as security for any bank indebtedness outstanding from time to time. TfL has also separately guaranteed any liabilities owing to HSBC Bank plc by its subsidiary, Crossrail Limited.

The Corporation has given guarantees in respect of some of its subsidiary companies' contracts. The amount that could be payable under the guarantees (as described below) varies depending on a number of factors, including, inter alia, responsibility for the costs arising from an early termination of the underlying contract, which are not known before the event. For information only, the approximate maximum amounts of debt that were envisaged to be drawn by the counterparty at the signing of the agreements are disclosed below. For the avoidance of doubt, these amounts do not represent the amounts that could be payable by TfL under the guarantees but are shown here to give an indication of the relative size of each contract.

	Estimated maximum debt drawn by counterparty at start of contract £m
Agreement with 345 Rail Leasing Limited	1,050
Agreements with QW Rail Leasing Ltd	380
Agreement with London Rail Leasing Ltd	350
Agreement with Lloyds Bank PLC	109
Agreement with Pittville Leasing Ltd	51
Agreement with Lombard North Central Plc	7

In addition, TfL also guarantees the payments of certain of its subsidiaries under a number of other service and construction contracts. It has guaranteed amounts owed by London Bus Services Limited to the Fuel Cells and Hydrogen Joint Undertaking under a Grant agreement for the 3EMOTION Environmentally Friendly, Efficient Electric Motion project. It has guaranteed London Underground Limited's payment obligations as a tenant in respect of an operating lease for the Stratford City Business District. It has also provided an indemnity to Berkeley 55 Limited in respect of future Mayoral CIL payments that Berkeley 55 Limited may be charged in relation to the fit out of the Crossrail station at Woolwich.

32. Guarantees (continued)

Unlike the agreements listed above, these contracts are not based on an initial amount of debt and so cannot be quantified in a similar manner.

TfL also acts as a guarantor in respect of all liabilities under third party derivative contracts entered into by its subsidiary, Transport for London Finance Limited. The fair value of net assets outstanding under derivative contracts at 31 March 2023 is £14.4m (2022 net liability of £6.1m).

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 2023 the fair value of all financial guarantees granted has been recorded as £nil (2022 £nil).

33. Financial commitments

Operating leases - The Group and Corporation as lessor

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

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

Land and buildings	Group £m	Corporation £m
At 31 March 2023		
Within one year	62.6	0.8
Between one and two years	53.7	0.7
Between two and five years	114.4	1.0
Later than five years	839.6	4.7
	1,070.3	7.2
At 31 March 2022		
Within one year	59.3	1.0
Between one and two years	52.6	1.0
Between two and five years	109.7	2.1
Later than five years	624.2	11.1
	845.8	15.2

34. Funding and financial risk management

Introduction

TfL is a statutory corporation established under the GLA Act 1999. TfL is funded by revenues, grant and prudential borrowing. The Group's debt is issued by the statutory corporation, Transport for London, in the form of loans from the PWLB, the EIB and EDC, Medium Term Notes under the £5bn TfL Euro Medium Term Note programme, and short-term Commercial Paper under the £2bn TfL Euro Commercial Paper programme.

Treasury Management

TfL has a Treasury Management Strategy which is required to be updated on at least an annual basis. The Treasury Management Strategy for 2022/23 was prepared having regard to the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended), the key recommendations of the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (2021 Edition) (the Treasury Management Code) and the Prudential Code for Capital Finance in Local Authorities (2021 Edition) (the Prudential Code), both issued by CIPFA, as well as the key recommendations of the Statutory Guidance on Local Authority Investments (2018 Edition) issued by the Ministry for Housing, Communities and local Government (the Investment Guidance). The strategy was approved by the TfL Finance Committee (a sub-committee of the TfL Board) prior to the commencement of the financial year.

The Group's principal financial instruments comprise borrowings, investments, derivatives, lease liabilities and receivables, PFI liabilities and cash and cash equivalents. These financial instruments are used to manage funding and liquidity requirements. Other financial instruments that arise directly from the Group's operations include trade receivables and payables and other financing liabilities.

The Group monitors the risk profile of its borrowing, investment and derivative programmes against approved benchmarks and provides regular reports to the Chief Finance Officer. Semi-annual reports on overall performance against the approved strategy are considered by the Finance Committee. Section 49 of the TfL Act 2008 confers upon TfL the powers to use derivative financial instruments for risk management purposes only via qualifying subsidiaries.

34. Funding and financial risk management (continued)

The Prudential Borrowing Regime

TfL has the power to borrow as it is treated as a local authority for the purposes of financial management under the Local Government Act 2003. In accordance with this Act, the Mayor, in consultation with TfL, sets an affordable borrowing limit for external debt (including direct borrowing and other long-term liabilities). In setting this limit, the Mayor and TfL are required by regulation to have regard to the Prudential Code. In accordance with the Prudential Code and Treasury Management Code, the TfL Board annually approves a long-term capital strategy and a set of indicators, for prudent and affordable borrowing, for estimates of capital expenditure, for interest rate exposures and the maturity profile of its borrowing.

TfL also agrees its maximum annual incremental borrowing capacity with Government.

Financial Risks and Risk Management

The Group is exposed to a number of financial risks in the normal course of its business operations, the key ones being:

- Credit risk
- Market risk
- Liquidity risk

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

Credit risk

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

34. Funding and financial risk management (continued)

(i) Trade receivables and contract assets

The Group earns the majority of its revenue through prepaid fares. Financial assets arise from: penalty charges, fare revenues not earned on a prepaid basis, commercial activities such as property rental or advertising and amounts due under contractual arrangements from partners or suppliers. The maximum exposure to credit risk at the reporting date is the carrying value disclosed in note 21.

A significant portion of the financial assets arising in the Corporation are with other Group companies. Per note 32, the Corporation has granted guarantees in respect of the obligations of its subsidiaries, mitigating credit risk attached to settlement of these intercompany financial assets.

Customer credit risk is managed by a central credit control function subject to TfL's policy, procedures and control framework. Counterparties are assessed individually for their creditworthiness at the time of entering into contracts and an internal credit rating is assigned.

At each reporting date, the Group applies the IFRS 9 simplified approach to measuring expected credit losses. This approach uses a lifetime expected loss allowance for all trade receivables and contract assets. In determining the expected loss rates, trade receivables and contract assets are considered together based on shared credit risk characteristics. Historical loss rates over the short to medium term are applied to groupings of various customer segments within trade receivables and contract assets. These rates are adjusted to reflect expectations about future credit losses.

Despite the application of a loss allowance, these balances remain subject to enforcement activity and recoveries will be credited against the same line item as the expected credit loss within operating profit. On that basis, the loss allowance as at 31 March 2023 was determined as follows for both trade receivables and contract assets:

Trade debtors and contract assets: Group

	Not overdue £m	Overdue by less than 3 months £m	Overdue by between 3 and 6 months £m	Overdue by between 6 months and 1 year £m	Overdue by more than 1 year £m	Total £m
At 31 March 2023						
Expected credit loss rate	0.4%	55.4%	89.5%	98.9%	99.9%	63.9%
Estimated total gross carrying amount at default	511.7	86.5	92.7	221.0	643.8	1,555.6
Expected credit loss allowance	(2.1)	(47.9)	(83.0)	(218.7)	(642.9)	(994.7)
At 31 March 2022						
Expected credit loss rate	0.1%	64.1%	90.0%	97.6%	99.1%	59.4%
Estimated total gross carrying amount at default	364.5	105.5	83.0	107.0	363.7	1,023.7
Expected credit loss allowance	(0.5)	(67.6)	(74.7)	(104.4)	(360.6)	(607.8)

Notes to the Financial Statements

34. Funding and financial risk management (continued)

Trade debtors and contract assets: Corporation

	Not overdue £m	Overdue by less than 3 months £m	Overdue by between 3 and 6 months £m	Overdue by between 6 months and 1 year £m	Overdue by more than 1 year £m	Total £m
At 31 March 2023						
Expected credit loss rate	-	60.5%	89.7%	99.2%	100.0%	7.1%
Estimated total gross carrying amount at default	12,630.2	75.1	92.3	214.1	625.2	13,636.8
Expected credit loss allowance	-	(45.4)	(82.8)	(212.3)	(625.2)	(965.6)
At 31 March 2022						
Expected credit loss rate	-	64.1%	91.0%	98.1%	99.3%	4.4%
Estimated total gross carrying amount at default	12,549.2	90.3	79.2	100.1	354.6	13,173.4
Expected credit loss allowance	-	(57.9)	(72.1)	(98.2)	(352.0)	(580.2)

Finance lease receivables for the Group and Corporation are not overdue and no allowance has been recognised.

34. Funding and financial risk management (continued)

Expected credit loss allowance

	Group 2023 £m	Corporation 2023 £m	Group 2022 £m	Corporation 2022 £m
At 1 April	609.2	580.2	488.4	457.9
Provision for expected credit losses	434.1	432.9	220.1	219.0
Write offs	(48.7)	(47.5)	(99.3)	(96.7)
At 31 March	994.6	965.6	609.2	580.2

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there may be no reasonable expectation of recovery include, amongst other things; failure of a debtor to engage in a repayment plan or advice from TfL's legal department. TfL has a statutory duty to maximise recovery of charges and fees, including road user charges.

(ii) Investments

All cash balances are invested in accordance with TfL's Treasury Management Strategy, which was developed with regard to the Treasury Management Code and the Investment Guidance, and which requires a prudent approach to the investment of surplus funds with priority given to security and liquidity.

Throughout 2022/23 investments were made within limits approved by the Finance Committee. Counterparty limits are set according to the assessed risk of each counterparty and are linked to the credit rating of the institution. Exposures are monitored against these limits on a regular basis.

TfL considers the risk of the overall portfolio as well as individual investments, seeking to diversify its investments and has regard to the exposure to any one counterparty, country, industry, investment type and credit. The investment portfolio is allocated across sovereigns, government agencies, financial institutions, corporates and money market funds.

Certain banks hold collateral on TfL's account to provide security for TfL's reverse repurchase agreement investments. As at 31 March 2023, the fair value of the collateral held amounted to £100m (2022 £100m).

Short-term investments as at 31 March 2023 totalled £1,090.0m (2022 £1,177.6m).

