



Annual Report and Statement of Accounts

2011/12



Annual Report and Statement of Accounts

Contents

- 4 Message from the Mayor
- 6 Commissioner's foreword
- 8 Year at a glance
- 10 Operational performance
- 12 Effective and efficient business operations
- 14 Progress on the Mayor's Transport Strategy
- 16 Support economic development and population growth
 - Spotlights:
 - A bigger, better, more reliable network
 - A new Victorian era
 - Digging deep for new skills
 - Celebrating the Jubilee
 - Reducing delays – not such a tall order!
 - The war on roadworks
 - London rail goes orbital
- 32 Enhance the quality of life for all Londoners
 - Spotlights:
 - Teamwork restores Tramlink service
 - Cycle success
 - Green wall – designed to trap pollution
- 40 Improve the safety and security of all Londoners
 - Spotlights:
 - Transport crime at eight-year low
 - Tackling the taxi touts
- 46 Improve transport opportunities for all Londoners
 - Spotlights:
 - All things being equal
 - Pedestrian Countdown – a benefit to all road users
 - Dial-a-Ride's record-breaking year
- 54 Reduce transport's contribution to climate change and improve its resilience
 - Spotlights:
 - A new 'green' icon
 - A time to switch
- 60 Support the delivery of the London 2012 Olympic and Paralympic Games and its legacy
 - Spotlights:
 - Helping London's businesses
 - On top of the 'hot spots'
 - Extension boost to local regeneration
- 68 Statement of Accounts
- 200 Annual Governance Statement
- 211 Chief Officers
- 212 Members of TfL
- 215 Directors of Crossrail Ltd
- 216 Membership of TfL panels and committees
- 218 TfL Members' meeting attendance 2011/12
- 220 Remuneration

Message from the Mayor

This has been a year of challenge, achievement and considerable progress.



Boris Johnson
Mayor of London

We have powered on with the Tube upgrade and Crossrail projects – vital for thousands of jobs and the platform to drive economic growth – and we are looking forward to welcoming the Olympic Games to London. The network is carrying more passengers than ever before, yet delays and disruptions are at a record low and crime continues to fall. However, there is more hard work to do.

Every element of additional transport infrastructure we promised for the Games is in place, completed in good time, and will feed into our wider programme of essential upgrades to leave a lasting legacy of better transport links in the city. But our job is by no means complete. We must now deliver a fantastic Games, with each and every member of staff an ambassador for London, keep the Capital moving while also reminding everybody to plan their journeys in advance by using our comprehensive online tools.

Efficiency is vital at Transport for London (TfL), both to sustain the essential investment we are currently overseeing on the network, and to enable us to keep fares as low as possible. This year, as we continue to bear down on costs, we have made significant reductions in TfL's overheads. A relentlessly forensic approach to income and expenditure is my continued expectation of TfL.

As we approach the 150th anniversary of the Tube, our Upgrade plan, now back on track with TfL in full control, is facilitating a neo-Victorian era of transport investment. Significant capacity increases are now in place on the Jubilee and Victoria lines and London

can look forward with confidence to a modern automated Underground.

After decades of delays, this year saw the first of eight huge tunnel boring machines arrive in the Capital. These burrowing behemoths will carve out the tunnels for Crossrail, creating thousands of jobs, and bringing in their wake an increase of 10 per cent in London's rail capacity and overall benefits of at least £42bn.

Elsewhere on the rail network we look forward to welcoming the Capital's first orbital railway, with the opening of the new South London Line which will open for business later this year. The roaring success of TfL's London Overground network makes the case for Londoners to have a greater say over other overground rail services in the Capital overwhelming.

On the roads, Londoners hailed the arrival of the first working prototypes of the New Bus for London with just as much enthusiasm as I did. As the fleet increases, these green and practical new buses, the first designed specifically for our streets in more than 50 years, are fast becoming a London icon. We have also delivered the first ever lane rental scheme in the country to incentivise best practice for roadworks and help drive down disruption by a further 33 per cent by 2015.

As with the New Bus for London, I am confident Londoners will be just as keen to embrace the new Emirates Air Line, a glorious addition to our skyline. Built on time and to budget, with the majority of its costs borne by our generous sponsor, the cable car is the first stage in an ambitious

programme of new river crossings which will increase access to new jobs while also driving investment and economic growth in east and southeast London.

The year has not been without problems. The closure of the Hammersmith Flyover, due to long-term corrosion buried within its 1960's concrete, hit both London's economy and anyone travelling through west London. But we found a solution for the problem and a small army of specialist engineers worked day and night to enable the flyover to reopen as quickly as possible and well ahead of the Olympic Games.

It also highlighted the need for further investment in our road network, for every road user whether they are a cyclist, a motorist, or a passenger on a bus. Our aim is for a safe and reliable network.

Finally I want to pay tribute to TfL management and the thousands of employees who work hard, day and night to keep the Capital moving.

Commissioner's foreword

This has been a particularly challenging and exceptionally busy year for Transport for London.



Peter Hendy CBE
Commissioner, Transport for London

Vital investment and improved reliability has resulted in record levels of performance this year. Once again, TfL operated more services and carried more passengers on its network than ever before.

TfL's ability to deliver ambitious capital investment programmes on time and to budget is now second to none. We completed the upgrade of the Jubilee and Victoria lines so that we can provide a train every two minutes in the peak, greatly increasing capacity on those lines. We have further improved the Docklands Light Railway (DLR) and London Overground. We have extended the Barclays Bicycle Hire scheme and addressed key issues on London's strategic road network, such as the refurbishment of the Blackwall Tunnel. We have had a step change in the quality of customer information with the full introduction of the iBus system. In short, almost every area of TfL's operations has seen new investment and new or additional services. This is reflected in steadily improving customer satisfaction.

Internally, TfL continues to drive down its own costs while protecting front line services and investment. This year we secured over £1bn in savings – £200m ahead of target. We've reduced the number of TfL directors by a quarter and created a leaner and more effective organisation.

Our greatest challenge in the last year has been preparing for this summer's Diamond Jubilee celebrations and, of course, the Olympic and Paralympic Games.

The Jubilee weekend was a major undertaking in its own right. Our careful preparation meant that the public transport system coped well with more than 30 per cent extra passengers. Our clear communications to motorists meant that there was a reduction of 40 per cent in traffic on the roads affected.

The Olympic Games is an even bigger challenge with more than three million extra passengers expected on the network on the busiest day on top of the usual 12 million.

All the new infrastructure is in place and working well and our operational plans are complete. We've put our plans through their paces with a programme of test events and exercises. Crucially, our staff are fully prepared, which includes around 3,000 extra staff who will be working on the front line during the Games helping spectators, visitors and our regular passengers.

Working in partnership with Locog, the Government and other transport operators across the UK, we have taken a leading role in preparing our passengers, London's businesses and communities for what will be a very busy period on the network. I am particularly pleased that, together with the Traffic Commissioners and other regulatory bodies, we have greatly improved our working partnership with the freight and logistics sector, which is absolutely vital not only for the Games but for the success of London and its economy.













While parts of London will operate as normal during the Games, the whole system will be very busy and at certain times and certain places demand on both the roads and public transport will need to be reduced. But with a comprehensive programme of travel demand management, customers and businesses have all the information and advice they need to help them plan ahead and find the best way to avoid transport hotspots. London is well prepared.

While vital, the Olympic legacy for transport will be more than just the new infrastructure of stations, trains and extra passenger capacity. The Games have been a spur to innovation in our communications, Travel Demand Management, and in the way we support our passengers and London's businesses and the communities we all serve. For example, if a responsible approach to out-of-hours deliveries during the Games period is proven to work, this could offer a permanent benefit in terms of reducing congestion.

I am confident that TfL's staff and contractors will do London proud during the Games. We will meet our twin objectives of delivering a great Games and keeping London moving.

Year at a glance

This year has seen record levels of performance, with more services running and better reliability than ever before.

| April 2011 | May 2011 | June 2011 | July 2011 | August 2011 | September 2011 |
|---|---|---|---|---|--|
| <p>Announcement that record numbers are using the Tube as journeys exceeded 1.1 billion for the first time</p>  | <p>New electric vehicle scheme, Source London, is launched</p>  | <p>Statistics showed that in 2010/11, more passengers (nearly 2.3 billion) used London's buses than at any time in the last 50 years</p>  | <p>A full fleet of new Victoria line trains in passenger service</p>  | <p>TfL unveils plans to combat pollution under the Clean Air Fund</p>  | <p>New Oyster system helps passengers pay the correct fare</p>  |
| October 2011 | November 2011 | December 2011 | January 2012 | February 2012 | March 2012 |
| <p>Real-time bus information available 'anytime, anywhere' for all 19,000 London bus stops</p>  | <p>First 'super-green' New Bus for London leaves the production line</p>  | <p>Step-free access schemes are announced for six London Overground stations</p>  | <p>Go-ahead given for a lane rental scheme to combat disruption caused by roadworks</p>  | <p>Switch-on of new signalling system heralds the completion of a £300m DLR upgrade</p>  | <p>Following the Jubilee line upgrade, a new timetable was introduced with 30 trains per hour during the busiest times</p>  |

Operational performance

Buses

| | 2011/12 | 2010/11 | 2009/10 | 2008/09 | 2007/08 |
|---|---------|---------|---------|---------|---------|
| Passenger journeys (millions) | 2,344 | 2,289 | 2,257 | 2,247 | 2,176 |
| Kilometres operated (millions) | 490 | 486 | 483 | 478 | 468 |
| Percentage of schedule operated (per cent) | 97.6 | 97.4 | 97.1 | 97 | 97.5 |
| Excess wait time (high frequency) (minutes) | 1.0 | 1.0 | 1.1 | 1.1 | 1.1 |
| Passenger satisfaction (score) | 80 | 80 | 79 | 80 | 79 |

Note: The figure for bus passenger journeys in 2011/12 reflects a change in the method for calculating child journeys. The comparable figure for 2009/10 is 2,265 million journeys.

TfL's road network

| | 2011/12 | 2010/11 | 2009/10 | 2008/09 | 2007/08 |
|--|---------|---------|---------|---------|---------|
| Journey time reliability (am)* | 88.89 | 88.78 | 89.3 | n/a | n/a |
| Hours of serious and severe disruption | 1,994 | 2,176 | 2,344 | 2,035 | 1,159 |
| Traffic flow** | 91.87 | 93.02 | 94.27 | 95.06 | 98.43 |
| Customer satisfaction with TfL's road network*** | 75 | 72 | n/a | n/a | n/a |

Notes: * Data unavailable before 2009/10 ** Score against an index of 100 from Period 13, 2006/07
*** Data unavailable before 2010/11

London Underground

| | 2011/12 | 2010/11 | 2009/10 | 2008/09 | 2007/08 |
|--|---------|---------|---------|---------|---------|
| Passenger journeys (millions) | 1,171 | 1,107 | 1,065 | 1,089 | 1,072 |
| Kilometres operated (millions) | 72.4 | 68.9 | 69.4 | 70.6 | 70.5 |
| Percentage of schedule operated (per cent) | 97 | 95.6 | 96.6 | 96.4 | 94.8 |
| Excess journey time (weighted) (minutes) | 5.8 | 6.5 | 6.4 | 6.6 | 7.8 |
| Passenger satisfaction (score) | 80 | 79 | 79 | 79 | 77 |

Docklands Light Railway

| | 2011/12 | 2010/11 | 2009/10 | 2008/09 | 2007/08 |
|---------------------------------|---------|---------|---------|---------|---------|
| Passenger journeys (millions) | 86 | 78 | 69 | 66 | 67 |
| Kilometres operated (millions) | 4.9 | 4.7 | 4.6 | 3.9 | 4.4 |
| On-time performance (per cent) | 97.5 | 97.4 | 94.8 | 94.6 | 97.3 |
| Passenger satisfaction (score)* | 83 | 81* | 91.9 | 92 | 97.3 |

Note: *During 2010/11, the scoring system changed from the previous Serco measure to the TfL CSS measure. For comparison the score for 2010/11 using the previous measure was 94.9

London Tramlink

| | 2011/12 | 2010/11 | 2009/10 | 2008/09 | 2007/08 |
|---|---------|---------|---------|---------|---------|
| Passenger journeys (millions) | 28.5 | 27.9 | 26.5 | 27.0 | 26.3 |
| Kilometres operated (millions) | 2.7 | 2.7 | 2.6 | 2.7 | 2.6 |
| Planned kilometres delivered (per cent) | 99.0 | 98.6 | 98.6 | 98.4 | 99 |
| Passenger satisfaction (score) | 86 | 85.3 | 86.3 | 86 | 85 |

London Overground

| | 2011/12 | 2010/11 | 2009/10 | 2008/09 | 2007/08 |
|---------------------------------|---------|---------|---------|---------|---------|
| Passenger journeys (millions) | 102.6 | 57.2 | 34.3 | 33.2 | 28.8 |
| Kilometres operated (millions)* | 6.9 | 5.2 | 3.4 | 3.4 | n/a |
| On-time performance (per cent) | 96.6 | 94.8 | 93.2 | 92.3 | 91.4 |
| Passenger satisfaction (score) | 82 | 80.3 | 73.2 | 74.1 | 71.2 |

Note: *Data unavailable before 2008/09

Effective and efficient business operations

TfL has continued to deliver on the ambitious savings and efficiencies programme launched in 2009/10.

As part of the drive to deliver continued savings and efficiencies, the Commissioner launched a review of TfL's organisational structure. Called Project Horizon, it was set up to identify a new structure and ways of working for TfL and to reduce non-operational staff costs. The end result is a leaner organisation with 25 per cent fewer directors, a significant reduction in support costs, and a clearer sense of both organisational purpose and how different teams across TfL support delivery.

Total gross savings achieved across the business in 2011/12 amount to £1,051m, against a target of £838m. The net position is £1,009m against a target of £792m. This has been achieved by completing the majority of planned activities, identifying substitute and additional initiatives where some projects have subsequently proved unachievable, and accelerating some 'future' activities so benefits arise earlier.

Total cumulative net savings since the efficiencies programme began are £1,809m, which is £433m (24 per cent) ahead of target. This represents more than 24 per cent of the £7.6bn of savings planned in the entire programme.