34. Funding and financial risk management (continued)

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

	Amount £m	Minimum Credit Rating (S&P/ Moody's/ Fitch)	Weighted average days to maturity
At 31 March 2023			
UK Debt Management Office	371.5	P-1/A-1+/F1+	20
Other Government Agencies	69.7	P-1/A-1+/F1+	12
Money Market Funds	199.0	AAA/AAA/AAA	1
Banks (including Gilt backed repos)	377.0	P-1/A-1/F1	13
Corporates	72.8	P-1/A-1/F1	46
Total	1,090.0		15
At 31 March 2022			
UK Debt Management Office	286.1	P-1/A-1+/F1+	41
Other Government Agencies	179.1	P-1/A-1+/F1+	52
Money Market Funds	267.5	AAA/AAA/AAA	1
Banks (including Gilt backed repos)	402.7	P-1/A-1/F1	33
Corporates	42.2	P-1/A-1+/F1	48
Total	1,177.6		31

All of the entity's cash and investments are considered to have low credit risk; they are highly rated by major rating agencies, have a low risk of default and the counterparties have a strong capacity to meet obligations in the near term. While low risk, these remain subject to the impairment requirements of IFRS 9 at each reporting date. The identified 12 month expected loss allowance at 31 March 2023 and as at 31 March 2022 was immaterial.

34. Funding and financial risk management (continued)

(iii) Derivative financial instruments

Counterparty limits are established and monitored in accordance with TfL's Policy relating to the use of Derivative Investments, which was approved by the TfL Finance Committee. The Group spreads its exposure over a number of counterparties and has strict policies on how much exposure can be assigned to each counterparty.

The Group's maximum credit risk exposure relating to financial derivative instruments is noted in the maturity profile of derivatives tables within the market risk section of this note. The credit risk with regard to financial derivative instruments is limited because TfL has arrangements in place with each bank wherein, should the derivative be in an asset position for TfL and the market value reaches a contractually defined threshold, TfL can call upon the bank to post collateral in cash or eligible securities. TfL only envisages using these rights in the event that the financial strength of the institution has deteriorated since the limits were approved.

(iv) Guarantees

The Corporation provides guarantees to third parties under section 160 of the GLA Act, as disclosed in note 32, which are deemed necessary for the fulfilment of its policies. The Group's policy is to recognise financial guarantees at the higher of an expected credit loss allowance and the amount initially recognised as fair value less any amortisation that has occurred to date. As at 31 March 2023, the fair value of the Corporation's financial guarantees has been assessed as £nil (2022 £nil).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and inflation will affect the Group's income, expenditure or the value of its holdings of financial instruments. The Group, through its wholly owned subsidiary, Transport for London Finance Limited, uses derivatives (hedging instruments) to reduce exposure to interest rate and foreign exchange rate movements (the hedged risks) on existing contracts and highly probable future transactions. The Group does not use derivative financial instruments for speculative purposes.

On inception, all interest rate derivatives and foreign currency derivative instruments hedging commercial contracts are designated in highly effective hedge relationships and hedge accounting is applied. If a derivative should no longer satisfy the hedging criteria in accordance with adopted IFRS 9 Financial Instruments (IFRS 9), hedge accounting ceases and the derivative is fair valued immediately through the Comprehensive Income and Expenditure Statement.

The use of derivative instruments can itself give rise to credit and market risk. Market risk is the possibility that future changes in interest rates may make a derivative more or less valuable. Since the Group uses derivatives for risk management, market risk relating to derivative instruments is principally offset by changes in the cash flows of the transactions being hedged.

34. Funding and financial risk management (continued)

For the years ended 31 March 2023 and 2022 all derivatives in designated cash flow hedge relationships were assessed as highly effective and no ineffectiveness was recognised. Accordingly, the full movement in the fair value of those derivatives was taken to reserves.

(i) Foreign exchange risk

During 2022/23, TfL held certain short-term investments denominated in Euros. These foreign currency denominated investments were swapped back to GBP through the use of forward foreign exchange contracts. These contracts were not in formally designated hedging relationships for accounting purposes, as the currency gain or loss on retranslation of the investments is offset within net cost of services at the Group level by the movement in the fair value of the derivative instruments. As at 31 March 2023, the Group held foreign exchange contracts to hedge €119.6m future Euro receipts in relation to its Euro investments (2022 €283.3m). Throughout the year, the hedging strategy provided an effective offset of fair value movements due to holding foreign currency investments. The unrealised exchange net gain was £0.1m as at 31 March 2023 (2022 a net gain of £0.3m). These derivative instruments mature in the period to June 2023.

For 2022/23, the broad policy on managing transactional foreign exchange risk arising from contractual obligations with overseas providers was to retain the risk where there was a value in doing so, where the exposure was highly probable and the risk profile highly certain. For exposures not meeting these criteria, the exchange risk was passed on to the vendor. These exchange rate exposures were managed through the use of forward foreign exchange contracts whose critical terms are closely aligned to the exposure, such as notional amount, expected maturity date and currency. Hedge accounting is applied to these derivative instruments.

Where funds were received in specific currencies in which the Group expected to have future exposures, the Treasury Management Strategy made allowances to place these funds on deposit. This gave the Group the flexibility to offer certain payments in specific foreign currencies where required.

Effects of hedge accounting - Foreign currency hedges in relation to capital expenditure

At 31 March 2023, the Group held forward foreign exchange derivative contracts in Euros, Canadian Dollars, Swiss Francs, Swedish Krona and Chinese Yuan Renminbi. These forward contracts hedge planned foreign currency capital expenditure payments with a nominal value of £266.9m (2022 £278.6m). At 31 March 2023, these contracts had a combined net fair value of £(11.1)m (2022 £(17.0)m). The fair value of forward contracts was recognised in equity at 31 March 2023, with the exception of Swiss Franc contracts with a fair value of £nil for which hedge accounting was discontinued as future hedged payments in that currency were no longer considered probable. The fair value gain/loss is recognised in the income statement. For all other currencies, once hedged purchases occur, the subsequent realised gain or loss will be transferred to fixed asset additions as a basis adjustment.

34. Funding and financial risk management (continued)

The hedge ratio is 1:1. The economic relationship of all hedging relationships has been assessed as effective and the change in value of hedged items has been offset by the change in value of hedging instruments.

It is expected that the hedged purchases will take place in the period to September 2029. Detail on the maturity of these contracts is disclosed later in this note.

The Group has no other material financial assets or liabilities denominated in foreign currencies, and thus has no general translation exposure to gains or losses arising from movements in exchange rates.

Sensitivity analysis on foreign exchange risk at 31 March

	2023 Net nominal value £m	2023 Fair value £m	2023 Fair value after a 10% increase in GBP against other currency £m	2023 Fair value after a 10% decrease in GBP against other currency £m	2022 Net nominal value £m	2022 Fair value £m	2022 Fair value after a 10% increase in GBP against other currency £m	2022 Fair value after a 10% decrease in GBP against other currency £m
Impact on Comprehensive Income and Expenditure								
Net sell								
Euros	(105.6)	0.7	10.3	(11.0)	(238.9)	(2.0)	19.8	(28.5)
Net buy								
	n/a	0.7	10.3	(11.0)	n/a	(2.0)	19.8	(28.5)
Impact on Hedging Reserves								
Net buy								
Euros	217.1	(9.4)	(28.2)	13.6	248.4	(16.4)	(38.9)	11.0
Canadian dollars	15.3	(0.3)	(1.7)	1.4	0.8	-	(0.1)	0.1
Swiss Francs	-	-	-	-	-	-	-	-
Swedish Krona	20.0	(1.4)	(3.2)	0.7	22.0	(1.3)	(3.2)	1.1
Chinese Yuan Renminbi	7.2	-	(0.6)	0.9	7.4	0.6	(0.1)	1.4
	n/a	(11.1)	(33.7)	16.6	n/a	(17.1)	(42.3)	13.6
Total asset/(liability)	n/a	(10.4)	(23.4)	5.6	n/a	(19.1)	(22.5)	(14.9)

34. Funding and financial risk management (continued)

(ii) Interest rate risk

The Group is mainly exposed to interest rate risk on its planned future borrowings. As TfL is required by legislation to produce a balanced Budget and also produces a balanced Business Plan, any uncertainty over the cost of future borrowing requires funding to be set aside in the Business Plan against that risk rather than being invested in the transport system.

In addition to raising borrowings at fixed rates, to achieve certainty over the cost of planned borrowings, TfL, through its wholly owned subsidiary, Transport for London Finance Limited, can employ derivatives to fix the floating interest rates risk of highly probable and existing borrowings. Transport for London Finance Limited also holds interest rate swaps to fix the floating interest rate risk within committed lease payments for rolling stock. The critical terms of these derivative instruments are closely aligned to the payment schedules and hedge accounting is applied.

The Group is also exposed to interest rate risk in respect of its investments. Investments are made in accordance with the Treasury Management Strategy, which prioritises security and liquidity over yield.

Effects of IBOR reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as interbank offered rates ('IBORs') became a priority for global regulators. LIBOR ceased to be published for GBP immediately after 31 December 2021. Sterling Overnight Index Average (SONIA) was selected as the preferred sterling risk-free rate by the Bank of England's Working Group on Sterling Risk Free Reference Rates.

The Group's most significant risk exposure affected by these changes relate to its LIBOR linked floating rate lease payments and the interest rate derivatives that hedged this variability. During the 2021/22 year, TfL restructured the lease contracts to reference SONIA and their associated derivatives.

The notional amount of interest rate swaps designated as hedges is disclosed below.

Effects of hedge accounting - Interest rate swaps

As at 31 March 2023, the Group, through its wholly owned subsidiary, Transport for London Finance Limited, held two float to fixed interest rate swaps at a total notional value of £147.0m (2022 two interest rate swaps at a total notional value of £215.6m).

34. Funding and financial risk management (continued)

During the year, one interest rate swap was terminated in March 2023 following the termination of the respective lease the interest rate swap was hedging, and hedge accounting on the interest rate swap discontinued. One additional interest rate swap contract was entered into in December 2022, hedging interest rate risk on lease payments on an existing lease that was already partially hedged. This new swap was designated in a hedge relationship with the lease payments for the respective lease now fully hedged.

The net fair value of outstanding interest rate swap contracts at 31 March 2023 was an asset of £24.7m (2022 liability of £13.0m). The fair value is recognised in equity at 31 March 2023 and will be transferred to net financing costs within the Comprehensive Income and Expenditure Statement as the hedged lease payments occur.