Rail and Underground

In 2011/12, London Underground delivered savings of £585m, against a target of £439m. This was achieved by:

- Removing 800 operational roles to reflect changes in customer requirements for ticket offices and the rationalisation of operational management structures
- Reducing the number of permanent back-office staff by around 400, plus the removal of a similar number of posts filled by non-permanent labour
- A review of the Piccadilly and sub-surface upgrade programmes to maximise synergies
- More cost effective packaging of certain capital works, with step-free access at stations subject to either congestion relief, Crossrail or Thameslink upgrades, being delivered as one contract
- A continued reduction in the use of non-permanent labour

Surface Transport

Surface Transport achieved savings of £281m against a target of £226m. These have been made through:

- Bus network contract efficiencies during 2011/12, which are now delivering continuing savings
- Reduced staffing levels following an organisational redesign that has reduced duplication in the Better Routes and Places Directorate and other areas
- Collaboration with the boroughs to identify opportunities for savings and better value in the procurement of highway maintenance and management service contracts
- Increased income from assets on the Transport for London Road Network through better commercial exploitation
- Ongoing savings from the re-let of the Congestion Charging contract to IBM and the sale of East Thames Buses during 2009/10
- Reduced staffing levels in Enforcement and Streets following reorganisations
- Improved traffic signal maintenance and renewals contracts
- A continued reduction in the use of non-permanent labour

Corporate and Group-wide

Savings of £186m in back-office costs have been made against a target of £173m. This has been achieved through:

- The disposal of surplus accommodation space and use of cheaper locations
- Achieving better value contracts with specific focus on engineering and construction, Information Management, operational services and corporate support
- Reduced costs through a single business support function
- Recurring savings from the termination of the Prestige contract and procurement of more cost-effective arrangements
- Continued reduction in the use and cost of non-permanent labour

Progress on the Mayor's Transport Strategy

In May 2010, following extensive consultation, the Mayor of London published a new transport strategy, setting out his goals and aspirations for the transport network over the next 20 years.

These are aimed not only at increasing capacity but also bringing improvements in comfort, safety and security, and helping London meet its climate change and environmental targets.

The Mayor's Transport Strategy (MTS) identifies six goals:

- Support economic development and population growth
- Enhance the quality of life for all Londoners
- Improve the safety and security of all Londoners
- Improve transport opportunities for all Londoners
- Reduce transport's contribution to climate change and improve its resilience
- Support delivery of the London 2012 Olympic and Paralympic Games and its legacy

The following pages highlight the progress TfL has made in meeting these goals.



Support economic development and population growth

This MTS goal is being addressed by the biggest investment programme on the Capital's transport network since the 1930s:

- Plans to ease congestion and increase capacity at Bank and Monument, the fourth busiest interchange on the Tube network, went on public display in the City in November. The improvements include step-free access to a new ticket hall, better access to lines and wider platforms. The project is expected to be completed in 2021
- A scheme to replace an 80-year-old District line bridge in a single weekend earned London Underground a top British Construction Industry award for excellence
- London Overground won the 'Most improved Metro' honour at the international Metros awards for its work to upgrade and expand the network. Longer platforms, refurbished stations, more services, a new fleet of trains and increased capacity on a key 2012 Games route were just some of the passenger benefits
- An order for six new trams from Stadler was placed by TfL to boost capacity on London Tramlink. The air-conditioned trams, 2.5 metres longer than existing units, will be in service by the end of June 2012
- Construction work on the cross-river Emirates Air Line got under way in July, with all three towers now erected, the cable installed, and the north and south terminals in place in the Royal Victoria Dock and on the Greenwich Peninsula
- The DLR upgrade was completed in May with the introduction of three-car trains on the Tower Gateway to Beckton route. The £325m upgrade includes longer platforms, better track and signalling, improvements to Tower Gateway station and a new station at South Quay
- SCOOT (Split Cycle Offset Optimisation Technology) is now in use at around 40 per cent of London's traffic signals and is contributing to an average 12.7 per cent reduction in delays on the Transport for London Road Network. At some locations the reduction is nearly 20 per cent. The system detects passing vehicles and alters signal timings to allow traffic flows to be adjusted
- More than 2.3 billion bus passenger journeys took place during the year and waiting time reliability for high-frequency bus services equalled best-ever results at just one minute



Spotlight

A bigger, better, more reliable network

Support economic development and population growth

Enhance the quality of life for all Londoners

Improve the safety and security of all Londoners

Improve transport opportunities for all Londoners

Reduce transport's contribution to climate change and improve its resilience

Support the delivery of the London 2012 Olympic and Paralympic Games

The number of people relying on the Tube is growing each year. But despite increasing demand, London Underground is delivering a better service than ever.

Statistics show that, in 2011/12, a record 1.17 billion passenger journeys were made and the amount of kilometres operated increased by five per cent to 72.4 million.

Reliability, as measured by the amount of delays to customers, was at an all-time high with the number of 'customer hours lost' lower than at any point since the measure was introduced in 1999. Across the Underground network, 'lost hours' has been cut by almost 40 per cent since 2007/08.

The Tube reliability programme introduced by London Underground last year has helped to deliver the clear improvements in performance.

New techniques are being brought in to predict when maintenance on the lines is required so unexpected equipment failure can be prevented. Advanced signal monitoring technology highlights potential breakdowns, while automated track monitoring systems identify track-related defects so maintenance can be planned with minimal disruption.

London Underground is also funding a team of medically trained BTP officers to support the Capital's ambulance service when passengers fall ill on the network. Since 2008/09 there have been more than 3,200 incidents amounting to 5.2 million lost customer hours. These officers will respond to incidents so services can resume quickly.

Another initiative has seen BTP drivers escort the Tube's Emergency Response Unit (ERU) to serious incidents under blue light conditions. Since the trial began in February, the ERU response time to incidents in central London has been almost halved.

London Underground is also increasing its incident response capabilities, and developing plans to co-locate engineering and operations staff in one command and control centre so it can speed up the time it takes to recover from incidents.

Then there is the upgrade of Tube signals and fleets, initiatives to combat cable theft, work to learn from other metros and industry leaders, plus communication campaigns aimed at staff, contractors and passengers.

No stone is being left unturned. Along with the huge amount of work to upgrade the Tube's lines and stations, London Underground is delivering a service truly fit for the future.



Bus use rises again

Last year more than 2.3 billion bus journeys were made in London, an increase of 2.4 per cent over the previous year and the highest level since 1959. The Capital's buses account for around half of all the journeys made by bus in England. Reliability matched best-ever levels, with excess waiting time on high-frequency routes at just one minute.

The network is reviewed regularly to ensure it continues to meet Londoners' travel needs. Service quality is supported by a range of measures including Quality Incentive Contracts with bus operators, which means that they are paid according to their performance, and enhanced service control using the iBus system. This uses state-of-the-art Automatic Vehicle Location technology, and supports on-bus passenger displays and announcements and next bus information via the web. It is installed on every London bus.

Spotlight

A new Victorian era

Support economic development and population growth

Enhance the quality of life for all Londoners

Improve the safety and security of all Londoners

Improve transport opportunities for all Londoners

Reduce transport's contribution to climate change and improve its resilience

Support the delivery of the London 2012 Olympic and Paralympic Games and its legacy

When it opened in 1968, the world's first automatic railway was ahead of its time. Now 40 years on, the Victoria line has had a well deserved update.

As part of TfL's Tube upgrade plan, the 21km line that links Walthamstow in the Capital's northeast with Brixton in the south has been completely upgraded ahead of the 2012 Games.

The result is better, faster journeys. Early next year, 10,000 more people will be able to travel every hour and journey times will be cut by up to 16 per cent.

New trains so passengers gain

An expanded fleet of new high-capacity trains is now in operation. The last of the old '1967 stock' trains made its final journey in June 2011.

With wider doors, more wheelchair spaces, better onboard information and CCTV in every carriage, the new trains are a big improvement for the 180 million passengers who use the line every year.

Alongside the fleet, a new control centre has opened and a state-of-the-art signalling system has been installed. Improved track and power systems provide a more comfortable ride.

Platform humps have also been added at all stations on the line (except Pimlico) providing level access with the trains.

The upgrade is a crucial part of TfL's plans – as London continues to grow, so will the number of people who use this vital line.

Playing it cool

Managing temperatures on the deep-level Tube lines is a huge challenge for TfL – especially on the Victoria line, which is entirely underground.

Mid-tunnel ventilation fans between stations have been upgraded so that twice as much heat can be removed and temperatures can be controlled.

The new fleet also has an environmentally friendly regenerative braking system that returns power to the rails while the train is braking, so that other nearby trains can use it for accelerating. This reduces the amount of heat generated.

In addition, as part of TfL's continuing programme to cool the Tube, work began in February 2012 to install air cooling units at Green Park and Oxford Circus stations.



New look for Green Park

One of 16 stations along the Victoria line, Green Park became step-free from the street to all platforms at the end of August 2011. The £48m project was completed ahead of schedule and for around half of the original budget.

Three new lifts provide step-free access from street level to all platforms and between the three lines serving the station. Other enhancements include:

- A larger station entrance
- A new ramped walkway directly into Green Park

- Improved flooring, ceiling, lighting, tiling and signage in the ticket hall plus new entrances and lift lobbies
- New passenger help points and additional CCTV cameras
- Electronic information displays in the ticket hall and on all platforms

Working with partners including Westminster City Council and the Royal Parks, TfL is also delivering improvements to the public areas outside the station.

Spotlight

Digging deep for new skills

Support economic development and population growth

Enhance the quality of life for all Londoners

Improve the safety and security of all Londoners

Improve transport opportunities for all Londoners

Reduce transport's contribution to climate change and improve its resilience

Support the delivery of the London 2012 Olympic and Paralympic Games and its legacy

For huge and complex infrastructure projects it is important to have the right people for the job. And Crossrail is no exception.

The 118km rail link will connect Maidenhead and Heathrow in the west to Shenfield and Abbey Wood in the east. It requires specific construction and engineering skills – so Crossrail planners have been busy making sure there are specialists on board. A major part of this has been the opening of the Tunnelling and Underground Construction Academy in September.

The academy provides the workforce with training in tunnel excavation, underground construction and infrastructure and is the only 'soft-rock' tunnelling training facility in Europe. Over the lifetime of the Crossrail project, it will offer training to around 3,000 people in underground construction alone.

Equipped for the future

In addition to the job opportunities being made available to Londoners, it leaves a legacy of well-trained engineers for future projects. The volume of tunnelling and underground construction work taking place in the Capital over the next decade is unprecedented with the Thames Tideway Tunnel, National Grid and EDF electricity cable tunnels all requiring significant numbers of skilled people. Longer-term, tunnelling skills will be required for Crossrail 2 and High Speed 2.

The academy will support the UK economy by equipping workers with the specialist skills they need to meet the demand for labour in this area. It will also ensure that all people working underground on Crossrail sites achieve the Tunnel Safety Card before they start work.

Investing in vital skills

By building and establishing the academy, Crossrail is contributing to the development of new qualifications and health and safety standards. It is working with industry, professional bodies and other organisations with a requirement for skilled underground workers, to ensure that the facilities and training at the academy meet the required needs.

Crossrail is investing up to £7.5m in the academy while £5m in funding has been provided by the Department for Business, Innovation and Skills via the Skills Funding Agency. Further sponsorship has been provided by industry and more is pledged.

The Academy will eventually operate as an independent organisation and will become a long-term provider of underground construction skills for other major infrastructure projects. It will also act as the London centre for the National Skills Academy for Railway Engineering.



Crossrail – a vital link for London

Around 200 million passengers will travel on Crossrail each year and the route will provide a 10 per cent increase to rail-based capacity in the Capital. It is set to add £42bn to the economy and create thousands of jobs.

New Crossrail stations will be built at Paddington, Bond Street, Tottenham Court Road, Farringdon, Liverpool Street, Whitechapel as well as Canary Wharf.

A total of 21 km of twin-bore tunnel will be built. The first of eight boring machines was put into place at Royal Oak in west London ready to begin a 6.4km journey east to Farringdon via Bond Street and Tottenham Court Road. The machines are the equivalent to the length of 14 London buses end to end, weigh 1,000 tonnes each and produce enough force to lift more than 2,900 London taxis.

Spotlight

Celebrating the Jubilee

Support economic development and population growth

Enhance the quality of life for all Londoners

Improve the safety and security of all Londoners

Improve transport opportunities for all Londoners

Reduce transport's contribution to climate change and improve its resilience

Support the delivery of the London 2012 Olympic and Paralympic Games

It may be the newest Underground line, but until recently the signalling on the Jubilee line was far from up to date. To cope with ever-increasing passenger numbers, especially with the link to Canary Wharf, the line's signalling system needed an upgrade.

When it took on full responsibility for the upgrade after the end of the Public Private Partnership (PPP) in June 2010, TfL inherited a project that was well behind schedule. The way the work was carried out under the PPP also meant Londoners had to endure too many line closures and too much weekend disruption. Since then, Tube Lines and London Underground worked hard to complete the project. The work was finished in June 2011, and while there were some inevitable glitches as the new system bedded in, reliability has steadily improved.

Overall passenger journeys are now more than two minutes faster and more trains than ever are running on the line.

Improvements to the line include:

- More trains during peak hours – there is now a train every two minutes at the busiest times
- Extra capacity – an additional 12,500 passengers an hour can travel on the line (that's room for a third more people)
- Faster journeys
- Less waiting time

The line will provide a vital transport link to many key venues during the 2012 Games.

'The Jubilee line has seen the most dramatic rise in demand, a result largely of the development of Canary Wharf. To support this, we've installed a new signalling system – a vital part of our upgrade plan. Before this work, signalling on parts of the line dated as far back as the 1950s.'

Kevin Bootle,
General Manager of
the Jubilee line



Sub-surface railway upgrade

New trains

More than half of the Metropolitan line's new fleet of 58 eight-car S-stock trains are now in passenger service and the number is increasing all the time.

The first of the seven-car S-stock trains for the Circle, District and Hammersmith & City lines has been delivered and is being tested prior to entering service later in the year.

The trains are the first on the Tube network to have walk-through gangways. The inside of

the train is one continuous length, providing improved capacity, security and passenger flow. They also have air conditioning, improved customer information (audio and visual) and enhanced CCTV.

Improved signalling

The contract for a new signalling system on the sub-surface railway was awarded in June 2011 and is expected to be delivered by 2018. This will increase capacity on the Circle and Hammersmith & City lines by 65 per cent, by 24 per cent on the District line and 27 per cent on the Metropolitan line.

Spotlight

Reducing delays – not such a tall order!

Support economic development and population growth

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Support the delivery of the London 2012 Olympic and Paralympic Games and its legacy

The northbound Blackwall Tunnel provides one of the key routes into the centre of the Capital from southeast London and Kent. But for many years the tunnel has been blighted by closures due to vehicles breaking down or getting stuck because they are over the recommended height.

Improvements completed more than a year ahead of schedule have been designed to significantly reduce the number of incidents that force the 114-year-old tunnel to close.

Works included the installation and commissioning of new, upgraded ventilation fans in the tunnel's four shafts, superior incident detection as well as installation of new lighting, upgraded CCTV and new communication systems.

Rapid response

New safety inlets have been constructed in the tunnel wall with emergency phones and fire extinguishers providing a safe area for drivers whose vehicles break down in the tunnel.

These will allow TfL to direct emergency services to specific incidents, helping them deal with any potential disruption more rapidly.

TfL has also introduced an additional lane for over-height vehicles on the northbound Blackwall Tunnel approach. This enables all vehicles more than four metres high to be diverted away from the tunnel before they reach the entrance, reducing unnecessary delays.

Efficient working

The scale of refurbishment works carried out should mean that similar works will not be required for another 25 years.

Conscious of the inconvenience that such major improvement schemes can cause for Londoners, TfL and its contractors changed their working methods to prevent the need for closures and complete the refurbishment as quickly as possible.

As with any infrastructure, some routine maintenance will still be necessary. However, following the completion of these works, TfL will be reducing its regime of ongoing planned maintenance closures from weekly to fortnightly, and only between 01:00 and 08:00 on Sundays.

Teamwork

The successful introduction of a TfL-funded road response unit at the Blackwall Tunnel has seen a dramatic fall in the number of incidents that delay road users. Officers from the Metropolitan Police Service (MPS) Roads Policing Unit have been in place since September, providing an immediate response to breakdowns and accidents. Since then, the number of incidents causing delay has been reduced by 20 per cent. The team also carries out enforcement operations and stop-checks on potentially sub-standard vehicles to help prevent these incidents from occurring in the first place.



'TfL and its contractor have thrown everything at this project to get these vital works completed as quickly as possible while ensuring that disruption to local residents and road users was kept to a minimum.'

'Completing this project 13 months early and with fewer weekend closures than we originally anticipated is a massive achievement and one that Londoners will welcome.'

Garrett Emmerson, Chief Operating Officer of Surface Transport, TfL

Spotlight

The war on roadworks

Support economic development and population growth

Enhance the quality of life for all Londoners

Improve the safety and security of all Londoners

Improve transport opportunities for all Londoners

Reduce transport's contribution to climate change and improve its resilience

Support the delivery of the London 2012 Olympic and Paralympic Games and its legacy

As most motorists know, there's nothing more annoying than getting stuck in traffic delays. But aside from frustration and inconvenience, roadwork congestion is a considerable drain on the economy. It costs the Capital an estimated £750m, of which at least £300m occurs on TfL's road network.

To combat this TfL has continued to wage war on disruptive and unnecessary roadworks to help smooth traffic flow and reduce congestion.

Twenty-seven boroughs are now fully signed up to TfL's London Permit Scheme. Designed to regulate roadworks, the scheme ensures that any company digging up the roads causes minimal disruption and requires them to apply for a permit to carry out their work.

The remaining six boroughs are consulting with interested parties on the scheme, and it is expected that all of London's roads will be covered by September 2012. This will make the initiative the largest permit scheme in Britain, covering around 13,000km of road.

London Permit Scheme in numbers

A total of 80 per cent of the Capital's roads are now covered by the scheme.

Between April 2011 and March 2012, TfL granted 51,444 permits, but refused 18,871.

Working together

This year, for the first time, TfL held a groundbreaking meeting with senior directors from the 'big six' utility companies in the Capital to discuss how roadwork disruption could be reduced further. Representatives from City Hall and London Councils also attended.

Together they agreed new, specific targets and discussed initiatives within their own businesses, such as an increase in collaboration and shorter work durations, to minimise disruption. All agreed to share best practice and explore innovative working methods. These include using new materials and 'core and vac' technology, which would allow work to be carried out under the carriageway without the need to dig up the road.

Up to the limit

In 2010, TfL put in place a roadworks 'cap' which set limits on the number of works that could take place over a given time period. The cap reduced the maximum number of works taking place (in a four-week period) by 20 per cent. In September, the limit was revised again – reducing the maximum number of works by a further 10 per cent.



Lane rental

London is set to become the first UK city to make utility companies pay for the time they spend digging up roads after the Department for Transport (DfT) gave the go-ahead in March for a lane rental scheme. TfL will be allowed to charge utilities up to £2,500 a day for working in congested areas or at busy times.

Road users can help

Londoners can report disruptive or badly managed roadworks by visiting tfl.gov.uk/roadworks, or by using a GPS-enabled mobile device to tweet @report_it with the hashtag #roadworks. Enquiries will be sent directly to the highway authority responsible, ensuring that direct and swift action can be taken.

'We are all committed to working closely with TfL and each other going forward, to ensure minimum disruption is caused while we provide these essential services safely and efficiently, to keep London working.'

Malcolm Russell, Director of Operations for Southern Gas Networks

Spotlight

London rail goes orbital

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The Surrey Quays–Clapham Junction extension of London Overground’s East London route will complete the Capital’s orbital rail network, allowing passengers to travel around the city without needing to negotiate the busy central London zone.

The final section of track for London Overground’s orbital railway was bolted into place in February and passenger services will begin in December 2012.

Most of the extension makes use of existing National Rail lines but 1.3km of completely new track was also built. The extension will serve six stations and provide better links for people in south London to destinations including Docklands, the East End, the City and Hackney, and to numerous onward connections from Clapham Junction.

More frequent services

The orbital rail network currently serves 20 out of London’s 33 boroughs as well as Watford in Hertfordshire. There are four routes:

- Richmond/Clapham Junction - Stratford
- Highbury & Islington - West Croydon
- Gospel Oak - Barking
- Watford Junction - Euston

Passengers are already benefiting from more frequent London Overground services thanks to a new timetable and a three-year £326m signalling and track upgrade, which has allowed TfL to double services on parts of the network.

Services from Richmond and Clapham Junction to Stratford now run four times an hour, increasing the number of trains between Willesden Junction and Stratford to eight per hour during peak times.

There are also four trains per hour between Gospel Oak and Barking, and up to eight between Highbury & Islington and Dalston Junction.

Between 2007 and 2011 TfL refurbished all of the stations and introduced 62 new state-of-the-art trains. The route from West Croydon to Dalston Junction was opened in 2010, and extended to Highbury & Islington in 2011.

TfL has secured funding for step-free access projects at a further 14 London Overground stations, which will take the number to 49 by the end of 2014.



When the Surrey Quays – Clapham Junction extension opens in 2012, services will run from Clapham Junction via Wandsworth Road, Clapham High Street, Denmark Hill, Peckham Rye, Queens Road (Peckham), Surrey Quays and then all stations to Highbury & Islington.

The new line will bring links to additional destinations and connections to other services at:

- Clapham Junction (for Waterloo, Victoria, west London, Gatwick Airport and destinations across the south of England)

- Canada Water (for Jubilee line services to the West End and Canary Wharf)
- Shadwell (for the DLR to Bank, Canary Wharf and London City Airport)
- Whitechapel (for District and Hammersmith & City line services)
- Shoreditch High Street (for the City)
- Highbury & Islington for (trains to Stratford and Victoria line services)

Passengers will also be able to change trains at Surrey Quays to continue on London Overground south to New Cross, Crystal Palace and West Croydon.

Enhance the quality of life for all Londoners

Progress has been made on a range of projects to enhance the quality of life for Londoners:

- With more than 200,000 drivers signed up, CC Auto Pay became the most popular way to pay the Congestion Charge. Drivers pay a £10 annual registration fee but receive £1 discount on the £10 daily charge – and avoid the risk of fines
- An advertising campaign encouraging passengers to take their litter with them or bin it was launched by London Underground. Posters in stations and on trains warn that newspapers and other litter left on trains can jam doors or fall on the track, causing delays
- As part of the Legible London wayfinding system, a Waterloo station walking map was produced and distributed to pedestrians in the area during September. The trial helped to increase walking to and from the station by six per cent and produced a 16 per cent rise in the numbers walking around the station. The Legible London wayfinding system is designed to encourage more people to walk and help them navigate the city on foot
- Barclays Cycle Hire marked its first anniversary in July. It recorded six million hires in its first year and now has more than 153,000 members. More than 80 per cent of members think the scheme makes a positive contribution to the Capital. In addition, July saw two new Barclays Cycle Superhighways open – from Bow to Aldgate and Wandsworth to Westminster
- The Biking Boroughs programme launched in May with the Mayor and TfL awarding £4m over three years to more than 100 different cycling projects across the 13 boroughs. The project aims to significantly boost cycling in local communities and town centres
- TfL's Signal Timing Review programme has contributed to a 7.8 per cent reduction in traffic delays at around 1,000 locations in the Capital. The initiative aims to cut congestion, smooth traffic flow and reduce emissions
- A package of measures to make London's air cleaner was introduced in January. It included changes to the Low Emission Zone, reforms to taxi licensing standards and a campaign to persuade drivers to switch off their engines when parked or waiting at the roadside
- Trials to cut pollution at industrial and construction sites, with funding from the Mayor and TfL, began at 15 locations around the Capital. They included deep cleaning and use of dust suppressant technology, which literally glues dust particles to the ground to prevent them becoming airborne
- Following successful trials, it was announced that 120 buses on seven routes were to be fitted with exhaust technology to reduce particulate matter (PM₁₀) emissions by 77 per cent. In addition, up to 1,000 older buses will be fitted with equipment to cut nitrogen oxide (NO_x) emissions. The technology has been found to reduce NO_x emissions by 88 per cent



Spotlight

Teamwork restores Tramlink service

Support economic development and population growth

Enhance the quality of life for all Londoners

Improve the safety and security of all Londoners

Improve transport opportunities for all Londoners

Reduce transport's contribution to climate change and improve its resilience

Support the delivery of the London 2012 Olympic and Paralympic Games and its legacy

London Tramlink plays a vital role in transporting people around the south of the Capital, so when disturbances broke out in Croydon last August staff worked tirelessly to restore services.

When fire destroyed the iconic Reeves furniture building it also damaged track and overhead wires of the adjacent tram network.

It meant that trams had to be suspended between Wandle Park and East Croydon, with shuttle services operating either side of this area. In addition, trams stranded at the eastern end of the network were unable to return to the depot at Therapia Lane, meaning routine cleaning and maintenance had to be carried out on a makeshift site in the Sandilands area.

Back on track

Initially a police investigation meant that staff were unable to access the area. Then, when they did get to the site, they found the fire had brought down 60 metres of overhead wires and cabling, and caused damage to the tracks.

Employees from both London Tramlink and Tram Operations Ltd, which runs the service, worked diligently to restore the damaged infrastructure and help the local area. Within just 48 hours, the team had re-erected the overhead lines, made safe the damaged masts, cleared clogged tracks, replaced signalling equipment and had services up and running again.

A boost for businesses

Once the network was restored, Tramlink helped the local community and businesses get back on their feet by introducing a range of initiatives including free travel on the first weekend after the unrest. These steps helped increase the number of passengers travelling on the network by more than 24,000 compared with an average weekend.

Just a month later, Tramlink recorded its busiest ever day during normal transport operation, with 102,000 passengers boarding trams on 23 September – a 17 per cent increase on the daily weekday average.

In October, Tramlink received a special award for outstanding achievement at the National Light Rail Awards. The prize was given in recognition of the dedication and effort of the London Tramlink recovery team in response to the disruption caused by the civil disturbances.

Passenger journeys per annum have increased by 45 per cent in the 12 years since the network opened.

Tramlink has 28km of track, 24 trams in the fleet and 39 stops. It serves seven mainline stations and 55 bus routes. An extra six new trams will be running by the end of June 2012, providing a new cross-borough service from Elmers End to Therapia Lane.



‘The tram is a vital part of south London’s transport infrastructure and the disruption to its service has been considerable. Commuters and shoppers alike have been affected by the disruption, and we are very pleased that TfL and their contractors have worked, in difficult conditions, to repair the damage and get tram services back on track.’

Simon Turnage, Deputy Chief Executive of South London Business

Spotlight

Cycle success

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In March 2012 a major expansion to the Barclays Cycle Hire scheme opened to the public, with 2,300 more bikes and 4,800 extra docking points.

The scheme now covers the whole borough of Tower Hamlets including Canary Wharf, Isle of Dogs, Wapping, Poplar, Stepney Green, Mile End and Bow, and extending to the fringes of the Olympic Park. It has also been extended in Hackney to serve north Shoreditch.

An additional 600 new docking points in west London have increased access to the scheme near the Westfield London Shopping Centre. TfL is also looking at plans to expand it to the boroughs of Wandsworth, Hammersmith & Fulham, Lambeth and Kensington & Chelsea.

Live hire data enables innovative apps

To improve access to Barclays Cycle Hire, TfL has made available a live data feed. This not only gives the name, location, co-ordinates and maximum number of docking points for all operational Barclays Cycle Hire docking stations, it also contains the number of available bikes and free docking points.

The feed, updated every three minutes, can be used by independent developers to produce mobile or other applications.

The data is already being used by several apps for both iPhone and Android devices, allowing users to quickly find their nearest docking station whether they need to pick up a bike or drop one off.

The cycle revolution

- There has been a 150 per cent growth in cycle journeys on London's major roads since 2000
- The expanded Barclays Cycle Hire area includes 8,000 bikes and 15,000 docking points across more than 560 locations
- More than 11 million hires have taken place since the launch of the scheme in 2010
- Barclays Cycle Hire now covers 65km² of the Capital



'Extending Barclays Cycle Hire to other areas of the Capital will enable more Londoners and visitors than ever before to experience the delights of cycling in London. The bikes are affordable, easy to use and a fun way to move around London for both business and leisure journeys.'

**Leon Daniels, Managing Director
Surface Transport, TfL**

Spotlight

Green wall – designed to trap pollution

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In November 2011, a 200m² green wall was unveiled on Marylebone Road next to Edgware Road Tube station.