The hedge ratio is 1:1. The economic relationship of all hedging relationships has been assessed as effective and the change in value of hedged items has been offset by the change in value of hedging instruments.

It is expected that the hedged interest payments will take place in the period to December 2037. Details on the maturity of these contracts are disclosed later in this note.

Sensitivity analysis on interest rate risk

(a) Fair value sensitivity analysis for fixed interest instruments

All of the Group's non-derivative financial instruments with fixed rates of interest are accounted for at amortised cost. Fluctuations in market interest rates would therefore have no impact on the Balance Sheet or on net income figures in respect of these items.

(b) Fair value sensitivity analysis for derivative instruments

As at 31 March 2023, the Group holds interest rate derivative contracts with a combined notional value of £147.0m (2022 £215.6m) which are designated as cash flow hedges.

An increase/(decrease) of 100 basis points in interest rates would increase/(decrease) the fair value of the derivative instruments by £12.5m/£(14.4)m (2022 £30.6m/£(7)m).

(iii) Inflation risk

The Group has a number of exposures to inflation including staff pay awards, operating costs and passenger income. The Group has not entered into any derivative instrument to manage its exposure to inflation risk. Historically this risk has been partially offset with index linked revenues and index linked costs creating a natural hedge within the Group.

34. Funding and financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Maintaining sufficient cash reserves and having access to a diverse range of flexible funding sources ensures the Group has sufficient liquidity to meet its liabilities, in both normal and stressed conditions.

Liquidity risk is primarily managed by maintaining a minimum level of cash reserves of at least 60 days' worth of forecast annual operating expenditure, equivalent to approximately £1.2bn.

The Corporation has access to several external sources of financing, which are sufficient to meet anticipated funding requirements, within the affordable borrowing limit set by the Mayor. Providing market conditions permit access, the Corporation can raise debt on the capital markets through its established £5bn Medium Term Note programme and £2bn Commercial Paper programme. Alternatively, and in addition, TfL has direct access to reliable funding from the Public Works Loan Board and has an arranged, uncommitted, £0.1bn overdraft facility and a further £0.1bn uncommitted money market line facility. Funding facilities are not subject to financial covenants. TfL can also secure financing from financial institutions.

Debt maturities are diversified over short-, medium- and long-term horizons that broadly equate to the lives of the assets that were funded by this source. This ensures refinancing risk is minimised. The contractual maturities of the Group and Corporation's borrowing and other financial liabilities are listed later in this note.

A Long-Term Funding Settlement was agreed in August 2022, as set out in the Narrative report. This has secured receipt of grant funding, allowing TfL to maintain liquidity levels of around 60 days' worth of forecast operating expenditure, on average, which is the main aim of our Liquidity Policy. We expect to have returned to operating financial sustainability by the end of the agreement in March 2024.

On 9 May 2022, Moody's credit rating agency downgraded TfL's long-term credit rating from A3 to Baa1 stable citing economic factors hindering recovery of passenger growth.

Due to the active liquidity management and mitigations outlined, there is no significant risk that TfL will be unable to fund its planned financial commitments.

34. Funding and financial risk management (continued)

Maturity profile of derivatives

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

At 31 March	2023 Average exchange rate	2023 Fair value £m	2023 Notional amount £m	2022 Average exchange rate	2022 Fair value £m	2022 Notional amount £m
Foreign currency forward contracts						
Buy Euro						
Less than one year	0.888	(1.5)	69.6	0.874	(3.2)	68.5
Between one and two years	0.913	(5.0)	85.9	0.889	(2.8)	42.6
Between two and five years	0.917	(2.9)	58.1	0.921	(10.4)	137.3
After five years	0.952	(0.1)	3.5	-	-	-
Sell Euro						
Less than one year	0.886	0.7	(105.6)	0.840	(2.0)	(238.9)
Total Euro	0.910	(8.8)	111.5	0.894	(18.4)	9.5
Buy Canadian Dollars						
Less than one year	0.610	(0.3)	15.3	0.591	-	0.8
Total Canadian Dollars	0.610	(0.3)	15.3	0.561	-	0.8

34. Funding and financial risk management (continued)

Maturity profile of derivatives (continued)

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

At 31 March	2023 Average exchange rate	2023 Fair value £m	2023 Notional amount £m	2022 Average exchange rate	2022 Fair value £m	2022 Notional amount £m
Foreign currency forward contracts						
Buy Swedish Krona						
Less than one year	0.084	(0.7)	9.5	0.085	(0.5)	4.8
Between one and two years	0.086	(0.4)	5.5	0.085	(0.4)	6.2
Between two and five years	0.086	(0.3)	5.1	0.086	(0.4)	11.0
Total Swedish Krona	0.085	(1.4)	20.1	0.085	(1.3)	22.0
Buy Chinese Yuan Renminbi						
Less than one year	0.115	0.1	6.7	0.110	0.6	6.9
Between one and two years	0.122	-	0.5	0.107	-	0.5
Total Chinese Yuan Renminbi	0.117	0.1	7.2	0.109	0.6	7.4
Grand total	n/a	(10.4)	154.1	n/a	(19.1)	39.7

34. Funding and financial risk management (continued)

Maturity profile of derivatives (continued)

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

At 31 March	2023 Average contracted fixed interest rate (%)	2023 Fair value £m	2023 Notional amount £m	2022 Average contracted fixed interest rate (%)	2022 Fair value £m	2022 Notional amount £m
Interest rate hedges						
After five years	1.866	24.7	147.0	1.037	13.0	215.6
Total	1.866	24.7	147.0	1.037	13.0	215.6

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

During the financial year 2021/22, as a result of the replacement of LIBOR with SONIA, all interest rate swaps referencing GBP LIBOR were terminated. The derivates that hedged variable financing costs within certain lease contracts were replaced with two interest rate swaps.

34. Funding and financial risk management (continued)

Maturity profile of derivatives (continued)

The following tables detail the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

	Less than one year £m	Between one and two years £m	Between two and five years £m	More than five years £m	Total £m
Group - at 31 March 2023					
Derivatives settled gross					
Foreign exchange forward contracts:					
Amounts receivable	232.7	96.2	70.6	3.5	403.0
Amounts payable	(234.9)	(103.7)	(76.0)	(3.8)	(418.4)
Derivatives settled net					
Interest rate swaps	3.7	2.3	6.7	18.3	31.0
	1.5	(5.2)	1.3	18.0	15.6
Group - at 31 March 2022					
Derivatives settled gross					
Foreign exchange forward contracts:					
Amounts receivable	342.9	67.1	148.4	-	558.4
Amounts payable	(348.2)	(71.8)	(166.0)	-	(586.0)
Derivatives settled net					
Interest rate swaps	0.5	3.0	4.2	5.1	12.8
	(4.8)	(1.7)	(13.4)	5.1	(14.8)

The total asset or liability due to the Group as recognised on the Balance Sheet is the fair value of the derivatives, as this represents the cost to terminate. As such it differs from the total net contractual payments shown in the table above. At 31 March 2023, the fair value of the interest rate derivatives was a net asset of £24.7m (2022 £13.0m net asset). The fair value of forward exchange derivatives was a net liability of £10.3m (2022 £19.1m net liability).

34. Funding and financial risk management (continued)

Contractual maturity of financial liabilities

The following table details the Group and the Corporation's remaining contractual maturity for their non derivative financial liabilities. The table has been drawn up on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group or Corporation can be required to pay and, therefore differs from the carrying value and the fair value. The table includes both interest and principal cash flows.

	Less than one year £m	Between one and two years £m	Between two and five years £m	More than five years £m	Total £m
Group - as at 31 March 2023					
Trade and other creditors	1,822.9	54.5	-	-	1,877.4
Borrowings - principal	698.9	246.5	1,019.2	10,972.4	12,937.0
Borrowings - interest	362.3	512.0	1,241.3	6,803.7	8,919.3
Right-of-use lease liabilities	359.5	297.0	555.7	1,898.6	3,110.8
PFI liabilities	18.3	18.8	54.4	13.4	104.9
Other financing liabilities	20.9	13.4	40.1	66.9	141.3
	3,282.8	1,142.2	2,910.7	19,755.0	27,090.7
Group - as at 31 March 2022					
Trade and other creditors	1,626.8	42.5	-	-	1,669.3
Borrowings - principal	1,425.1	163.9	1,280.2	10,124.5	12,993.7
Borrowings - interest	402.6	314.1	1,196.2	5,365.0	7,277.9
Right-of-use lease liabilities	365.5	328.4	580.3	1,799.6	3,073.8
PFI liabilities	15.0	18.3	58.3	28.2	119.8
Other financing liabilities	10.4	20.9	40.1	80.3	151.7
	3,845.4	888.1	3,155.1	17,397.6	25,286.2
Corporation - as at 31 March 2023					
Trade and other creditors	817.8	35.2	-	-	853.0
Borrowings - principal	698.9	246.5	1,019.2	10,972.4	12,937.0
Borrowings - interest	362.3	512.0	1,241.3	6,803.7	8,919.3
Right-of-use lease liabilities	36.7	34.6	99.2	278.8	449.3
PFI lease liabilities	18.3	18.8	54.4	13.4	104.9
	1,934.0	847.1	2,414.1	18,068.3	23,263.5
Corporation - as at 31 March 2022					
Trade and other creditors	1,083.0	30.0	-	-	1,113.0
Borrowings - principal	1,425.1	163.9	1,280.2	10,124.5	12,993.7
Borrowings - interest	402.6	314.1	1,196.2	5,365.0	7,277.9
Right-of-use lease liabilities	37.3	37.0	102.9	307.8	485.0
PFI lease liabilities	15.0	18.3	58.3	28.2	119.8
	2,963.0	563.3	2,637.6	15,825.5	21,989.4

34. Funding and financial risk management (continued)

Fair values

In accordance with IFRS 13, the fair values of the financial assets and liabilities are calculated as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents – approximates to the carrying amount
- Short-term investments – approximates to the carrying amount because of the short maturity of these instruments
- Long-term investments – by reference to bid prices at the close of business on the balance sheet date, within Level 1 of the fair value hierarchy as defined within IFRS 13
- Trade and other debtors - approximates to the carrying amount
- Derivative financial instruments – in the absence of quoted market prices, derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date). Hence, derivatives are within Level 2 of the fair value hierarchy as defined within IFRS 13:
    - Forward exchange contracts – based on market data and exchange rates at the balance sheet date
    - Interest rate swaps and forward starting interest rate swaps – based on the net present value of discounted cash flows
- Trade and other creditors - approximates to the carrying amount
- Long-term borrowings – determined by calculating the discounted value of the future cash flows (redemption and interest) using appropriate discount rates, based on observable market data, in effect at the balance sheet date at Level 2 of the fair value hierarchy. Fair value approximates to the carrying amount in the case of short-term commercial paper
- Right-of-use lease liabilities – approximates to the carrying amount
- PFI liabilities – approximates to the carrying amount
- Other financing liabilities – approximates to the carrying amount

34. Funding and financial risk management (continued)

Fair values (continued)

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

At 31 March	2023 Carrying value £m	2023 Fair value £m	2022 Carrying value £m	2022 Fair value £m
Long term				
Financial assets measured at amortised cost				
Finance lease receivables	9.1	9.1	23.2	23.2
Debtors	40.1	40.1	45.1	45.1
Financial assets measured at fair value				
Derivative in cash flow hedge relationship	26.2	26.2	13.2	13.2
Derivatives not in a hedge relationship	-	-	-	-
Current				
Financial assets measured at amortised cost				
Cash and cash equivalents	1,387.5	1,387.5	1,390.2	1,390.2
Short-term investments	15.0	15.0	19.0	19.0
Debtors	520.9	520.9	370.8	370.8
Finance lease receivables	5.2	5.2	13.8	13.8
Financial assets measured at fair value				
Derivative in cash flow hedge relationship	1.0	1.0	1.4	1.4
Derivatives not in a hedge relationship	0.7	0.7	-	-
Total financial assets	2,005.7	2,005.7	**1,876.7**	**1,876.7**
Long term				
Financial liabilities measured at amortised cost				
Creditors	1,822.9	1,822.9	(1,626.8)	(1,626.8)
Borrowings	(12,216.6)	(12,561.5)	(11,543.3)	(14,324.3)
Right-of-use lease liabilities	(1,915.9)	(1,915.9)	(2,102.2)	(2,102.2)
PFI liabilities	(76.7)	(76.7)	(91.0)	(91.0)
Other financing liabilities	(115.1)	(115.1)	(121.7)	(121.7)
Financial liabilities measured at fair value				
Derivatives in a cash flow hedge relationship	(10.1)	(10.1)	(14.2)	(14.2)
Derivatives not in a hedge relationship	-	-	-	-
Current				
Financial liabilities measured at amortised cost				
Creditors	54.5	54.5	(42.7)	(42.7)
Borrowings	(693.7)	(719.3)	(1,423.0)	(1,419.0)
Right-of-use lease liabilities	(299.6)	(299.6)	(334.1)	(334.1)

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PFI liabilities	(14.3)	(14.3)	(10.6)	(10.6)
Other financing liabilities	(6.6)	(6.6)	(6.4)	(6.4)
Financial liabilities measured at fair value				
Derivatives in a cash flow hedge relationship	(3.4)	(3.4)	(4.5)	(4.5)
Derivatives not in a hedge relationship	-	-	(2.0)	(2.0)
Total financial liabilities	(13,474.6)	(13,845.1)	**(17,322.5)**	**(20,099.5)**
Net financial assets/(liabilities)	(11,468.9)	(11,839.4)	**(15,445.8)**	**(18,222.8)**

34. Funding and financial risk management (continued)

The fair values of financial assets and liabilities of the Corporation determined in accordance with IFRS 13, together with the carrying amounts recorded in the Balance Sheet are:

At 31 March	2023 Carrying value £m	2023 Fair value £m	2022 Carrying value £m	2022 Fair value £m
Long term				
Financial assets measured at amortised cost				
Debtors	12,319.2	12,319.2	12,352.3	12,352.3
Current				
Financial assets measured at amortised cost				
Cash and cash equivalents	1,131.3	1,131.3	1,231.8	1,231.8
Debtors	351.9	351.9	240.9	240.9
Total financial assets	13,802.4	13,802.4	13,825.0	13,825.0
Long term				
Financial liabilities measured at amortised cost				
Creditors	(35.2)	(35.2)	(30.0)	(30.0)
Borrowings	(12,221.5)	(12,561.5)	(11,547.3)	(14,324.3)
Right-of-use lease liabilities	(341.1)	(341.1)	(367.1)	(367.1)
PFI liabilities	(76.7)	(76.7)	(91.0)	(91.0)
Current				
Financial liabilities measured at amortised cost				
Creditors	(817.8)	(817.8)	(504.3)	(504.3)
Borrowings	(693.7)	(719.4)	(1,423.0)	(1,419.0)
Right-of-use lease liabilities	(27.0)	(27.0)	(27.0)	(27.0)
PFI liabilities	(14.3)	(14.3)	(10.6)	(10.6)
Total financial liabilities	(14,227.3)	(14,593.0)	(14,000.3)	(16,773.3)
Net financial assets/(liabilities)	(424.9)	(790.6)	(175.3)	(2,948.3)

34. Funding and financial risk management (continued)

Income, Expense, Gains and Losses - Group At 31 March	2023 Financial liabilities measured at amortised cost £m	2023 Financial assets at amortised cost £m	2023 Financial assets at FVOCI £m	2023 Financial assets FVTPL £m	2023 Financial liabilities FVTPL £m	2023 Total £m	2022 Financial liabilities measured at amortised cost £m	2022 Financial assets at amortised cost £m	2022 Financial assets at FVOCI £m	2022 Financial assets FVTPL £m	2022 Financial liabilities FVTPL £m	2022 Total £m
Interest expense	411.9	-	-	-	-	411.9	318.7	-	-	-	-	318.7
Interest on defined benefit pension	-	-	79.3	-	-	79.3	-	-	105.9	-	-	105.9
Interest on right of use lease and PFI liabilities	81.7	-	-	-	-	81.7	60.4	-	-	-	-	60.4
Reduction in fair value	-	-	155.0	-	-	155.0	-	-	-	-	10.2	10.2
Expected and actual credit losses	-	445.3	-	-	-	445.3	-	184.8	-	-	-	184.8
Unwind of discount on non-current creditors	-	-	-	-	-	-	0.3	-	-	-	-	0.3
Impairment losses	(18.7)	-	-	-	-	(18.7)	-	-	-	-	-	-
Fee expense	16.6	-	-	-	-	16.6	-	-	-	-	-	-
Other financing and investment expenditure	10.5	-	-	-	-	10.5	-	-	6.3	-	-	6.3
Total expense in Deficit on the Provision of Services	**502.0**	**445.3**	**234.3**	**-**	**-**	**1,181.6**	**379.4**	**184.8**	**112.2**	**-**	**10.2**	**686.6**
Interest income	-	-	-	27.9	-	27.9	-	(1.6)	-	-	-	(1.6)
Finance lease interest	0.8	-	-	-	-	0.8	-	(1.1)	-	-	-	(1.1)
Increase in fair value	-	-	-	-	-	-	-	-	(51.9)	-	-	(51.9)
Other investment income	-	-	-	4.4	-	4.4	-	-	(1.3)	-	-	(1.3)
Total income in (Surplus) or Deficit on the provision of services	**0.8**	**-**	**-**	**32.3**	**-**	**33.1**	**-**	**(2.7)**	**(53.2)**	**-**	**-**	**(55.9)**

Net loss for the year	**502.8**	**445.3**	**234.3**	**32.3**	**-**	**1,214.7**	**379.4**	**182.1**	**59.0**	**-**	**10.2**	**630.7**

34. Funding and financial risk management (continued)

Income, Expense, Gains and Losses - Corporation At 31 March	2023 Financial liabilities measured at amortised cost £m	2023 Financial assets at amortised cost £m	2023 Financial assets at FVOCI £m	2023 Financial assets FVTPL £m	2023 Total £m	2022 Financial liabilities measured at amortised cost £m	2022 Financial assets at amortised cost £m	2022 Financial assets at FVOCI £m	2022 Financial assets FVTPL £m	2022 Total £m
Interest expense	435.6				435.6	414.5				414.5
Interest on defined benefit pension			78.2		78.2			104.8		104.8
Interest on right of use lease and PFI liabilities	14.8				14.8	15.8				15.8
Reduction in fair value			14.0		14.0					-
Expected and actual credit losses/(reversals)		432.9			432.9		171.7			171.7
Unwind of discount on non-current creditors					-	(0.1)				(0.1)
Impairment losses	(9.6)				(9.6)					-
Fee expense	11.2				11.2					-
Other financing and investment expenditure	5.4				5.4			1.7		1.7
Total expense in (Surplus) or Deficit on the Provision of Services	**457.4**	**432.9**	**92.2**	**-**	**982.5**	**430.2**	**171.7**	**106.5**	**-**	**708.4**
Interest income		430.1			430.1		(404.8)			(404.8)
Other investment income				1.9	1.9			(0.1)		(0.1)
Total income in (Surplus) or Deficit on the provision of services	-	430.1	-	1.9	432.0	-	(404.8)	(0.1)	-	(404.9)
Net (gain)/loss for the year	**457.4**	**863.0**	**92.2**	**1.9**	**1,414.5**	**430.2**	**(233.1)**	**106.4**	**-**	**303.5**

Notes to the Financial Statements

35. Pensions

The majority of the Group's staff were members of the Public Sector Section of the TfL Pension Fund. The majority of the Group's remaining staff were members of London Pension Fund Authority Pension Fund, the Principal Civil Service Pension Scheme, the Crossrail Shared Cost Section of the Railways Pension Scheme (Crossrail Section) or the Tube Lines defined contribution scheme.

a) Reconciliation of amounts included in net cost of services and amounts included in staff costs

For the year ended 31 March	Note	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
TfL Pension Fund		578.5	645.6	351.7	379.0
Local Government Pension Fund		1.5	11.4	1.5	11.4
Crossrail Section of the Railways Pension Scheme		1.9	3.7	-	-
Unfunded schemes provision		0.8	0.6	0.8	0.6
Total for schemes accounted for as defined benefit		582.7	661.3	354.0	391.0
Principal Civil Service Pension Scheme		0.6	0.6	0.6	0.6
Other schemes		0.5	5.1	0.3	1.7
Less: pension costs capitalised		(1.9)	(3.7)	-	-
Amounts included in net cost of services		581.9	663.3	354.9	393.3
Less: scheme expenses		(19.7)	(14.1)	(19.4)	(13.7)
Add: current service costs capitalised		1.3	3.3	-	-
Amount included in staff costs	3	563.5	652.5	335.5	379.6

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35. Pensions (continued)

b) Defined benefit schemes

This section deals with those pension funds to which the Group contributes that are accounted for under IAS 19 as defined benefit schemes.