Designed to trap particulate matter (pollution) on one of London's busiest roads, it took just a month to install and, as well as having practical environmental benefits, is an attractive leafy addition to the street.

The wall contains 15 plant varieties crafted into a multi-coloured and patterned design. It features a mixture of evergreen and perennial plants that have been carefully selected to trap harmful particulate matter.

Cleaner air

Research has shown the potential of using vegetation, including trees and plants, to trap particulate matter. The air quality and wider environmental benefits of this wall will be evaluated by scientists from Imperial College London.

A second green wall is now set to be built (subject to planning permission) on the Mermaid Theatre at Blackfriars on Upper Thames Street.

The wall is just one of a variety of green infrastructure measures now in place helping to trap particulate matter. Around 600 new trees have been planted across the Capital and on Lower Thames Street 50 planted towers have been introduced.

Other locations for green infrastructure include Park Lane, Upper Thames Street, Western Avenue (A40), Old Kent Road (A2), Brixton Road (A23), Woolwich Flyover (at the rear of Tunnel Avenue), and the A4 between Boston Manor Road and Ealing Road and the section close to Heston Road.

The initiatives are part of the London Clean Air Fund financed by the DfT and being implemented by TfL. The Clean Air Fund measures have been designed to reduce levels of PM₁₀ (a pollutant coming mostly from traffic emissions) by between 10 and 20 per cent, where applied.

Other innovations

TfL has launched a range of best practice guides for organisations and businesses that encourage walking and cycling, especially within central London. They include a Clean Air Fund-financed trial of electric pool bikes. The guides are available at tfl.gov.uk/businessoffers



The Low Emission Zone

The zone continues to encourage the most polluting vehicles to clean up their emissions. Since January, TfL has tightened its standards, meaning lorries, buses and coaches have to meet a Euro IV standard for particulate matter to drive in the Capital without paying a daily charge.

Vans and minibuses are also affected for the first time and are required to meet a Euro 3 standard for particulate matter. Compliance with these standards is already high at 92 per cent for lorries, buses and coaches, and 98 per cent for vans and minibuses.

Improve the safety and security of all Londoners

A wide range of projects and programmes were introduced or progressed during the year, aimed at improving safety and security on the transport network and on the Capital's streets:

- Project Spiderweb, a partnership initiative between TfL, the MPS and the British Transport Police (BTP) to tackle pickpockets ahead of the 2012 Games, has contributed to a reduction of 12.9 per cent in thefts across the transport network (figures to the end of February 2012)
- TfL launched its latest annual road safety campaign for teenagers with the message 'Stop. Think. Live.' which was accompanied by a series of powerful poster images. Since the campaigns began in 2000, the number of teenagers killed or seriously injured on London's roads has fallen by almost 62 per cent
- A campaign to promote safety for road users and passengers on London Tramlink was launched by TfL. It included new road markings, improved visibility, safety enforcement by a team of neighbourhood officers and a publicity campaign
- TfL's Emergency Response Unit began a 'blue light' trial with the BTP in February with the aim of cutting response times by half. During the trial the unit's specialist teams respond under 'blue light' conditions to incidents where public safety is at risk, using a new fleet of response vehicles in BTP livery and driven by a BTP officer
- The MPS's 30-strong Cycle Task Force, funded by TfL, continued to improve the safety and security of London's road users by making more than 177 arrests and security marking some 12,000 bicycles in 2011/12. In addition, more than 5,700 offences were reported including driving in mandatory cycle lanes and cycling through red lights
- A 10-year target to halve the number of people killed or seriously injured on London's roads was exceeded – the number has been cut by 57 per cent
- A thorough cycle safety review took place this year covering around 150 major junctions, planned schemes on TfL's roads and Barclays Cycle Superhighways. A further 450 junctions are to be looked at as part of the review programme



Spotlight

Transport crime at eight-year low

Support economic development and population growth

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Improve transport opportunities for all Londoners

Reduce transport's contribution to climate change and improve its resilience

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Travelling in the Capital by bus and Tube is now safer than it has been for eight years.

Figures from the MPS show continued success from a series of TfL-funded initiatives, as bus-related offences fell by more than nine per cent overall between April 2011 and March 2012.

This means that TfL has delivered a reduction of more than 40 per cent since 2005/06 – that's more than 17,000 fewer crimes per year.

More specifically, violent crime is down by more than 14 per cent compared to the same period in 2010/11, criminal damage on the bus network is down by 14 per cent, and theft has been reduced by eight per cent.

These encouraging results are largely down to the work of the TfL-funded MPS Safer Transport Command. Their 32 local teams, introduced in the summer of 2008, are working with community groups and schools to conduct intelligence-led operations helping to deter crime on the network.

Reduction in thefts

Joint schemes between TfL and the MPS, such as the ongoing Operation Knapp initiative – which focuses on using CCTV to minimise robberies on buses in certain areas – have already delivered a 30 per cent reduction in the number of thefts in January 2012 compared with January 2011.

Crime has also fallen on the DLR and Underground networks. More than 700 TfL-funded BTP officers are helping to reduce offences. In fact there are just 9.6 crimes for

every million passenger journeys on the Tube and DLR.

In addition there are approximately 13,000 CCTV cameras on the Tube network, which will rise to more than 15,500 over the next few years as part of the ongoing station modernisation programme.

There are now just 9.3 crimes per million passenger journeys on London's buses compared to 10.5 in 2010/11. Meanwhile, every one of the city's boroughs has seen a reduction in bus-related crime between 2007/08 and 2011/12 despite a substantial increase in bus ridership.

'Bus crime in London has already fallen by 34 per cent over the last four years and we are taking strong action to ensure that trend continues. Our continued investment, increasing police presence, aims to make buses safer still for every single passenger.'

**Boris Johnson,
Mayor of London**



'We are committed to working in partnership with officers from British Transport Police, City of London Police and the Metropolitan Police Service to sustain the low crime levels on public transport. TfL's significant investment in transport policing and a commitment to prevention and problem solving – and through this improving safety and security – has ensured that passengers and staff continue to feel safe and secure on the Capital's transport network.'

Steve Burton, Director of Community Safety, Enforcement and Policing, TfL

Spotlight

Tackling the taxi touts

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TfL's efforts to stop illegal taxi touting have been strengthened by a new online facility that enables anyone to report touting or unlawful plying for hire.

While London is safe for most people travelling at night there are concerns over the dangers of travelling in unbooked minicabs picked up off the street. These unbooked minicabs can be a cover for some of the most serious crimes in London including sexual violence against women and robbery.

All minicabs in the Capital must be licensed by TfL and booked in advance by phone, email or in a licensed minicab office. If not, they are unregulated and uninsured for the purpose of carrying passengers. Only taxis (black cabs) can be hailed and can pick up customers on the street without a booking.

Drivers that tout are committing a criminal offence under the Criminal Justice and Public Order Act 1994. They are also charged with having no valid insurance (for carrying passengers). Any TfL licensed private hire driver convicted of touting loses their private hire driver's licence for a minimum of one year. Latest figures show that there have been 422 drivers who have had their licence revoked for touting since 1 April 2011.

Valuable information

The new cab enforcement web page allows members of the public to report illegal activity quickly and simply. The incident form asks for

the date, time and location and other details such as a licence number and registration number of the vehicle, as well as the contact details of the person submitting the report.

Licensed and law abiding taxi and private hire drivers also often have valuable information on touting and other cab-related offences across London. They may notice that a driver is not displaying their identifier, is suspected of displaying a fake identifier or may be plying for hire outside their licence area.

TfL uses such reports for future intelligence operations and specific action is not normally taken against an individual driver as a result of one report from another driver. However, should a driver come to TfL's attention on more than one occasion, or if a specific area comes up several times, further investigation is likely to take place.

Naming and shaming

This initiative is already helping TfL and the MPS Safer Transport Command to investigate and tackle touting more directly. Since 2003 the Safer Transport Command's Cab Enforcement Unit has made more than 7,700 arrests for touting and cab-related offences. The cab enforcement results, including arrest figures and licence revocations, are available to view on the TfL website. These results, which include the names of those who have been convicted, should serve as a warning to drivers who operate illegally.



Be Cabwise

TfL has introduced a number of initiatives to help people to safely travel in London cabs.

The Cabwise service is great for people on the move. By texting CAB to 60835, TfL will provide the sender with details of the nearest two licensed minicab operators and one taxi number.

The Findaride service, which is available at tfl.gov.uk/findaride, enables users to input a location, street or postcode to find the nearest licensed minicab offices and other private hire operators.

Improve transport opportunities for all Londoners

Work continued on a range of projects to improve transport opportunities for all Londoners:

- TfL introduced a Travel Support Card for people with hidden disabilities such as learning and communication difficulties. Showing the card alerts staff members that the passenger may need support
- Drivers in London gained an 'eye in the sky' in January with the introduction of an online travel information tool that identifies traffic hot spots. A live Twitter feed with the latest information on delays was also introduced
- London Overground received a 92 per cent approval rating in the latest National Passenger Survey, making it the top-performing franchised rail operator in London and the South East. The survey is carried out by the independent rail watchdog, Passenger Focus. London Overground also scored among the highest marks nationally for punctuality in 2011/12, with an average of 96.6 per cent of trains arriving on time. The network now carries two million passengers a week, compared with 600,000 when TfL took over its management in 2007
- New real-time bus information proved an instant hit with passengers. The web service now receives more than 2.5 million hits and between 22,000 to 25,000 SMS requests a day
- New travel information boards offering clearer and more comprehensive details began being installed in ticket halls at Tube and DLR stations. The revamped boards have been introduced in response to passenger research
- There was good news for Oyster passengers who forget to touch out at the end of their journey and get charged the maximum Zone 1-6 fare as a result. A system introduced by TfL looks at their previous journeys and tries to calculate what the fare should have been if they had touched in and out correctly. The difference is then refunded when they next use their regular station. Around 1,500 passengers a day are benefiting
- A new byelaw allowing guide dogs to use escalators came into force in October following collaboration between TfL and the Guide Dogs for the Blind Association. It replaces an outdated byelaw that required all dogs to be carried on moving escalators. The Association now provides training for owners and their guide dogs, enabling them, as well as police dogs, to use escalators at all TfL-managed stations
- A target of making 60 per cent of London bus stops accessible was exceeded by one percentage point. By 2012/13 at least 70 per cent of all London bus stops will be fully accessible
- A target of introducing 66,000 new cycle parking spaces into London by 2012 was met a year early, with 67,208 extra spaces secured on streets and at stations, workplaces, schools and new building developments
- TfL improved its online traffic map and web information in January. It also launched a real-time Twitter service (@TfLTrafficNews) which amassed 5,600 followers in its first three months
- Mobile, internet and SMS services for all 19,000 London bus stops launched in October. In addition, new Countdown signs will be installed at 2,500 bus stops by mid-2012



Spotlight

All things being equal

Support economic development and population growth

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The Capital is the most diverse city in the world with more than 300 different languages spoken. It is home to around 1.4 million disabled people and 34 per cent of Londoners are black, Asian or minority ethnic (BAME). Fifty-one per cent are women.

Every day, TfL provides transport services for more than 10 million passengers. These are vital, providing access to education, food, shopping, health services and entertainment. It is therefore essential that TfL ensures its network can be used by as many Londoners as possible.

Breaking down the barriers

By understanding different communities' needs TfL can develop better, more efficient services.

It has identified seven groups who typically face increased barriers to travel:

- BAME Londoners
- Women
- Older people
- Younger people
- Disabled people
- Those on low incomes
- The lesbian, gay, bisexual and transgendered community

But it's not just physical barriers. Many young Londoners, for example, find the cost of travelling can be an issue. Women are more likely to fear crime and terrorist attacks, or antisocial behaviour. Mobility impaired people are more likely to focus on physical

accessibility and the key issue for disabled Londoners is the lack of step-free journeys, particularly on the rail and Tube networks.

By engaging with passengers and listening to their views, TfL can develop initiatives to help them access the opportunities and services so vital to their everyday lives.

The Single Equality Scheme

TfL is working hard to ensure equality and inclusion in everything it does. Since the introduction of the Equality Act in April 2010, and a new equality duty for public sector bodies in April 2011, TfL has been developing its new Single Equality Scheme (SES).

The SES replaces TfL's existing equality schemes and will be shaped by Londoners. It will go to public consultation during May 2012 and, throughout the process, TfL will engage with local communities and equality groups.

When the final report is published in October 2012, it will outline the impact of the new legislation and how TfL will ensure equality in its operations and services. It will detail the issues affecting transport users across London's equality groups and look at TfL's achievements and activities in this area.



Responsible procurement

TfL's approach to procurement involves ensuring potential suppliers work with TfL to deliver its equality objectives in relation to employment and service delivery. It also calls for them to encourage their contractors to diversify their supplier base.

The three companies awarded TfL's six-year highways maintenance contract (worth £1.2bn) have established an industry equality and diversity forum to share experiences and improve practices. The suppliers have offered work placements to local students, held events to attract minority groups into the industry and run community engagement programmes.

Workforce diversity

The SES will also highlight how TfL will achieve a workforce representative of the Capital's diverse communities.

At present, TfL broadly reflects London's BAME population in its workforce but has a significant way to go to mirror the Capital's gender diversity. It is roughly in line with women's representation within the transport industry and compares well with other organisations, including the Train Operating Companies.

Spotlight

Pedestrian Countdown – a benefit to all road users

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Technology to help people feel more confident and less rushed while using pedestrian crossings has shown promising results.

London is the first UK city to install Pedestrian Countdown, a technology that tells people how much time they have left to cross the road.

As part of a trial which began in June 2010, TfL installed the system at eight traffic light junctions across the Capital. Results from the trial showed that users liked Pedestrian Countdown and felt safer and less confused when using it.

Informed choices

The technology proved popular, with 83 per cent of those surveyed saying they liked it and fewer saying they felt rushed when crossing the road.

In addition, 94 per cent of mobility impaired users and 79 per cent of children also gave it the thumbs up. The research concluded that Pedestrian Countdown helped people make more informed choices at crossings, had the potential to improve traffic flows and had no negative impacts on safety.

As a result, TfL plans to install it at 200 further locations on some of the Capital's busiest roads. The work will start in summer 2012 and take around two years.

Pedestrian Countdown, already successful in other world cities, helps reduce uncertainty by counting down on a digital display how much time is left to cross after the green man symbol goes out. On current crossings there is a brief black-out period between the symbols for the green and red man, but research commissioned by TfL in 2009 showed that two-thirds of pedestrians did not understand it.

TfL consulted with a number of other organisations during the trial, including Living Streets, London TravelWatch and Guide Dogs for the Blind, to see how the technology would benefit their members.

At all trial sites, fewer people felt rushed when crossing the road with Pedestrian Countdown. The most significant reduction was at the Balham trial site, where the proportion of people who felt rushed fell from 45 per cent to seven per cent.



'The certainty of having a timer means we should see fewer of the lethal last-minute dashes across the road that, as well as being highly dangerous, can disrupt the journeys of other road users waiting at the lights. Pedestrian Countdown is a simple idea with huge benefits.'

Boris Johnson, Mayor of London

Spotlight

Dial-a-Ride's record-breaking year

Support economic development and population growth

Enhance the quality of life for all Londoners

Improve the safety and security of all Londoners

Improve transport opportunities for all Londoners

Reduce transport's contribution to climate change and improve its resilience

Support the delivery of the London 2012 Olympic and Paralympic Games and its legacy

An essential service for thousands of people living with long-term disabilities, Dial-a-Ride has now surpassed itself, providing more rides last year than at any point in its long history.

Using public transport isn't always an option for many disabled people – simply going to the local shops, let alone seeing friends and family or taking a trip to the cinema, can be a daunting challenge.

That's where Dial-a-Ride comes in. Since it was founded in the 1980s, this free service has transformed the lives of its members, allowing them to get out and about, run day-to-day errands and really make the most of the nation's Capital.

A transport lifeline

Dial-a-Ride provided 1.4 million trips last year, a record number for the second time in two years. The service, described by General Manager Paul Blackwell as a 'lifeline', continues to enjoy 91 per cent customer satisfaction, and positive feedback from members.

Once registered with the service, members are able to book a seat on one of the shared minibuses whenever they wish – whether it's for the next day or some time in advance. Dial-a-Ride's fleet of 370 specialist vehicles include 49 new, low-floor minibuses, which were delivered this year.

The minibuses, which feature foldable seats and plenty of space for wheelchair users, offer a complete door-to-door service. Carers, children and friends of Dial-a-Ride members can also accompany them on trips, ensuring that using the service is as comfortable and enjoyable as possible.

A sense of independence

On top of that, the drivers are themselves given special training to assist with members' requirements during the trips – whether it's handling wheelchairs, helping passengers mount and dismount the minibuses, or providing first aid. Ease of access is paramount to the service, which is why so many of the vehicles have low floors specially designed to meet the needs of passengers.

Dial-a-Ride is also committed to help make mainstream public transport more accessible to its members, and boosting their sense of independence. Thanks to its Travel Mentoring Service, disabled people who want to gain the confidence to travel on buses or the Underground can receive special support from travel mentors.

Decades on from its inception, Dial-a-Ride continues to improve and evolve to ensure it carries on making a real difference to the lives of its members and their families.



'We fully appreciate how much of a lifeline this service is for many of our members. That's why we have worked extremely hard over the last few years to modernise and improve it.'

Paul Blackwell, Dial-a-Ride General Manager, TfL

Reduce transport's contribution to climate change and improve its resilience

Efforts to reduce the impact of the transport network on the environment continued during the year as TfL worked to support targets set by the Mayor, including a 60 per cent cut in carbon dioxide emissions by 2025:

- Twelve Dial-a-Ride vehicles began a year-long biofuel trial. The fuel is comprised of recycled cooking oil and fat from meat processing blended with petrodiesel. It is estimated that the vehicles will produce 25 per cent fewer carbon emissions than those powered with diesel when production and supply of fuel is taken into account
- Tube Lines and London Underground installed a range of energy efficient measures and controls at Leicester Square Tube station, such as new systems for heating, ventilation, lighting, cooling and water. These aim to reduce the energy demand by up to 65 per cent. This showcase trial will be used to inform other station upgrade work in the future
- Smart electricity meters were installed at a further 150 London Underground stations so that they can be read remotely and automatically. Having access to more detailed data in this way helps to analyse key energy efficiency opportunities as well as assisting TfL with its compliance to the Government's Carbon Reduction Commitment Energy Efficiency Scheme
- TfL won the 2012 Building Operation Award for its energy management of Head Office Buildings. This was presented by CIBSE, the Chartered Institute of Building Services Engineers in their Building Performance Awards
- TfL continued to look at opportunities to introduce more zero-emission electric vehicles and low-emission hybrids to its in-house fleet under the DfT's Low Carbon Vehicle Procurement Programme. There are currently four full-electric Mitsubishi i-MiEV cars, four Smith panel vans, five next-generation plug-in Toyota Prius hybrid cars and three Ashwood hybrid panel vans. Performance of the vehicles is being fed to the DfT to promote experience of operating them commercially



Spotlight

A new 'green' icon

Support economic development and population growth

Enhance the quality of life for all Londoners

Improve the safety and security of all Londoners

Improve transport opportunities for all Londoners

Reduce transport's contribution to climate change and improve its resilience

Support the delivery of the London 2012 Olympic and Paralympic Games and its legacy

Although painted the traditional red, the New Bus for London double-deckers rolling off the production line this year are the 'greenest' buses of their kind.

They use the latest in diesel-electric hybrid technology. A battery pack powers the electric motor and this is charged by a generator and through regenerative braking (where the system recycles the energy lost during the braking). They also have stop-start technology, so the engine only runs when it needs to charge the battery.

All this means the new bus produces less than half the harmful emissions of conventional diesel buses and is twice as fuel-efficient.

The first of these state-of-the-art buses started serving the busy route 38 between Victoria and Hackney in February. Inspired by the iconic Routemaster, they are the first buses to be designed specifically for the Capital's streets in more than 50 years.

Not only are they environmentally friendly, they also make use of lightweight materials, with glass highlighting key features to produce a light and airy feel.

By incorporating the rear open platform, the bus reinstates one of the much-loved aspects of the original 1950s Routemaster which offered a 'hop-on, hop-off' service.

Other features include three entrances, two staircases and wheelchair access to enable fast boarding and alighting, long-life and efficient LED lighting and a new seat design.

It is also accessible:

- The bus has a step-free gangway on the lower deck from the front to the back, allowing ease of access for disabled people and passengers with buggies
- Passengers are alerted to the next stop by audio and visual announcements
- A T-Loop system transmits announcements for passengers with hearing aids

TfL's design partner, London-based Heatherwick Studio, helped develop both the interior and external look of the bus to ensure the project remained true to the concept of creating a new symbol of London for the 21st century. The buses have been manufactured by Wrightbus, based in Ballymena, Northern Ireland.



Further funding for hybrid buses

- A total of £5m was provided by the DfT's Green Bus Fund in 2011/12 for an additional 70 hybrid buses. The fund was set up to support bus companies and local authorities to introduce low-carbon vehicles
- Low-carbon buses funded by the scheme emit around a third less greenhouse gas than diesel buses and use around a third less fuel

- The latest bus technology will help meet the Mayor's goal of a 60 per cent reduction in carbon dioxide emissions by 2025, compared with 1990 levels

Spotlight

A time to switch

Support economic development and population growth

Enhance the quality of life for all Londoners

Improve the safety and security of all Londoners

Improve transport opportunities for all Londoners

Reduce transport's contribution to climate change and improve its resilience

Support the delivery of the London 2012 Olympic and Paralympic Games

By 2013 there are expected to be twice as many Source London electric vehicle charge points than petrol stations in the city. And with petrol prices still high, now is the time to consider switching to an electric vehicle (EV).

In May, Mayor Boris Johnson launched the Source London charge point network. Charge points are located at supermarkets, on streets and in public car parks all over London, making it easier for EV owners to plug in while on the move.

The Source London network aims to give drivers confidence in the knowledge that they will never be far from somewhere to charge up, and support an increase in EV users.

EVs drive and handle just like conventional petrol or diesel vehicles, but instead of using an internal combustion engine they get their power from a battery-powered electric motor.

Many major car manufacturers have launched EVs, so there is a wide choice of makes and models coming on to the market.

To use the charge points, customers simply register with Source London, pay a £10 annual fee and receive a Smartcard that will unlock any of the 650 Source London charge points. They can charge the vehicle at no additional cost.

If that isn't enough to tempt people to switch, a Government grant is also available to subsidise 25 per cent of the purchase price of a pure or plug-in hybrid EV up to a maximum of £5,000. The Government also offers a subsidy of 20 per cent of the purchase price of a pure or plug-in hybrid electric van up to a maximum of £8,000.

Some Source London facts:

- Source London is a more convenient and highly accessible way of charging a vehicle. Any vehicle that is licensed with the DVLA as a pure electric or a plug-in hybrid EV can join the scheme. This includes motorbikes, cars, vans, trucks and scooters
- With more than 650 charge points already in place, there will be a continued phased installation of up to 1,300 public charge points by 2013
- TfL is working in partnership with Siemens which is sponsoring Source London's entire back office function, saving hundreds of thousands of pounds
- Pure EVs do not produce any emissions when they are driven – they are cleaner and quieter than petrol or diesel vehicles on the road
- Encouraging the uptake of EVs will help improve air quality, reduce carbon dioxide emissions and help put the UK at the leading edge of this new technology



'I want to rapidly accelerate the uptake of electric vehicles and make London the epicentre of electric driving in Europe. Increasing numbers of motorists are opting for cleaner, greener electric transport, delivering a host of benefits to the driver including a 100 per cent Congestion Charge discount. This is set to deliver considerable environmental benefits to our city.'

Boris Johnson, Mayor of London

Support the delivery of the London 2012 Olympic and Paralympic Games and its legacy

Work continued on a range of projects during the year to support the delivery of the London 2012 Olympic and Paralympic Games and its legacy:

- To help people to prepare for the 2012 Games, details of road closures and parking restrictions were sent to residents and businesses where events such as cycling, the triathlon, marathon and race walking will take place
- In readiness for the Games, three-car trains were introduced on the Bank to Woolwich and Tower Gateway to Beckton DLR routes, enabling an extra 3,000 passengers an hour in the morning peak – a 50 per cent increase. Service frequency was also increased in the evening peak across the network. During the Games, all trains will run three carriages
- London Overground completed the upgrade of its North London route, enhancing signalling, extending platforms and refurbishing stations. The upgrade, part-funded by TfL and the Olympic Delivery Authority (ODA), increased the number of trains between Willesden Junction and Stratford to eight per hour during peak periods
- In May, the facility for the Transport Coordination Centre (TCC) – the Olympic hub for transport command, control and communication during Games-time – was delivered with people, processes and enabling technology identified. Through the year, the TCC was tested, staffed and trained. In December it was accepted by the ODA as ready for operations
- As part of its Active Travel Programme, TfL launched its cycle guide for the Olympic Park plus a range of web-based information. The programme aims to encourage more active travel ahead of the Games and maximise the number of people walking or cycling to venues



Spotlight

Helping London's businesses

Support economic development and population growth

Enhance the quality of life for all Londoners

Improve the safety and security of all Londoners

Improve transport opportunities for all Londoners

Reduce transport's contribution to climate change and improve its resilience

Support the delivery of the London 2012 Olympic and Paralympic Games and its legacy

Keeping London moving during the 2012 Games has been a major focus for TfL this year with the key message being 'plan ahead, whether you're going to the Games or not'.

Throughout the year TfL has worked closely with London's smaller businesses and organisations to help them prepare for the impact of the Games and allow them to continue to operate as normally as possible.

Businesses have been encouraged to put together action plans and test them in advance using the huge range of information available through the Get Ahead of the Games website (getaheadofthegames.com) and tfl.gov.uk

In addition, TfL has worked directly with a number of large companies to develop case studies, now available on the website (tfl.gov.uk), to show how they are planning to manage transport issues during the Games.

No night frights for freight operators

Planned traffic changes for the Games means deliveries to some pubs, shops, offices, hotels and restaurants in hot spot areas need to take place outside normal working hours, including at night. So TfL has been encouraging freight operators to put strategies in place.

This has led TfL, together with the Freight Transport Association, the Noise Abatement Society, the DfT's Traffic Commissioners and the Road Haulage Association to develop a Code of Practice for businesses and operators to help reduce disturbance to local residents during these out-of-hours deliveries.

The document contains simple, practical guidance on how to minimise noise and specific advice for drivers, such as turning off engines, radios and reversing alarms.

TfL has also encouraged businesses and freight operators to use the practical advice on getaheadofthegames.com to understand local road restrictions and work together to find the best way of reducing disruption to their normal working day.

Deliveries and collections make up 17 per cent of all traffic in the Capital. In central London that figure rises to 25 per cent, with more than 280,000 freight journeys undertaken between Monday and Friday every week.

Not all of London will be affected by the Games. A total of 65 per cent of stations and around 70 per cent of the road network in Greater London will be unaffected. However, those stations and roads which are impacted are likely to be severely disrupted.



Getting Ahead of the Games

TfL played a major role in the launch of the national 'Get Ahead of the Games' campaign, which uses website and social media to highlight the help available to plan journeys in advance. The website includes interactive maps showing congestion hot spots for people to check which areas and stations to avoid on any particular day, and tips on making journeys easier.

'With so many Londoners and visitors out and about in the Capital over the summer, it's really important that shops, pubs and restaurants can remain fully stocked.'

Sara Parker, London Director, Confederation of British Industry

Spotlight

On top of the 'hot spots'

Support economic development and population growth

Enhance the quality of life for all Londoners

Improve the safety and security of all Londoners

Improve transport opportunities for all Londoners

Reduce transport's contribution to climate change and improve its resilience

Support the delivery of the London 2012 Olympic and Paralympic Games and its legacy

Hosting the London 2012 Olympic and Paralympic Games is both a fantastic opportunity and a huge challenge. It's like having the FA Cup Final, Wimbledon, several big concerts and the marathon happening on the same day, every day, over a number of weeks.

On the busiest days the transport network will handle up to three million extra journeys as people come to compete, watch and work at the Games and associated cultural events, as well as carrying on with normal working life.

Open for business

TfL has twin objectives: to make London 2012 a huge success, and to keep the Capital's businesses and essential services moving. So it has identified the critical places and times at which it expects the greatest demand on the roads and public transport networks.