Public Sector Section of the TfL Pension Fund (TfL Pension Fund)

The TfL Pension Fund is a final salary scheme established under trust. The Fund's Trustee is the TfL Trustee Company Limited, a wholly owned subsidiary of TfL. Under the rules of the Fund, its 18 Trustee Directors are nominated in equal numbers by TfL and on behalf of the Fund's membership.

Every three years, the TfL Pension Fund actuary makes valuations and recommends the level of contributions to be made by the participating employers to ensure the long-term solvency of the Fund. The latest available valuation of the Fund was carried out as at 31 March 2021 by the Actuary, a partner of consulting actuaries Willis Towers Watson, using the projected unit method. A revised Schedule of Contributions was agreed between the Trustee and the employers following the formal funding valuation of the Public Sector Section.

Under the valuation report, the Fund held a surplus of £179m as at 31 March 2021. Assets totalled £13,085m and the defined benefit obligation totalled £12,906m. A revised Schedule of Contributions was agreed between the Trustee and the employers following the formal funding valuation. This set out a future service contribution rate of 27.3 per cent for the employers and five per cent for members.

The underlying assets and defined benefit obligation of the TfL Pension Fund cover a number of Group entities and cannot be readily split between each undertaking. No contractual agreement is in place to allocate the total net obligation between the member entities. Thus, in accordance with IAS 19, the Corporation, as the Scheme sponsor, has recognised the total net defined benefit obligation in its own individual accounts.

A separate valuation of the TfL Pension Fund has been prepared, by actuaries at the XPS Pensions Group, for accounting purposes on an IAS 19 basis as at 31 March 2023. The assumptions used by the actuaries are the best estimates chosen from a range of possible actuarial assumptions, while the present value of the schemes' defined benefit obligation is derived from cash flow projections. Due to the timescale covered, neither the assumptions nor the cash flow projections may necessarily be borne out in practice.

The defined benefit obligation for the TfL Pension Fund has been calculated using the mortality assumptions adopted for the latest available funding valuation as at 31 March 2021. 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 2021 projections with a long-term improvement rate of 1.25 per cent per annum. No weighting has been given to 2020 or 2021 mortality experience, given the exceptional impact of the coronavirus pandemic on these years.

The discounted scheme liabilities have an average duration of 16 years.

35. Pensions (continued)

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

The London Pension Fund Authority Pension Fund is a funded multi-employer defined benefit scheme, administered by the London Pension Fund Authority. The Corporation is able to identify its share of the assets and defined benefit obligation of the scheme and this scheme has therefore been accounted for as a defined benefit scheme under IAS 19. Employer's contributions were payable at the rate of 15.6 per cent for 2022/23 (2021/22 15.6 per cent) of pensionable pay, plus a lump sum deficit reduction payment of £nil (2021/22 £0.9m). The Corporation's share of the underlying assets and defined benefit obligation resulted in an IAS 19 deficit as at 31 March 2023 of £0.5m (2022 £54.4m). The discounted scheme liabilities have an average duration of 17 years.

The last full actuarial valuation available was carried out at 31 March 2022. The report showed a funding surplus of £1.63bn at that date. The annual report and financial statements for the whole scheme can be found on the London Pension Fund Authority's website (www.lpfa.org.uk). A separate valuation as at 31 March 2023 has been prepared for accounting purposes on an IAS 19 basis by Barnett Waddington LLP.

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

Crossrail Limited (CRL) participates in the Crossrail Section of the Railways Pension Scheme which is accounted for in these financial statements as a defined benefit pension scheme under IAS 19.

The latest available full actuarial valuation of the Scheme was carried out at 31 December 2019. The report showed a funding surplus of £5.9m. This was translated into a current employer contribution level of 20.9 per cent. A separate valuation has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2023 by actuaries at the XPS Pensions Group. Assumptions underlying this valuation have been updated from the full actuarial valuation of the scheme carried out at 31 December 2019. The Group's share of the underlying assets and defined benefit obligation resulted in an IAS 19 deficit, as at 31 March 2023, of £1.4m (2022 £42.7m). The discounted Crossrail Section liabilities have a duration of approximately 19 years.

The defined benefit obligation for the Crossrail Section has been calculated using the mortality assumptions adopted for the funding valuation as at 31 December 2019. Standard mortality tables were used, adjusted to reflect the recent mortality experience of the Scheme's pensioners at that date. An allowance was made for future mortality improvements based on the CMI 2021 projections with a long-term improvement rate of 1.25 per cent per annum. No weighting has been given to 2020 or 2021 mortality experience.

35. Pensions (continued)

Unfunded pension costs

The Corporation bears the cost of the augmentation of the pensions of certain employees, who retire early under voluntary severance arrangements.

In addition, the Corporation also bears the cost of:

- Ex-gratia payments, which are made to certain former employees on retirement in respect of service prior to the establishment of pension funds for those employees
- Supplementary pensions, which are made to certain former employees who retired prior to index linking of pensions
- Pensions of London Regional Transport former board members who did not qualify to join the TfL Pension Fund
- Other unfunded defined benefit pensions accruing to certain employees

XPS Pensions Group, consulting actuaries, were instructed to report on the financial position of the unfunded pension defined benefit obligation as at 31 March 2023 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 2023 was £87.6m (2022 £107.4m) and is fully provided for in these financial statements.

35. Pensions (continued)

Assumptions for defined benefit sections

The main actuarial assumptions used for the TfL Pension Fund, the Crossrail Shared Cost Section of the Railways Pension Scheme, the Local Government Pension Scheme (together 'the Schemes') and unfunded schemes were:

	IAS 19 valuation at 31 March 2023 %	IAS 19 valuation at 31 March 2022 %
RPI Inflation	3.20	3.50
CPI Inflation	2.70-2.95	3.00-3.25
Rate of increase in salaries	2.95-3.95	3.25-4.25
Rate of increase in pensions in payment and deferred pensions	2.70-3.15	3.00-3.43
Discount rate	4.75-4.80	2.60

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 £200.2m/(increase by £204.2m)
- If the expected salary growth were increased/(decreased) by 0.1 per cent, the defined benefit obligation would increase by £54.4m/(decrease by £55.5m)
- If life expectancy were increased/(decreased) by one year, the defined benefit obligation would increase by £406.7m/(decrease by £419.6m)
- If the inflation rate were 0.1 per cent higher/(lower), the defined benefit obligation would increase by £200.8m/(decrease by £151.8m)

The sensitivity analyses presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Notes to the Financial Statements

35. Pensions (continued)

c) Accounting for defined benefit schemes

The total assets in the schemes were:

At 31 March	Value 2023 £m	Value 2022 £m
Equities and alternatives	12,839.7	11,041.6
Bonds	1,329.2	3,213.8
Cash and other	24.3	188.1
Total fair value of assets	14,193.2	14,443.5

The TfL Pension Fund, the Crossrail Shared Cost Section of the Railways Pension Scheme and the Local Government Pension Scheme assets consist of the following categories, by proportion of the total assets held:

At 31 March	2023 %	2022 %
Equities	90	77
Bonds	10	22
Cash and other assets	-	1
	100	100

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

35. Pensions (continued)

Total pension surplus/(deficit) at 31 March

Group	2023 £m	2022 £m
Fair value of scheme assets	14,193.2	14,443.5
Actuarial valuation of defined benefit obligation	(12,649.9)	(17,645.0)
Net surplus/(deficit) recognised in the Balance Sheet	1,543.3	(3,201.5)

Group	2023 £m	2022 £m
TfL Pension Fund	1,630.0	(2,997.0)
Local Government Pension Fund	(0.5)	(54.4)
Crossrail Section of the Railways Pension Scheme	1.4	(42.7)
Unfunded schemes provision	(87.6)	(107.4)
Net surplus/(deficit) recognised in the Balance Sheet	1,543.3	(3,201.5)

Corporation	2023 £m	2022 £m
Fair value of scheme assets	14,101.6	14,348.1
Actuarial valuation of defined benefit obligation	(12,559.7)	(17,506.9)
Net surplus/(deficit) recognised in the Balance Sheet	1,541.9	(3,158.8)

Corporation	2023 £m	2022 £m
TfL Pension Fund	1,630.0	(2,997.0)
Local Government Pension Fund	(0.5)	(54.4)
Unfunded schemes provision	(87.6)	(107.4)
Net surplus/(deficit) recognised in the Balance Sheet	1,541.9	(3,158.8)

35. Pensions (continued)

Analysis of amounts included in the Comprehensive Income and Expenditure Statement

Analysis of amounts charged to net cost of services

Year ended 31 March	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Current service cost	562.6	637.7	561.1	634.4
Less contributions paid by subsidiaries	-	-	(226.8)	(266.6)
Past service cost	0.4	0.1	0.4	0.1
Settlements	-	9.4	-	9.4
Total included in staff costs	563.0	647.2	334.7	377.3
Scheme expenses	19.7	14.1	19.3	13.7
Total amount charged to net cost of services	582.7	661.3	354.0	391.0

Amounts charged to financing and investment expenditure

Year ended 31 March	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Net interest expense on scheme defined benefit obligation	79.3	105.9	78.2	104.8

Amount recognised in other comprehensive income and expenditure

Year ended 31 March	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Net remeasurement losses recognised in the year	(5,087.3)	(2,790.9)	(5,040.8)	(2,773.2)

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

At 31 March	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Wholly unfunded schemes	87.6	107.4	87.6	107.4
Wholly or partly funded schemes	12,562.3	17,537.6	12,472.1	17,399.5
Total scheme defined benefit obligation	12,649.9	17,645.0	12,559.7	17,506.9