Focusing on these 'hot spot' times and locations, and making sure people and businesses know how to avoid them is a key part of TfL and London 2012's work with businesses.

Over the last 15 months, TfL has seen major companies sign up to get Games-smart, including the John Lewis Partnership, Boots, Sainsbury's, Canary Wharf Group and Deloitte.

Getting Games-smart

Many organisations have already been planning around the hot spots. This may see employees transfer to other offices, work from home, take holidays or stagger working hours.

Tailored site-specific travel advice has been given to nearly 500 major companies, and hundreds of small and medium-sized businesses have attended workshops to help them plan ahead and make the most of the opportunities at Games-time.

Tools to re-time, re-route and revise

After extensive modelling, road hot spot maps and travel information are now available online to show the impact for each day of the Games. An online road planning tool for those that must make essential journeys calculates the extra time needed to reach a destination.

For Tube and DLR travellers, station charts have been produced to show expected travel demand, day-by-day and at half-hour intervals, for a number of hot spot stations across the Capital.

Accompanying the charts is advice on local walking, cycling and bus routes, and less busy Tube and rail stations close to the hot spots.



Spotlight

Extension boost to local regeneration

Support economic development and population growth

Enhance the quality of life for all Londoners

Improve the safety and security of all Londoners

Improve transport opportunities for all Londoners

Reduce transport's contribution to climate change and improve its resilience

Support the delivery of the London 2012 Olympic and Paralympic Games and its legacy

The DLR Stratford International extension is one of the most important parts of the 2012 Games transport network.

It will play a part in moving millions of passengers to the doorstep of the Olympic Park, connecting it to three other Games venues across east London.

But the £211m development between Stratford International and Canning Town, which opened in August 2011, is also playing a vital role in the regeneration of the area and the benefits are already being felt.

A positive impact

For one thing, the extension comes with four new stations, providing a rail service for once-isolated areas as well as connecting to the rest of London's rail network. It is enabling thousands of residents along its route to travel more easily around the Capital.

All seven stations on the new link are fully accessible, as is the rest of the DLR. Add to that major improvements in frequency, reliability, capacity and journey times, compared to the dilapidated National Rail line that it replaced, and it is easy to see why the extension is having such a positive impact on people living and working in the Lower Lea Valley.

The high-frequency service that runs approximately every eight minutes – and up to every three minutes during the Games – is also proving an irresistible lure to domestic and international business.

Prospects for growth

It is no coincidence that the Westfield Group chose to make a £1.45bn investment in the area by siting the largest urban shopping centre in Europe, Westfield Stratford City, within a few steps of the extension's Stratford International and Stratford Regional stations. In the process, Westfield has created 10,500 permanent new jobs, with 2,000 of them going to local long-term unemployed.

Prospects for growth in the region are similarly promising. DLR trains from Stratford International, which link to rail services that run to Woolwich Arsenal during peak times and Beckton at off-peak, serve sites earmarked for development within the Royal Docks, the only place in London to be awarded Enterprise Zone status.



'The new DLR extension at Stratford International will ensure that residents and businesses can take advantage of some of the best and most accessible transport links in the country. Stratford International station should now become a major accessible hub for international services.'

Sir Robin Wales, Mayor, London Borough of Newham

Statement of Accounts

Contents

- 70 Explanatory Foreword and Financial Review
- 80 Statement of Responsibilities for the Accounts
- 81 Independent Auditor's Report
- 84 Group Comprehensive Income and Expenditure Statement
- 85 Group Balance Sheet
- 86 Group Movement in Reserves Statement
- 87 Group Statement of Cash Flows
- 88 Corporation Comprehensive Income and Expenditure Statement
- 89 Corporation Balance Sheet
- 90 Corporation Movement in Reserves Statement
- 91 Corporation Statement of Cash Flows
- 92 Accounting Policies
- 108 Notes to the Financial Statements



Explanatory Foreword and Financial Review

Financial performance

2011/12 was another vital year for TfL. Work continued on major projects to improve and extend services across London such as Crossrail, Tube upgrades and congestion relief projects. During the year, improvements delivered include:

- Implementing the full timetable increase to the Jubilee line, increasing peak capacity by 33 per cent compared with 2010
- All trains on the Victoria line replaced with new faster, higher-capacity and more accessible vehicles
- The first New Bus for London introduced and operating on London's streets
- Cycle Hire expanded to the east, including new docking stations through Hackney and Tower Hamlets including Canary Wharf and up to the Olympic Park
- Essential safety works on the northbound Blackwall Tunnel were completed over a year ahead of schedule, within budget, and with fewer weekend closures than originally anticipated
- Completion of the extension of the DLR network from Canning Town to Stratford International, which opened in August 2011
- All pylons successfully erected for the Emirates Air Line, ready for operations to begin in Summer 2012
- Acquiring six new trams to enhance capacity on the Tramlink network

Progress continued to be made towards TfL's £7.6bn efficiency and cost savings programme covering the period 2009/10 to 2017/18. Over two thirds of the targeted savings have already been secured, with £1bn saved within 2011/12 alone. As part of this programme, in 2011/12 TfL undertook a fundamental review of its

operating and management structure through Project Horizon.

Highlights

In 2011/12, passenger demand again increased from the previous year. London Underground (LU) passenger journey growth continued, with passenger journeys up 5.7 per cent on 2010/11. Service demand on the bus network rose by 2.4 per cent and Docklands Light Railway (DLR) passenger journeys increased by 10.0 per cent reflecting the opening of the Stratford International Extension and Westfield Stratford City. Fares increased by an average 5.6 per cent in January 2012, resulting in an increase in gross fares income to £3,547m.

Gross expenditure before write off of goodwill increased by 5.2 per cent to £6,124m, reflecting the increased level of activity offset to a degree by the impact of efficiency savings. An exceptional goodwill impairment of £106m was recognised in relation to the acquisition of the CARE and WARE groups of companies (former PFI partners of DLR).

The level of capital works being undertaken during 2011/12 remained high reflecting the ongoing investment in Crossrail and Tube infrastructure required to increase capacity on the network. Capital expenditure during the year was £2,652m.

Funding sources

TfL's activities are funded from six main sources:

- Revenue from fares and the Congestion Charging scheme
- Secondary revenue sources, such as advertising and property rental
- Sales of property and other assets
- Government grants, which have been agreed to 2014/15 following the 2010 Spending Review
- Third-party funding for specific projects
- Prudential borrowing (the amount and profile of which also forms part of TfL's settlement with Government)

TfL's Business Plan is financially balanced with planned funding sources sufficient to meet planned expenditure. In-year differences between expenditure and funding are managed through transfers to or from TfL's cash reserves.

Revenue

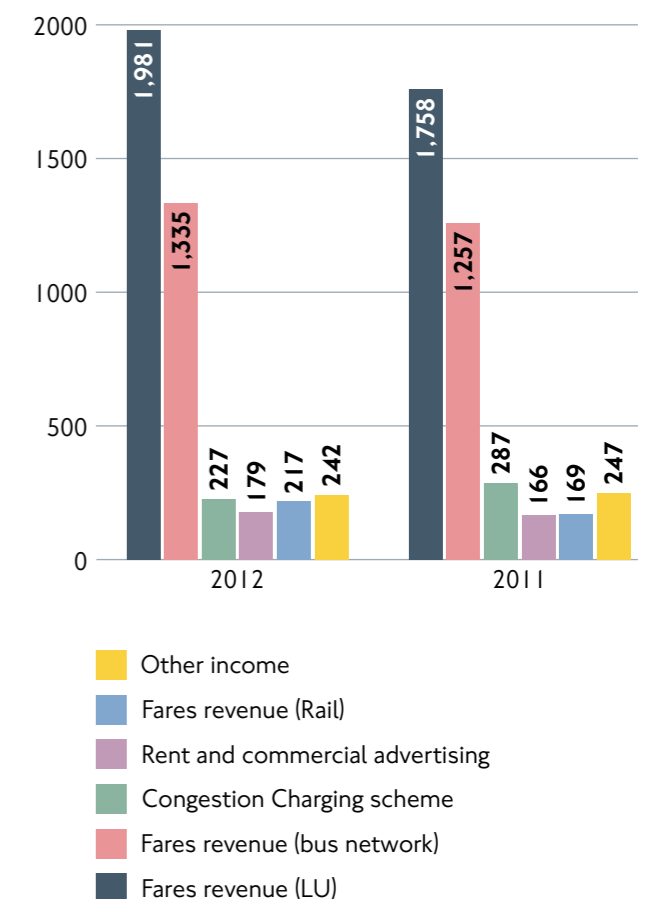
As in previous years, TfL's primary source of revenue comes from fares on LU, rail and bus networks. This represents 84.8 per cent of all revenue generated. The January 2012 fares rise was reduced from the previously-planned RPI plus two per cent (7 per cent) to an average of RPI plus 0.6 per cent (5.6 per cent) after the DfT provided an additional grant to support a lower fare increase. The Business Plan continues to assume that fares will rise at two per cent above RPI in each year of the Plan period. Fares decisions are taken annually by the Mayor.

Fares revenue on LU was £1,981m, 12.7 per cent up on 2010/11. This reflected a year-on-year increase in passenger journeys of 5.7 per cent and above inflation fare increases. On the bus network, a smaller increase in passenger

journeys together with fare rises resulted in an increase in fares revenue of 6.2 per cent to £1,335m.

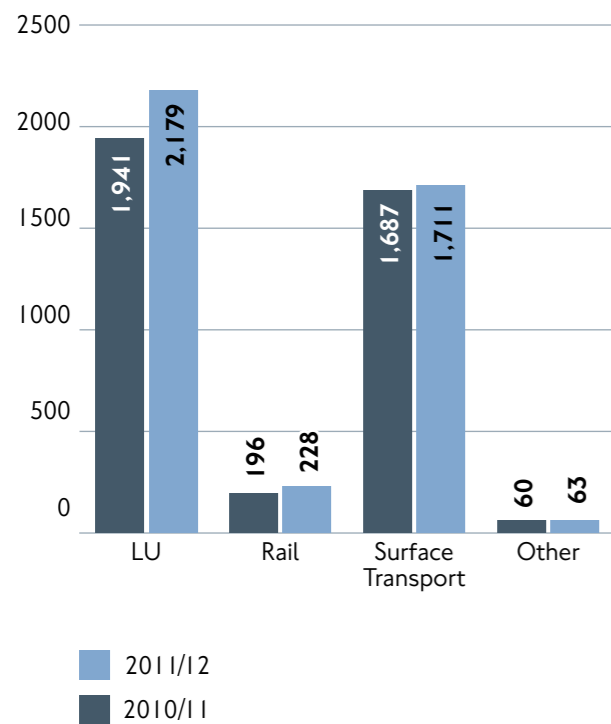
Over the course of 2011/12, the use of Oyster pay as you go has remained stable on TfL services at around 39 per cent of all journeys on the Underground and 21 per cent on buses. Pay as you go use on National Rail services in London is still continuing on a linear increase since its extension to all National Rail services in Greater London in January 2010, with journeys increasing from 8.7m to 11.0m during the year. The Train Operating Companies' revenue share from pay as you go rose from just under £5m per week at the end of 2010/11 to well over £6m per week at the end of 2011/12.

Revenue breakdown by type (£m)



Explanatory Foreword and Financial Review

Total revenue by business unit (£m)



Congestion Charging revenue fell from £287m to £227m, reflecting the full year impact of the closure of the Western Extension zone on 24 December 2010 and lower levels of penalty charge income arising as a result of the introduction of Auto Pay.

Government grants and other funding

The main source of grant income is the Transport Grant from the Department of Transport (DfT) which comprises two elements: an investment grant, which supports delivery of the investment programme; and a general grant, to support TfL's operating activities. Other key funding streams include specific capital grants from the DfT and the Greater London Authority for the Crossrail project and grants for transport related works in preparation for the London 2012 Olympic and Paralympic Games from the Olympic Delivery Authority. Total general and capital grants receivable, excluding specific Crossrail funding, amounted to £3,438m (2010/11 £3,451m).

London Overground's fares revenue of £93m for this year was up 53.2 per cent compared to 2010/11 following recent capacity enhancements. Record daily passenger journeys of 466,000 were recorded on 5 March 2012.

Total fares revenue on the DLR increased by 15.7 per cent to £103m reflecting greater than expected demand across the whole network, including the impact of the opening of the Stratford International Extension and the Westfield Stratford City shopping centre.

Prudential borrowing

TfL raised further funds during the year and expanded its sources of borrowing to support its Capital Investment Programme.

the year. In addition to the sources of financing in the table below, other sources of financing include the PFIs (see also notes 21 and 22 to the accounts).

Set out below is a table summarising movements in the value of borrowings during

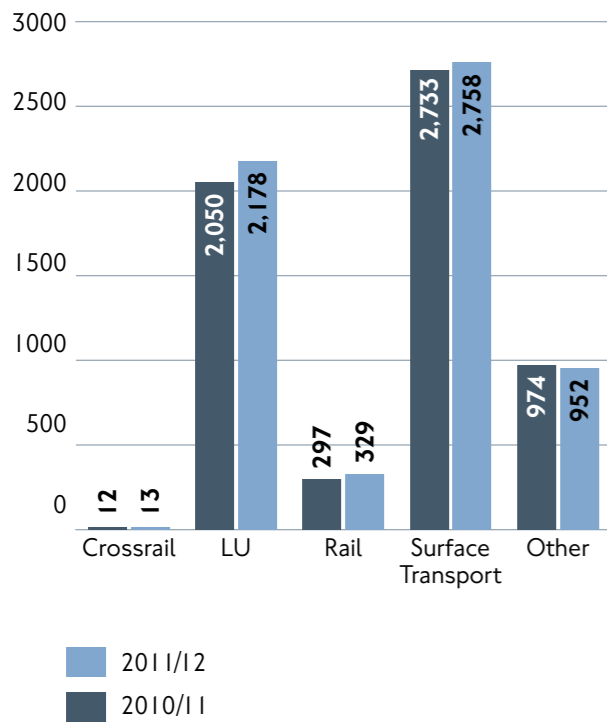
| Movement in borrowing £m | | |
|---|---------|---|
| Opening borrowing at 1 April 2011 | 6,387 | |
| European Investment Bank loan - Crossrail | 200 | The third instalment of a total facility of £1bn drawn down over six years. The loan has an average fixed interest rate of 4.9 per cent. Repayment of the loan is between 2021 and 2058 |
| European Investment Bank loan - WARE | 94 | Debt acquired on acquisition of WARE |
| Commercial paper | 1,421 | Borrowings with different maturities ranging between two and four months with a weighted average interest rate of 0.8 per cent taken out to refinance Tube Lines debt, the acquisition of CARE and WARE and the ongoing Capital Investment Programme. |
| 1 year 'FRN' | 300 | A one year floating rate note was taken out in 2011/12 and fixed at an interest rate of 0.883 per cent through the use of an interest rate swap. |
| Tube Lines | (1,223) | Nominal value of fixed rate Tube Lines debt repaid/refinanced during the year |
| Acquisition fair value movements | (56) | |
| Closing borrowing at 31 March 2012 per the accounts | 7,123 | |

The borrowing limit for the Corporation set by the Mayor for 2011/12 was £7,848.6m

Explanatory Foreword and Financial Review

Uses of funding

Operational expenditure £m



Operating expenditure on the Underground increased by 6.2 per cent to £2,178m due to inflationary increases and adjustments to provisions.

Expenditure on London Rail increased by 10.8 per cent following the recent capacity enhancements on London Overground and DLR.

Bus network costs increased overall by only £43m to £1,728m. Bus network subsidy has decreased by more than a third over the last four years from £563m in 2008/09 to £393m. This has been achieved through a combination of accepting the need for fares to make a greater contribution to the cost of providing the service, such that fares now represent three quarters of the cost, and by continuing to ensure good value and cost control. This reduction has been made while achieving the highest passenger journey numbers since 1959 and reliability matching best-ever levels.

There was a decrease in expenditure on Congestion Charging due to project costs from the introduction of Auto Pay and closure of the Western Extension of the scheme having been incurred in 2010/11, together with a decrease in bad debts in line with the reduction in penalty charge income.

TfL maintained its commitment to support borough schemes that improve the quality, safety, accessibility and sustainability of the local travelling environment. The overall funding package for 2011/12 included £140m provided directly to the boroughs through the Local Implementation Plan programme. Other financial assistance included payments related to Taxicard.

Net interest and finance charges

Total financing and investment expenditure for the year was £943m, an increase of £130m on the previous year.

Included within this figure were exceptional premiums totalling £169m incurred on the refinancing of £1,220m of Tube Lines debts during the year.

Interest payable on direct borrowings increased marginally from £258m to £262m despite an overall increase in borrowings during the year of £737m, reflecting lower interest rates achieved on the refinancing of Tube Lines debt.

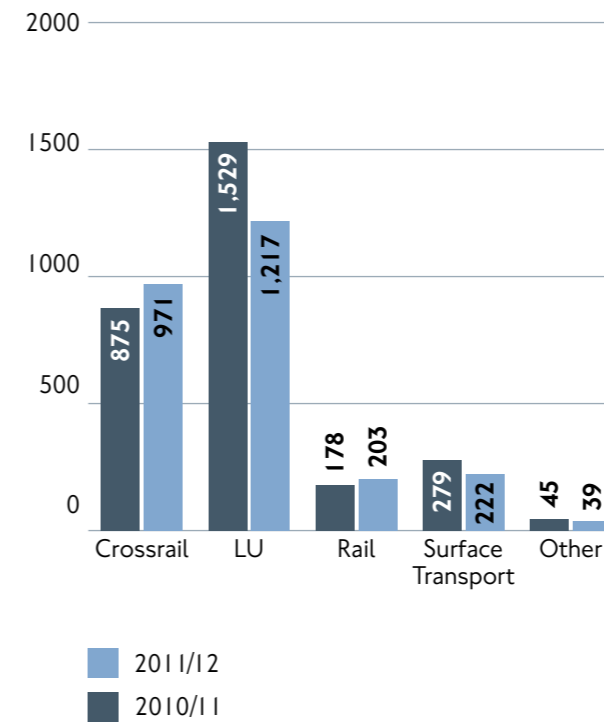
Offsetting this was a reduction in interest on finance lease liabilities as a result of the acquisition of Tube Lines part way through 2010/11 and the acquisition of CARE and WARE in 2011/12.

Financing and investment income was £442m, an increase of £34m on the previous year. This was largely due to an increase in the expected return on pension scheme assets as a result of both higher assets at the start of the year and a change in mix of pension scheme assets.

Capital expenditure

Capital expenditure for the year was £2,652m.

Capital expenditure by business area (£m)



In London Underground, a number of significant projects were successfully completed, reducing the level of capital spend. On the Jubilee line, the new Transmission Based Train Control (TBTC) signalling system was completed over the full length of the line, which has considerably boosted service frequency.

On the Victoria line, deliveries of the new fleet of 47 trains were completed in December. During the year, good progress was made with the switch-over to the new signalling system, with the last section of the line completed by the year end.

By the end of the year, half of the new fleet of air-conditioned eight-car S-stock trains was in service on the Metropolitan line, and the first of the seven-car S-stock trains is expected to

enter passenger service on the Hammersmith & City line during 2012. Preparatory work undertaken in readiness for the introduction of these trains has included lengthening of several station platforms and signalling improvement works at the key location of Edgware Road. The year has also seen extensive track replacement works taking place on the sub-surface network (Metropolitan, District, Circle and Hammersmith & City lines), including a 32-day closure between High Street Kensington and Edgware Road stations during which 2,000 metres of new drainage were laid and approximately 3.5km of track were replaced.

Green Park station, a key Olympic and Paralympic interchange, became LU's 63rd station offering step-free access from the street to all platforms following the introduction of three new lifts. The station also boasts an attractive new ramped entrance with views of the park, as well as other new facilities. At Stratford, a new northern ticket hall offers customers a second entry point into the station, and as well as providing direct access to the new Westfield shopping centre it will also be the primary route through to the Olympic Park during the 2012 Games. Good progress continued on the major congestion relief projects at Tottenham Court Road, Bond Street and Victoria stations, while Blackfriars station reopened in February having been closed for reconstruction since March 2009.

In Surface Transport, £222m was spent on capital works, including the launch of mobile, internet and SMS information services for all 19,000 bus stops, cycling initiatives such as the eastward expansion of the Barclays Cycle Hire scheme and two new Cycle Superhighways routes. There was also expenditure on the Transport for London Road Network (TLRN), including the ongoing capital renewals programme on carriageways and other assets, and major engineering schemes such as the creation of a dual carriageway on the A406 at

Explanatory Foreword and Financial Review

Bounds Green, refurbishment of the Blackwall Tunnel northbound, and strengthening work on the Hammersmith Flyover. In addition, there was continued investment in safety improvements to tunnels and bridges, traffic signal modernisation and enhancements to associated communications infrastructure.

Capital expenditure of £203m was incurred by London Rail. The London Rail expenditure includes DLR projects such as the Stratford International extension and infrastructure improvements. Other projects included the purchase of new trams, the continuation of works on the New South London line project and the Emirates Air Line cable car.

During the year, £924m was spent on the Crossrail project. A further £47m was capitalised in respect of the acquisition of land and property interests, taking the total spend on the project to date to £2.8bn, including land and property. Main construction has now commenced. In the course of the year, contracts were awarded for the construction of stations at Paddington, Farringdon, Whitechapel and Liverpool Street. Tunnelling has started, with the first tunnel boring machine breaking ground at Royal Oak Portal shortly after the end of the financial year.

Cash and short-term investments

Total cash, cash equivalents and deposits greater than three months but less than 365 days held by the Group at 31 March 2012 amounted to £2,662m. The average yield from TfL's cash investments for 2011/12 was 0.61 per cent. This reflects the conservative nature of TfL's investment strategy and historically low interest rates. Most of the cash reflects usable reserves earmarked to fund TfL's future Investment Programme, including the Crossrail project.

Treasury risk management

The Board approves prudent treasury policies that comply both with the principles of the CIPFA Prudential Code and the revised

investment guidance (effective 1 April 2010) issued by the Department for Communities and Local Government.

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

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

TfL has considered the implications of its overall asset and liability management, with analysis continuing on its overall exposure to inflation and interest rates as they affect its commercial markets (passenger levels, fare revenues and costs) and in its financial activities (financial costs and investment returns on cash balances).

The results of this analysis led to TfL seeking and obtaining more diverse and flexible borrowing sources while maintaining a conservative investment strategy.

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

Counterparty credit

The Group's exposure to credit-related losses, ie non-performance by counterparties on financial instruments, is mitigated by setting a minimum required credit rating and applying financial limits based on credit ratings. For 2011/12, TfL followed a conservative investment strategy, investing only with the UK Government and its executive agency, the Debt Management Office (DMO), UK Government guaranteed investments, selected financial

institutions with high (investment grade) credit ratings from a credit rating agency, selected supranational or sub-sovereign agencies with high credit ratings, and selected Money Market Funds with high credit ratings. The amounts that can be invested with the DMO were not limited, while amounts invested with the UK clearing banks were based on the bank's credit rating and any Government support. The minimum rating was A+ / A1. Credit ratings are obtained from the three main ratings agencies and are kept under constant review.

Funding and liquidity

To ensure continuity of affordable funding, debt maturities are spread over a range of dates that broadly equate to the lives of assets purchased with the proceeds of debt. The maturity profile of debt outstanding at 31 March 2012 is set out in Note 28 to the accounts. Due to the size and long-term nature of future commitments, significant cash balances are held to mitigate the risk of any future restriction of access to funds. During 2011/12, TfL expanded its Commercial Paper programme which has given TfL access to liquid short-term borrowings at favourable interest rates driven by its strong credit ratings.

Interest rates

TfL has approved parameters of a minimum of 50 per cent fixed-rate on existing and forecast debt. The proportion of fixed-rate debt borrowings at the year end was 74 per cent; the remaining 26 per cent constituted Commercial Paper debt which, although it has fixed rates of interest, in practice behaves more like floating rate debt if used on a revolving basis.

Pensions

As at 31 March 2012, the majority of TfL's employees were members of the Public Sector Section of the TfL Pension Fund. Over the past year, the fair value of the assets of this Section increased by £337m. There was an increase in the actuarial value of future liabilities of £979m, due to a reduction in the discount rate

required to be used for accounting valuations, which is based on the yield on AA-rated corporate bonds. As a consequence the deficit of pension scheme assets over future liabilities for the TfL Pension Fund increased by £642m.

The total deficit recognised for funded and unfunded pension arrangements at 31 March amounted to £2,293m (2011 £1,620m).

The latest full actuarial valuation of the TfL Pension Fund was carried out as at 31 March 2009. The 2009 valuation showed a deficit on the Public Sector Section for funding purposes of £1,331m, and as a result of this the employers agreed a revised Schedule of Contributions with the Pension Fund. A valuation is currently under way as at 31 March 2012, but the results will not be available until later in 2012.

Prospects and outlook

In March 2011, TfL approved its Business Plan for the years to 2014/15. An update to this plan was approved by the Board in December 2011, setting out progress since the last full plan. The next Business Plan is due for publication at the end of 2012.

The investment in the Business Plan is designed to support London's projected growth in population and employment. The Mayor of London published the London Plan which describes population growth of up to one million and employment growth of up to 0.65 million between 2011 and 2031. This means there will be around three million extra trips a day in the Capital by 2031.

Explanatory Foreword and Financial Review

TfL has many schemes under way to address this challenge, including:

- Crossrail, which will deliver a 10 per cent increase in rail-based network capacity in London
- A rolling programme of Tube upgrades which will provide more than 30 per cent additional capacity
- The investment in cycling and walking making alternatives to motorised travel desirable
- Maintaining London's bus services and introducing the New Bus for London to make boarding and alighting faster
- Addressing London's road congestion through initiatives including the London Permit scheme, the Lane Rental scheme and traffic-light optimisation schemes

Key risks

TfL's operations and ongoing Investment Programme are subject to a number of risks.

These include:

- The future performance of the economy and its effect on fares and secondary income. Weaker economic growth could have an impact on passenger demand. A further risk would be a sustained period of high inflation or marked increase in the cost of borrowing
- The need for continued grant beyond the current Government settlement to 2014/15
- The £7.6bn of efficiencies and other cost savings up to 2017/18 that are assumed in the Business Plan. This includes significant underlying initiatives involving organisational change and restructuring
- Delivery of milestones set out in TfL's Spending Review settlement to cost and time

- TfL's plans to sell property and other assets. These are dependent on market conditions

- Unexpected events or acts of terrorism that could have a larger impact than the reserves included in the Business Plan to cover such attacks

TfL will manage these and other risks by regularly reviewing the assumptions underpinning the Business Plan and, where appropriate, adopting risk-specific mitigation strategies to limit TfL's exposure.

Accounting statements

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

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

- The Corporation, which is made up of London Streets, Taxi and Private Hire, and the corporate centre which, for legal and accounting purposes, constitutes TfL
- The TfL Group, which is made up of the Corporation and its subsidiaries as set out in Note 14

Under the GLA Act 1999, the Corporation is treated as a Local Authority for accounting purposes and the Statement of Accounts, which includes the individual financial statements of the Corporation, has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code), which is based on International Financial Reporting Standards.

TfL's subsidiaries are subject to the accounting requirements of the Companies Act 2006 and separate statutory accounts are prepared for each subsidiary and for the Transport Trading

Limited group. These accounts are also prepared under International Financial Reporting Standards.

The financial statements for the TfL Group, which consolidate the accounts of the Corporation and its subsidiaries on the basis set out in the statement of accounting policies (paragraph c), are here presented alongside the financial statements of the Corporation.

The Statement of Accounts comprises:

- The Group and Corporation Comprehensive Income and Expenditure Statements, balance sheets, cash flow statements and movement in reserves statements
- The statement of accounting policies
- Statement of responsibilities for the accounts
- Notes to the Group and Corporation financial statements

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

Purposes of major schedules within the financial statements

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

Comprehensive Income and Expenditure Statement

This statement shows both the revenue received and the costs incurred in the year of providing services, in accordance with generally accepted accounting practices.

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 of reserves 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 of reserves is those that TfL is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold, and reserves that hold timing differences shown in the movement in reserves statement line 'Adjustments between accounting basis and funding basis under regulations'.