35. Pensions (continued)

Reconciliation of defined benefit obligation

	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Actuarial value of defined benefit obligation at 1 April	17,645.0	18,664.1	17,506.9	18,520.2
Current service cost	562.6	637.7	561.1	634.4
Interest cost	454.0	361.3	450.4	358.5
Employee contributions	56.7	55.9	56.5	55.6
Remeasurement losses/(gains) on scheme liabilities:				
Net remeasurement - financial	(6,679.0)	(1,566.5)	(6,619.3)	(1,556.0)
Net remeasurement - experience	1,058.9	104.0	1,050.6	104.0
Net remeasurement - demographic	(3.6)	(206.4)	(3.6)	(206.2)
Actual benefit payments	(445.1)	(431.0)	(443.3)	(429.5)
Liabilities assumed on settlements	-	25.8	-	25.8
Past service cost	0.4	0.1	0.4	0.1
Actuarial value of defined benefit obligation at 31 March	12,649.9	17,645.0	12,559.7	17,506.9

Reconciliation of fair value of the scheme assets

	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Fair value of assets at 1 April	14,443.5	13,061.0	14,348.1	12,973.9
Expected return on assets net of expenses	374.7	255.4	372.2	253.7
Other actuarial gains and losses	2.8	-	2.8	-
Scheme expenses	(19.7)	(14.1)	(19.3)	(13.7)
Return on assets excluding interest income	(539.2)	1,122.0	(534.3)	1,115.0
Actual employer contributions	314.1	372.6	86.6	104.7
Contributions paid by subsidiaries	-	-	226.8	266.6
Employee contributions	56.7	55.9	56.5	55.6
Settlement prices received	-	16.4	-	16.4
Actual benefits paid	(439.7)	(425.7)	(437.8)	(424.1)
Fair value of assets at 31 March	14,193.2	14,443.5	14,101.6	14,348.1

35. Pensions (continued)

The expected return on scheme assets is set equal to the discount rate. The actual return on scheme assets in the year was a loss of £164.5m (2021/22 a gain of £1,377.4m).

Total contributions of £320.4m are expected to be made to the schemes in the year ending 31 March 2024.

d) Other pension arrangements

Principal Civil Service Pension Scheme and Alpha – Civil Servants and Others Pension Scheme

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. From 1 April 2015 most PCSPS members switched to the new Civil Servants and Others Pension Scheme, (also known as Alpha). The Group is unable to identify its share of the underlying assets and defined benefit obligations of these schemes on a consistent and reasonable basis and, as permitted by the multi-employer exemption in IAS 19, the Group treats contributions to the PCSPS and Alpha as if they were contributions to a defined contribution plan. A full actuarial valuation was last carried out at 31 March 2022. Details can be found in the Civil Service Superannuation Resource Accounts (www.civilservicepensionscheme.org.uk/).

During 2022/23 minimum employers' contributions represented an average of 15.3 per cent of pensionable pay (2021/22 15.3 per cent). Employer contributions are reviewed every four years. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Docklands Light Railway Pension Scheme

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

Every three years the Scheme Actuary of the DLR Scheme carries out a valuation to assess the funding position and to determine the future levels of contributions. The most recent available valuation was effective 1 April 2021.

Keolis Amey Docklands Limited (KAD) was awarded the franchise to operate the DLR from 7 December 2014 and is a Participating Employer in the DLR Scheme. The contributions payable by KAD to the DLR Scheme are set out in the franchise agreement between DLR and KAD dated 17 July 2014. These are to pay 35.7 per cent per annum of Pensionable Salaries into the Scheme, the PPF levy and additional contributions if actual pensionable salary increases exceed RPI + 1.5 per cent per annum.

35. Pensions (continued)

DLR, as the Principal Employer of the DLR Scheme, is responsible for meeting any further costs towards the cost of accruing benefits and removing the deficit, over and above the contributions payable by KAD, if necessary. Following the completion of the 2021 valuation, it was agreed that DLR would pay 22.6 per cent per annum of Pensionable Salaries towards future benefit accrual from 1 April 2020 to 31 March 2022, amounting to £3.3m in respect of 2020/21, which was paid on 30 July 2021 and £3.1m, which was paid on 28 July 2022: plus in respect of subsequent Scheme Years, commencing 1 April 2022:

- 21.7 per cent per annum of Pensionable Salaries in respect of the cost of accrual for active members payable within 4 months of the end of the relevant Scheme Year;
- £957,000 per annum in respect of administration expenses and the cost of death in service benefit for active members payable on or before each 10 April, from 10 April 2023 onwards;
- £800,000 per annum payable on or before each 10 April from 2023 to 2025 inclusive (£800,000 per annum in respect of 2021 and 2022 were paid on 30 April 2021 and 12 April 2022 respectively)

In addition, it was agreed that DLR would pay additional contributions if actual Pensionable Salary growth exceeds RPI inflation + 0.5 per cent per annum (up to a maximum of RPI inflation + 1.5 per cent per annum)..

Over the year beginning 1 April 2023 the contributions payable to the DLR Scheme are expected to be around £5.1m from KAD and £4.8m from DLR, based on the schedule of contributions currently in force. This makes no allowance for additional contributions that may arise if Pensionable Salary growth exceeds RPI inflation + 0.5 per cent per annum or any changes as a result of a new schedule of contributions.

A valuation of the DLR Scheme has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2023. This gave a valuation for the net surplus as at 31 March 2023 of £30.5m (2022 £3.9m deficit). The assumptions used by the actuary are best estimates chosen from a range of possible actuarial assumptions, while the present value of the DLR Scheme's defined benefit obligation is based on future cash flow projections. Neither the assumptions nor the cash flow projections may necessarily be borne out in practice.

The discounted DLR Scheme liabilities have a duration of approximately 18 years.

The scheme's funding arrangements outlined above mean that DLR is currently unable to identify its share of this obligation on a consistent and reasonable basis. The Group has therefore taken the exemption permitted under IAS 19 for multi-employer schemes and treats contributions to the DLR Scheme as if they were contributions to a defined contribution plan. No defined benefit obligation has been recognised in the Balance Sheet in respect of this scheme.

Contributions totalling £3.1m were paid by DLR in 2022/23. These costs are not reflected within staff costs for the TfL Group but are instead reflected elsewhere within the operating expenditure of the Group, as the costs relate to the staff costs of DLR's concessionaire.

Defined contribution schemes

The Group contributes to a number of defined contribution schemes, with total contributions, including contributions to the PCSPS and Alpha schemes as outlined in the paragraphs above, amounting to £1.1m (2021/22 £5.7m).

Notes to the Financial Statements

35. Pensions (continued)

e) Type of pension assets per the TfL Pension Fund accounts

	Group 2023 Quoted	Group 2023 Unquoted	**Group 2022 Quoted**	**Group 2022 Unquoted**
Bonds	5%	0%	5%	0%
Equities	19%	3%	20%	2%
Loans	0%	2%	0%	3%
Pooled investment vehicles	27%	38%	31%	32%
Derivatives	1%	0%	0%	0%
Liquidity funds	3%	0%	3%	0%
AVC investments	1%	0%	1%	0%
Cash	1%	0%	3%	0%
	57%	43%	63%	37%

Quoted assets represent unadjusted quoted prices in an active market and inputs other than quoted prices which are observable.

36. Cash flow notes

a) The cash flows for operating activities include the following items:

	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Interest and other investment income received	57.8	2.6	475.6	404.7
Interest paid	(510.4)	(385.9)	(471.7)	(440.4)
	(452.6)	(383.3)	3.9	(35.7)

b) Adjustments to the surplus/(deficit) on the provision of services for non-cash movements

	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Depreciation, amortisation and impairment of property, plant and equipment, intangibles and right-of-use assets	1,523.6	1,410.0	205.4	219.1
Reversal of movements in the value of investment properties	147.5	(93.4)	14.1	(51.3)
Increase in interest receivable	(0.6)	(1.4)	(2.7)	(0.2)
Increase in interest payable	84.2	115.9	73.5	106.6
Movement in pensions liability	263.2	283.4	261.9	280.9
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	89.2	80.8	7.6	21.7
Adjustments to net deficit/surplus for non-cash movements before movements in working capital	2,107.1	1,795.3	559.8	576.8
Increase/(decrease) in creditors	164.7	(103.7)	275.9	(297.7)
(Increase)/decrease in debtors	(149.4)	(19.7)	(67.3)	162.8
(Increase)/decrease in inventories	(20.6)	(6.6)	-	-
(Decrease)/increase in provisions	(13.6)	23.9	(11.1)	7.8
Adjustments to net deficit/surplus for total non-cash movements	2,088.2	1,689.2	757.3	449.7

c) Adjustments to the surplus/(deficit) on the provision of services for investing or financing items

	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Proceeds from the sale of property, plant and equipment, intangibles and investment properties	(25.7)	(149.8)	(18.7)	(104.0)
Reversal of capital grants receivable	(2,129.6)	(2,014.3)	(2,083.5)	(1,954.6)
Reversal of finance lease receivables for deferred payments	-	(6.5)	-	-
Adjustments for items included in the net deficit that are investing or financing activities	(2,155.3)	(2,170.6)	(2,102.2)	(2,058.6)

36. Cash flow notes (continued)

d) Investing activities

Year ended 31 March	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Capital grants received	2,086.8	2,041.9	2,026.7	1,956.9
Purchase of property, plant and equipment and investment property	(1,840.0)	(2,196.5)	(317.4)	(270.9)
Purchase of intangible assets	(40.4)	(58.6)	(15.3)	(40.9)
Proceeds from the sale of property, plant and equipment and intangible assets	28.6	0.3	(0.9)	10.1
Net sales/(purchases) of other investments	14.6	(9.6)	-	-
Issue of loans to subsidiaries	-	-	19.1	(89.9)
Repayments of loans to subsidiaries	-	-	15.9	15.9
Finance leases granted in year	(1.3)	(0.3)	-	-
Finance leases repaid in year	24.0	13.8	-	-
Proceeds from sale of investment property	82.5	149.5	18.9	94.6
Investment in equity of associates and joint ventures	(34.5)	(4.7)	-	-
Investment in share capital of subsidiaries	-	-	(280.0)	(560.0)
Net cash flows from investing activities	320.3	(64.2)	1,467.0	1,115.8

e) Financing activities

Year ended 31 March	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Cash payments for reduction of the outstanding liabilities relating to lease and PFI arrangements	(333.6)	(324.8)	(37.0)	(36.0)
Cash payments for reduction of other financing liabilities	(6.4)	(6.2)	-	-
Net proceeds from new borrowing	1,661.0	801.9	1,661.0	801.9
Repayments of borrowings	(1,717.3)	(803.7)	(1,716.1)	(803.8)
Net cash flows from financing activities	(396.3)	(332.8)	(92.1)	(37.9)

37. Unusable reserves

At 31 March	2023 £m	2022 £m
Group		
Capital Adjustment Account	30,883.2	29,633.2
Pension Reserve	1,541.9	(3,158.8)
Accumulated Absences Reserve	(13.2)	(14.6)
Retained Earnings Reserve in Subsidiaries	1,030.7	1,483.6
Revaluation Reserve	216.2	241.1
Hedging Reserve	(17.4)	(57.9)
Cost of Hedging Reserve	(2.4)	(3.0)
Financial Instruments Adjustment Account	(112.3)	(124.0)
Merger reserve	466.1	466.1
	33,992.8	28,465.7

At 31 March	2023 £m	2022 £m
Corporation		
Capital Adjustment Account	17,222.4	16,740.2
Pension Reserve	1,541.9	(3,158.8)
Accumulated Absences Reserve	(13.2)	(14.6)
Revaluation Reserve	22.3	26.5
Financial Instruments Adjustment Account	(112.3)	(124.0)
	18,661.1	13,469.3

37. Unusable reserves (continued)

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by TfL as finance for the costs of acquisition, construction and enhancement. The account also contains accumulated gains and losses on investment properties.

In the table below, the Corporation Capital Adjustment Account remains unchanged at Group level. The adjustments for the Group financial statements arise due to an alignment of accounting policies between the Group and it's subsidiaries for assets not held in the Corporation. 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 IFRS (rather than the Code) and are required to recognise deferred capital grants on the balance sheet and recognise grant amortisation in arriving at their retained earnings. An accounting policy alignment is performed on consolidation to recognise the grant receipts in the Comprehensive Income and Expenditure Statement (from where they are then transferred to the CAA). Equally, the amortisation and grant disposals are removed from the Comprehensive Income and Expenditure Statement and are shown in the CAA so that the total CAA adjustment is equal to the deferred capital grant carried in the subsidiaries' books.

37. Unusable reserves (continued)

Capital Adjustment Account

	Note	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Balance at 1 April		29,633.2	28,165.1	16,740.2	16,023.5
Amounts attributable to the Corporation					
Charges for depreciation and impairment of non-current assets		(205.4)	(219.1)	(205.4)	(219.1)
Capital proceeds from disposals of investment properties		18.9	94.6	18.9	94.6
Net book value of disposals of investment properties		(7.7)	(9.6)	(7.6)	(9.6)
Release of Revaluation Reserve relating to historical revaluation gains recognised in respect of properties disposed during the year		3.2	3.1	3.2	3.1
Release of Revaluation Reserve relating to the difference between fair value depreciation and historical cost depreciation		-	0.3	-	0.3
Movements in the market value of investment properties recognised in the deficit/surplus on the provision of services after tax		(14.0)	50.5	(14.0)	50.5
Movements in the market value of investment properties recognised directly in other comprehensive income		-	0.8	-	0.8
Capital grants and contributions	10	1,981.3	1,954.6	1,981.3	1,954.6
REFCUS	10	(1,342.3)	(1,216.0)	(1,342.3)	(1,216.0)
Minimum Revenue provision		48.3	60.2	48.3	60.2
Loss on disposal of property, plant and equipment		(0.2)	(2.7)	(0.2)	(2.7)
Adjustments for the alignment of Group accounting policies for assets not held in the Corporation					
Charges for depreciation, impairment and disposals for assets not held in the Corporation		(620.5)	(524.3)	-	-
Capital grants and contributions applied to assets not held in the Corporation	10	1,388.4	1,275.7	-	-
Balance at 31 March		30,883.2	29,633.2	17,222.4	16,740.2

37. Unusable reserves (continued)

Pension Reserve

The Pension Reserve represents pension and other post-retirement defined benefit obligations shown on the Balance Sheet, excluding those reflected on the balance sheets of the subsidiary companies. The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Group and Corporation account for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the defined benefit obligations recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Group and Corporation make employer's contributions to pension funds or eventually pay any pensions for which they are directly responsible. The debit balance on the pension reserve therefore shows a substantial shortfall in the benefits earned by past and current employees against 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 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Balance at 1 April	(3,158.8)	(5,546.3)	(3,158.8)	(5,546.3)
Net remeasurement losses on pension assets and defined benefit obligations	5,040.8	2,773.2	5,040.8	2,773.2
Reversal of charges relating to retirement benefits	(659.0)	(762.4)	(432.2)	(495.8)
Employer's pension contributions, contributions from subsidiaries and direct payments to pensioners payable in the year	318.9	376.7	92.1	110.1
Balance at 31 March	**1,541.9**	**(3,158.8)**	**1,541.9**	**(3,158.8)**

37. Unusable reserves (continued)

Accumulated Absences Reserve

The Accumulated Absences Reserve absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the reserve.

	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Balance at 1 April	(14.6)	(16.2)	(14.6)	(16.2)
Settlement or cancellation of accrual made at the end of the preceding year	14.6	16.2	14.6	16.2
Amounts accrued at the end of the current year	(13.2)	(14.6)	(13.2)	(14.6)
Balance at 31 March	(13.2)	(14.6)	(13.2)	(14.6)

37. Unusable reserves (continued)

Retained Earnings Reserve in Subsidiaries

The Retained Earnings Reserve in Subsidiaries represents the retained earnings in the Group's subsidiary companies. These are disclosed as unusable reserves unless the subsidiary declares a dividend to the Corporation, and they are able to fund these via their own cash reserves. The majority of assets held in subsidiaries are related to transport infrastructure and are not readily convertible to cash.

	Group 2023 £m	Group 2022 £m
Balance at 1 April	1,483.6	1,737.3
Surplus on the provision of services after tax in subsidiaries	253.2	369.8
Surplus on valuation of newly created investment properties (net of tax)	6.0	(6.5)
Transfer of current year capital grants and contributions to the Capital Adjustment Account	(1,388.4)	(1,275.7)
Dividend payment to parent	(14.3)	-
Transfer of adjustments between Group and Corporation financial statements to the Capital Adjustment Account	620.5	524.3
Remeasurement gains on defined benefit pension plan assets and liabilities	46.5	17.7
Release of Revaluation Reserve relating to historical revaluation gains recognised in respect of properties disposed	22.6	114.3
Release of Revaluation Reserve relating to the difference between fair value depreciation and historical cost depreciation	1.0	2.4
Balance at 31 March	1,030.7	1,483.6

37. Unusable reserves (continued)

Revaluation Reserve

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

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

	Note	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Balance at 1 April		241.2	339.5	26.6	29.9
Revaluation of assets	13	1.8	21.9	(1.1)	0.1
Release of Revaluation Reserve relating to historical revaluation gains recognised in respect of properties disposed		(25.8)	(117.5)	(3.2)	(3.1)
Release of Revaluation Reserve relating to the difference between fair value depreciation and historical cost depreciation, and to historical revaluation gains recognised in respect of properties disposed during the year		(1.0)	(2.8)	-	(0.3)
Balance at 31 March		216.2	241.1	22.3	26.6

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 2023 £m	Group 2022 £m
Balance at 1 April	(57.9)	(105.0)
Net change in fair value of cash flow interest rate hedges	11.6	43.9
Net change in fair value of cash flow foreign exchange hedges	6.0	8.0
Reclassification of interest rate fair value losses to profit and loss	9.4	10.2
Discontinued hedging relationship	13.5	(15.0)
Balance at 31 March	(17.4)	(57.9)

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

37. Unusable reserves (continued)

Cost of Hedging Reserve

The Cost of Hedging Reserve holds the gain or loss on a hedging instrument arising from changes in the fair value of the time value of an option when the intrinsic value of the option has been designated in an effective hedging relationship. The gain or loss deferred in reserves is recognised in the Comprehensive Income and Expenditure Statement in the period(s) during which the hedged forecast transaction affects profit or loss. The ineffective portion, if any, is recognised immediately through the Comprehensive Income and Expenditure Statement.

	Group 2023 £m	Group 2022 £m
Balance at 1 April	(3.0)	(3.9)
Reclassification of cashflow foreign exchange hedge losses to the Balance Sheet	0.6	0.9
Balance at 31 March	(2.4)	(3.0)

The Corporation does not have a Cost of Hedging Reserve as it has not entered into any derivative transactions, nor does it have legal powers to do so.

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account provides a balancing mechanism between the different rates at which gains and losses (such as premium on the early repayment of debt) are recognised under the Code and are required by statute to be met from the General Fund.

	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Balance at 1 April	(124.0)	(135.8)	(124.0)	(135.8)
Release of premium	11.7	11.8	11.7	11.8
Balance at 31 March	(112.3)	(124.0)	(112.3)	(124.0)

37. Unusable reserves (continued)

Merger Reserve

The Merger Reserve of £466.1m arose as a result of the transfer of the net assets of London Regional Transport, including the share capital of London Underground Limited (LUL), to TfL in 2003. It represents the share capital of LUL and was taken as a credit to the merger reserve. The Group has taken advantage of the exemption in IFRS 1 not to restate business combinations occurring prior to the transition date of 1 April 2009.

	Group 2023 £m	Group 2022 £m	Corporation 2023 £m	Corporation 2022 £m
Balance at 1 April and 31 March	466.1	466.1	-	-

38. Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Corporation in the year in accordance with proper accounting practice in order to determine the resources that are specified by statutory provisions as being available to the Corporation to meet future capital and revenue expenditure. The General Fund reserve represents monies available to finance the day to day activities of TfL.

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

Corporation

Year ended 31 March 2023	Note	General Fund £m	Capital Adjustment Account £m	Capital receipts reserve £m	Pension Reserve £m	Street Works Reserve £m	Capital Grants Unapplied Account £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	4	205.4	(205.4)	-	-	-	-	-	-
Net book value of disposals		0.4	(0.4)	-	-	-	-	-	-
Capital proceeds from disposals	39	(11.6)	-	11.6					
Capital receipts applied		-	11.6	(11.6)					
Movements in the market value of investment properties	9	14.0	(14.0)	-	-	-	-	-	-
Capital grants and contributions	10	(639.0)	639.0	-	-	-	-	-	-
Capital grants and contributions applied to REFCUS		(1,342.3)	1,342.3						
REFCUS		1,342.3	(1,342.3)						
Unapplied capital grants	10	(102.2)	-	-	-	-	102.2	-	-
Loss on disposal of non-current assets	7	0.2	(0.2)	-	-	-	-	-	-
Reversal of items relating to retirement benefits		432.2	-	-	(432.2)	-	-	-	-
Transfers to/from Street Works Reserve		(2.0)	-	-	-	2.0	-	-	-
Difference between the remuneration charged on an accruals basis and the remuneration chargeable in accordance with statutory requirements		(1.4)	-	-	-	-	-	-	1.4
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		(92.1)	-	-	92.1	-	-	-	-
Minimum Revenue provision	40	(48.3)	48.3	-	-	-	-	-	-
Amortisation of premium on financing		(11.7)	-	-	-	-	-	11.7	-
		(256.1)	478.9	-	(340.1)	2.0	102.2	11.7	1.4

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

Corporation

Year ended 31 March 2022	Note	General fund £m	Capital Adjustment Account £m	Capital receipts reserve £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	4	219.1	(219.1)	-	-	-	-	-
Net book value of disposals		9.6	(9.6)	-	-	-	-	-
Capital proceeds from disposals	39	(94.6)	-	94.6				
Capital receipts applied		-	94.6	(94.6)				
Movements in the market value of investment properties	8	(50.5)	50.5	-	-	-	-	-
Capital grants and contributions	10	(738.6)	738.6	-	-	-	-	-
REFCUS		1,216.0	(1,216.0)					
Loss on disposal of non-current assets	7	2.7	(2.7)	-	-	-	-	-
Reversal of items relating to retirement benefits		495.8	-	-	(495.8)	-	-	-
Transfers to/from Street Works Reserve		(0.4)	-	-	-	0.4	-	-
Difference between the remuneration charged on an accruals basis and the remuneration chargeable in accordance with statutory requirements		(1.6)	-	-	-	-	-	1.6
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		(110.1)	-	-	110.1	-	-	-
Minimum Revenue provision	40	(60.2)	60.2	-	-	-	-	-
Amortisation of premium on financing		(11.8)	-	-	-	-	11.8	-
		(340.6)	712.5	-	(385.7)	0.4	11.8	1.6

39. Sources of finance

Capital expenditure analysed by source of finance:

Year ended 31 March	Note	Corporation 2023 £m	Corporation 2022 £m
Capital expenditure			
Intangible asset additions	12	15.3	40.9
Property, plant and equipment additions	13	343.7	220.5
Investment property	15	1.0	4.0
Investments in year	16	280.0	560.0
Loans made to subsidiaries in year for capital purposes		-	89.9
Capital grants allocated to subsidiaries in year	10	1,342.3	1,216.0
Total capital expenditure		1,982.3	2,131.3
Sources of finance			
Business Rates Retention used to fund capital	10	1,620.6	1,350.2
Community infrastructure levy and other third party contributions	10	191.9	50.4
Crossrail specific grant	10	271.0	554.0
Adjusted by amounts transferred to Capital Grants Unapplied Account	10	(102.2)	-
Prudential borrowing		-	74.0
Repayment of loans from subsidiaries		-	15.9
Capital receipts		11.6	94.6
Working capital		(10.6)	(7.8)
Total sources of finance		1,982.3	2,131.3

Capital Financing Requirement

The Capital Financing Requirement is the amount of cumulative capital expenditure to be financed by means other than grant or asset sales proceeds. As at 31 March 2023 this stood at [placeholder] (2022 £13,405.5m) for the Corporation.

40. Minimum revenue provision

The Local Government and Housing Act 1989 requires a Minimum Revenue Provision (MRP) to be set aside for the redemption of external debt. As a statutory corporation regulated as if it were a local authority, TfL is required to comply with the Local Authorities Capital Finance Regulations. New regulations were approved by the Secretary of State in February 2008. TfL is required to approve an Annual MRP Statement determining the amount of MRP which it considers to be prudent.

The Ministry of Housing, Communities and Local Government issued guidance setting out four possible methods which are deemed automatically prudent, but also states that 'approaches differing from those exemplified should not be ruled out… the broad aim of prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.'

While statutory guidance suggests four potential methods for calculating MRP it also allows for other methods and approaches to be used. Since 2016/17 TfL has applied the principles inherent in the statutory guidance on MRP, to make an annual provision in TfL (the Corporation), that aims to build up a reserve on the Balance Sheet over the average useful economic life of the assets funded by borrowings in the Corporation, such that, at the end of that useful economic life, that reserve may be employed to either repay borrowings or to finance replacement capex for those assets that have reached the end of their lives. An MRP is effectively already made for borrowings passed down to the subsidiaries through TfL's existing processes for funding those entities. The MRP provision for 2022/23, shown as a transfer from the General Fund to the Capital Adjustment Account in the Group and Corporation Movement in Reserves Statements, was a total of £48.3m (2021/22 £60.2m).

41. Financial assistance

TfL may give financial assistance to any body or person in respect of expenditure incurred or to be incurred by that body or person in doing anything which, in the opinion of TfL, is conducive to the provision of safe, integrated, efficient and economic transport facilities or services to, from or within Greater London, and also to London Transport Museum Limited.

Financial assistance given under section 159 of the GLA Act 1999 is outlined below:

Year ended 31 March	Corporation 2023 £m	Corporation 2022 £m
Financial assistance to subsidiaries		
Transport Trading Limited	364.2	25.4
London Underground Limited	967.1	1,741.0
London Bus Services Limited	865.0	1,031.6
London River Services Limited	5.3	5.5
Victoria Coach Station	-	3.0
London Buses Limited	-	0.1
London Transport Museum Limited	3.4	3.4
Docklands Light Railway Limited	149.1	199.8
Rail for London Limited	215.7	404.0
Crossrail Limited	238.8	88.8
Tramtrack Croydon Limited	29.5	40.4
Rail for London (Infrastructure) Limited	71.3	57.5
	2,909.4	3,600.5

Year ended 31 March	Note	Corporation 2023 £m	Corporation 2022 £m
Financial assistance to London Boroughs and other third parties			
Local Implementation Plan		41.2	40.4
Taxicard		7.1	8.2
London Streetspace		1.1	11.5
Cycling		11.3	8.0
Bus priority		3.2	8.7
Other		7.4	5.1
	4	71.3	81.9

42. Related parties

TfL is required by the Code and IAS 24 Related Party Disclosures (IAS 24) to disclose material transactions with related parties. Related parties are entities or individuals who have the potential to control, indirectly control or significantly influence TfL or to be controlled, indirectly controlled or significantly influenced by TfL.

TfL is a statutory corporation established by section 154 of the GLA Act 1999. It is a functional body of the Greater London Authority and is controlled by the Mayor of London. TfL is classified as a government entity in accordance with IAS 24, as it is controlled by the GLA, through the Mayor. The GLA and its other functional bodies are considered to be related parties of TfL and its subsidiaries, as they are all under the control of the Mayor. Other related parties include TfL's Board Members, members of the TfL Executive Committee (including Managing Directors, the Commissioner, the Chief Finance Officer and General Counsel), the Mayor of London and the TfL Pension Fund. In addition, central Government has the potential to influence TfL by providing the statutory framework within which TfL operates and through the provision of funding in the form of grants and borrowing facilities.

Disclosure of related party transactions allows readers to assess the extent to which the Corporation might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with it.

GLA and functional bodies

Details of amounts received from the Business Rates Retention, and the Council Tax precept paid to TfL by the GLA are shown in note 10.

During 2022/23 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 2023 £m
GLA	21.0	(4.6)	13.2
Mayor's Office for Policing and Crime (MOPAC)	0.4	(121.3)	(25.2)
London Legacy Development Corporation (LLDC)	1.1	-	-
London Fire Commissioner	0.1	-	-

42. Related parties (continued)

Board Members and Officers

Board Members, the Mayor of London, and key management (including the Commissioner and the TfL Executive Committee), are required to complete a declaration regarding any related party transactions. During the year, none of the Corporation Board, key management personnel or parties related to them have undertaken any transactions with the Corporation or its subsidiaries (2021/22 none). Details of the remuneration of the Commissioner and all employees earning a base salary of £150,000 or more are disclosed in the Remuneration Report (see note 6).

TfL Pension Fund

The Accounts of the TfL Pension Fund are prepared separately and are subject to a separate audit opinion. Contributions payable to the TfL Pension Fund by TfL as employer are disclosed in note 35.

Central Government

During 2022/23 the DfT contributed grant funding to TfL totalling £919.6m (2021/22 £1,716.8m) under a series of Extraordinary Funding and Financing Agreements.

In the year to 31 March 2023, the GLA paid grants totalling 271.0m to TfL in relation to the Crossrail project (2022 £554m). And as at 31 March 2023 £715m of the Crossrail loan facility provided by the DfT in relation to the Crossrail project remained drawn down (2022 £750m).

Other public bodies

TfL provides financial assistance to London Boroughs to support Borough schemes that improve the local travelling environment. Financial assistance provided is disclosed in note 41.

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

TfL has borrowings outstanding from the PWLB and pays interest to PWLB in respect of those borrowings.

TfL makes payments to the British Transport Police for the provision of policing services on the Underground and London Overground and other overground railways.

TfL makes payments to the Metropolitan Police Service for policing services provided by the Safer Transport Command.

Transactions between the Corporation and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

43. Trust Funds

The Corporation acts as the sole trustee for the TfL Healthcare Trust, a trust established for the purpose of providing certain benefits relating to medical treatment for eligible employees of the Group and their family members. The Trust is administered by AXA PPP Healthcare Administration Services Limited, an independent third party. Under the terms of the Trust deed the funds held by the Trust do not represent the assets of the Corporation or its subsidiaries. Hence the Trust has not been consolidated into these financial statements.

	Income £m	Expenditure £m	Assets £m	Liabilities £m
At 31 March 2023				
TfL Healthcare Trust	4.8	(3.8)	5.1	-
At 31 March 2022				
TfL Healthcare Trust	4.8	(3.8)	5.1	-

44. Events after the Balance Sheet date

Management do not consider that there has been any post Balance Sheet event that would require an adjustment being made to the carrying values at 31 March 2023 as reported in these financial statements.