The Cash Flow Statement

The cash flow statement shows the changes in cash and cash equivalents of TfL during the financial year. The statement shows how TfL generates and uses cash and cash equivalents by classifying cash flows as derived from operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of TfL are funded by way of fares income and grant income. 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 (its Chief Finance Officer) has responsibility for the administration of those affairs;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

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

- In preparing this Statement of Accounts, the Chief Finance Officer has:
- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code;
- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

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



Stephen Critchley
Chief Finance Officer
27 June 2012

Independent Auditor's Report

We have audited the financial statements of Transport for London ('the Corporation') and the Transport for London Group ('the Group') for the year ended 31 March 2012 which comprise the Corporation and Group Comprehensive Income and Expenditure Statements, the Corporation and Group Balance Sheets, the Corporation and Group Movement in Reserves Statements, the Corporation and Group Cash Flow Statements and the related notes, as set out on pages 84 to 199. These financial statements have been prepared under applicable law and the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Transport for London in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Transport for London those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Transport for London for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities set out on page 80, the Chief Finance Officer is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether

caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Transport for London's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Group and the Corporation as at 31 March 2012 and of the Group's and Corporation's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Independent Auditor's Report (continued)

Matters on which we report by exception

We have nothing to report in respect of the following matters where the Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- any matters have been reported in the public interest under section 8 of the Audit Commission Act 1998 in the course of, or at the end of, the audit; or
- any audit recommendations have been designated under section 11 of the Audit Commission Act 1998; or
- we have exercised any other special powers of the auditor under the Audit Commission Act 1998

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

Corporation's responsibilities

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

Auditor's responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Corporation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice 2010 for Local Government Bodies issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements,

having regard to relevant criteria specified by the Audit Commission.

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

Basis of conclusion

We have undertaken our work in accordance with the Code of Audit Practice 2010 for Local Government Bodies, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Corporation has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice 2010 for Local Government Bodies in satisfying ourselves whether the Corporation has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

We planned and performed our work in accordance with the Code of Audit Practice 2010 for Local Government Bodies. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Corporation had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, we are satisfied that, in all significant respects, the Corporation put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

We certify that we have completed the audit of the financial statements of Transport for London Group and Corporation in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for Local Government Bodies issued by the Audit Commission.



W Southwood
For and on behalf of
KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
13 July 2012

Group Comprehensive Income and Expenditure Statement

| Year ended 31 March | Note | 2012 £m | 2011 £m |
|--|------|------------------|------------|
| Highways and Transport Services | | | |
| Gross income | 1 | 4,180.9 | 3,884.2 |
| Gross expenditure | 3 | (6,230.4) | (6,066.6) |
| Net cost of services | 2 | (2,049.5) | (2,182.4) |
| Other operating income/(expenditure) | 6 | 2.5 | (321.8) |
| Financing and investment income | 7 | 441.7 | 408.0 |
| Financing and investment expenditure | 8 | (943.3) | (813.0) |
| Grant income | 9 | 4,823.1 | 4,672.6 |
| Surplus on the provision of services before tax | 2 | 2,274.5 | 1,763.4 |
| Taxation income | 10 | 1.5 | 1.3 |
| Surplus on the provision of services after tax | | 2,276.0 | 1,764.7 |
| Other comprehensive income and expenditure | | | |
| Surplus on the revaluation of property, plant and equipment * | | 4.9 | 0.9 |
| Movement in the fair value of derivative financial instruments * | | (121.4) | 4.4 |
| Actuarial (loss)/ gain on defined benefit pension schemes * | 29 | (755.2) | 647.2 |
| | | (871.7) | 652.5 |
| Total comprehensive income and expenditure | | 1,404.3 | 2,417.2 |

* There is no tax effect of these items on other comprehensive income and expenditure in the years ended 31 March 2011 or 2012 (note 10).

Group Balance Sheet

| | Note | 31 March 2012 £m | 31 March 2011 £m |
|---|------|------------------------|------------------------|
| Long-term assets | | | |
| Intangible assets | 11 | 114.0 | 139.6 |
| Property, plant and equipment | 12 | 25,106.0 | 23,404.7 |
| Investment property | 13 | 307.7 | 294.3 |
| Derivative financial instruments | 23 | - | 4.9 |
| Long-term debtors | 16 | 164.4 | 6.9 |
| | | 25,692.1 | 23,850.4 |
| Current assets | | | |
| Inventories | 15 | 37.6 | 35.6 |
| Short-term debtors | 16 | 523.3 | 600.4 |
| Current tax assets | | - | 14.5 |
| Short-term derivative financial instruments | 23 | 0.8 | - |
| Short-term investments | 17 | 2,582.9 | 2,012.7 |
| Cash and cash equivalents | 18 | 78.8 | 54.1 |
| | | 3,223.4 | 2,717.3 |
| Current liabilities | | | |
| Short-term creditors | 19 | (1,950.1) | (1,956.8) |
| Short-term borrowings and overdrafts | 20 | (2,179.0) | (494.2) |
| Short-term finance lease liabilities | 21 | (68.2) | (69.2) |
| Short-term derivative financial instruments | 23 | (8.0) | - |
| Short-term provisions | 24 | (140.8) | (254.1) |
| | | (4,346.1) | (2,774.3) |
| Long-term liabilities | | | |
| Long-term creditors | 19 | (51.3) | (55.6) |
| Long-term borrowings | 20 | (4,943.9) | (5,892.5) |
| Long-term finance lease liabilities | 21 | (959.3) | (1,349.8) |
| Long-term derivative financial instruments | 23 | (74.0) | (0.5) |
| Long-term provisions | 24 | (134.7) | (165.7) |
| Retirement benefit obligation | 29 | (2,292.7) | (1,620.1) |
| | | (8,455.9) | (9,084.2) |
| Net assets | | 16,113.5 | 14,709.2 |
| Reserves | | | |
| Usable reserves | | 2,413.3 | 1,870.0 |
| Unusable reserves | 32 | 13,700.2 | 12,839.2 |
| Total reserves | | 16,113.5 | 14,709.2 |

The notes on pages 92 to 199 form part of these financial statements.
These financial statements were approved by the Board on 27 June 2012
and signed on its behalf by:


Boris Johnson, Chair of TfL

Group Movement in Reserves Statement

| | Note | General fund £m | Earmarked reserves £m | Capital grants unapplied account £m | Usable reserves £m | Unusable reserves £m | Total reserves £m |
|---|------|--------------------|--------------------------|--|-----------------------|-------------------------|----------------------|
| At 1 April 2010 | | 163.5 | 706.0 | 172.0 | 1,041.5 | 11,250.5 | 12,292.0 |
| Movement in reserves during 2010/11 | | | | | | | |
| Surplus on the provision of services after tax | | 1,140.3 | - | - | 1,140.3 | 624.4 | 1,764.7 |
| Other comprehensive income and expenditure | | - | - | - | - | 652.5 | 652.5 |
| Total comprehensive income and expenditure | | 1,140.3 | - | - | 1,140.3 | 1,276.9 | 2,417.2 |
| Adjustments between accounting basis and funding basis under regulations | 34 | (1,337.0) | - | 1,025.2 | (311.8) | 311.8 | - |
| Net increase/ (decrease) before transfer to/ from earmarked reserves | | (196.7) | - | 1,025.2 | 828.5 | 1,588.7 | 2,417.2 |
| Transfer to/ (from) earmarked reserves | | 187.6 | (187.6) | - | - | - | - |
| Increase/ (decrease) in 2010/11 | | (9.1) | (187.6) | 1,025.2 | 828.5 | 1,588.7 | 2,417.2 |
| Balance at 31 March 2011 | | 154.4 | 518.4 | 1,197.2 | 1,870.0 | 12,839.2 | 14,709.2 |
| Movement in reserves during 2011/12 | | | | | | | |
| Surplus on the provision of services after tax | | 1,509.8 | - | - | 1,509.8 | 766.2 | 2,276.0 |
| Other comprehensive income and expenditure | | - | - | - | - | (871.7) | (871.7) |
| Total comprehensive income and expenditure | | 1,509.8 | - | - | 1,509.8 | (105.5) | 1,404.3 |
| Adjustments between accounting basis and funding basis under regulations | 34 | (1,165.2) | - | 198.7 | (966.5) | 966.5 | - |
| Net increase before transfer to/ from earmarked reserves | | 344.6 | - | 198.7 | 543.3 | 861.0 | 1,404.3 |
| Transfer to/ (from) earmarked reserves | | (336.6) | 336.6 | - | - | - | - |
| Increase in 2011/12 | | 8.0 | 336.6 | 198.7 | 543.3 | 861.0 | 1,404.3 |
| Balance at 31 March 2012 | | 162.4 | 855.0 | 1,395.9 | 2,413.3 | 13,700.2 | 16,113.5 |

Earmarked reserves have been established to finance future capital projects, consistent with TfL's approved Business Plan, and form part of the overall funding available for the Investment programme. In addition, reserves have been set aside to finance certain capital projects not included in the approved Business Plan but committed to by the Board. Earmarked reserves will be expended over the period to 31 March 2015 on a number of major capital programmes.

Group Statement of Cash Flows

| | Note | 2012 £m | 2011 £m |
|--|------|------------------|------------|
| Year ended 31 March | | | |
| Surplus on the provision of services after tax | | 2,276.0 | 1,764.7 |
| Adjustments to surplus after tax for non-cash movements | 30 a | (1,847.9) | (1,760.1) |
| Net cash flows from operating activities | | 428.1 | 4.6 |
| Investing activities | 30 b | (181.0) | 479 |
| Financing activities | 30 c | (222.4) | (35.3) |
| Net increase in cash and cash equivalents in the year | | 24.7 | 17.2 |
| Cash and cash equivalents at the start of the year | | 54.1 | 36.9 |
| Cash and cash equivalents at the end of the year | | 78.8 | 54.1 |

Corporation Comprehensive Income and Expenditure Statement

| Year ended 31 March | Note | 2012 £m | 2011 £m |
|---|------|----------------|------------|
| Highways and Transport Services | | | |
| Gross income | | 336.0 | 382.2 |
| Gross expenditure | 3 | (1,162.8) | (1,023.7) |
| Net cost of services | | (826.8) | (641.5) |
| Other operating expenditure | 6 | (2.4) | (39.2) |
| Financing and investment income | 7 | 260.1 | 147.8 |
| Financing and investment expenditure | 8 | (493.0) | (274.1) |
| Grant income | 9 | 4,727.5 | 4,553.6 |
| Grant funding of subsidiaries | | (2,155.6) | (2,606.3) |
| Surplus on the provision of services | | 1,509.8 | 1,140.3 |
| Other comprehensive income and expenditure | | | |
| Actuarial (loss)/ gain on defined benefit pension schemes | 29 | (12.7) | 16.6 |
| Total comprehensive income and expenditure | | 1,497.1 | 1,156.9 |

Corporation Balance Sheet

| | Note | 31 March 2012 £m | 31 March 2011 £m |
|--------------------------------------|------|------------------------|------------------------|
| Long-term assets | | | |
| Intangible assets | 11 | 51.8 | 89.3 |
| Property, plant and equipment | 12 | 3,433.2 | 3,370.3 |
| Investment property | 13 | 21.6 | 13.8 |
| Long-term investments | 14 | 1,122.5 | 472.5 |
| Long-term debtors | 16 | 6,498.9 | 5,285.3 |
| | | 11,128.0 | 9,231.2 |
| Current assets | | | |
| Inventories | 15 | 2.9 | 3.2 |
| Short-term debtors | 16 | 140.3 | 331.7 |
| Short-term investments | 17 | 2,574.3 | 1,978.9 |
| Cash and cash equivalents | 18 | 7.5 | - |
| | | 2,725.0 | 2,313.8 |
| Current liabilities | | | |
| Short-term creditors | 19 | (620.7) | (514.9) |
| Short-term borrowings and overdrafts | 20 | (2,179.0) | (495.7) |
| Short-term finance lease liabilities | 21 | (7.8) | (7.4) |
| Short-term provisions | 24 | (132.4) | (224.3) |
| | | (2,939.9) | (1,242.3) |
| Long-term liabilities | | | |
| Long-term creditors | 19 | (14.5) | (23.7) |
| Long-term borrowings | 20 | (4,951.6) | (5,848.1) |
| Long-term finance lease liabilities | 21 | (187.1) | (194.9) |
| Long-term provisions | 24 | (112.6) | (100.8) |
| Retirement benefit obligation | 29 | (69.4) | (54.4) |
| | | (5,335.2) | (6,221.9) |
| Net assets | | 5,577.9 | 4,080.8 |
| Reserves | | | |
| Usable reserves | | 2,413.3 | 1,870.0 |
| Unusable reserves | 32 | 3,164.6 | 2,210.8 |
| Total reserves | | 5,577.9 | 4,080.8 |

The notes on pages 92 to 199 form part of these financial statements.
These financial statements were approved by the Board on 27 June 2012 and signed on its behalf by:


Boris Johnson, Chair of TfL

Corporation Movement in Reserves Statement

| | Note | General fund £m | Earmarked reserves £m | Capital grants unapplied account £m | Usable reserves £m | Unusable reserves £m | Total reserves £m |
|---|------|--------------------|--------------------------|--|-----------------------|-------------------------|----------------------|
| At 1 April 2010 | | 163.5 | 706.0 | 172.0 | 1,041.5 | 1,882.4 | 2,923.9 |
| Movement in reserves during 2010/11 | | | | | | | |
| Surplus on the provision of services | | 1,140.3 | - | - | 1,140.3 | - | 1,140.3 |
| Other comprehensive income and expenditure | | - | - | - | - | 16.6 | 16.6 |
| Total comprehensive income and expenditure | | 1,140.3 | - | - | 1,140.3 | 16.6 | 1,156.9 |
| Adjustments between accounting basis and funding basis under regulations | 34 | (1,337.0) | - | 1,025.2 | (311.8) | 311.8 | - |
| Net increase/ (decrease) before transfer to/ from earmarked reserves | | (196.7) | - | 1,025.2 | 828.5 | 328.4 | 1,156.9 |
| Transfer to/ (from) earmarked reserves | | 187.6 | (187.6) | - | - | - | - |
| Increase/ (decrease) in 2010/11 | | (9.1) | (187.6) | 1,025.2 | 828.5 | 328.4 | 1,156.9 |
| Balance at 31 March 2011 | | 154.4 | 518.4 | 1,197.2 | 1,870.0 | 2,210.8 | 4,080.8 |
| Movement in reserves during 2011/12 | | | | | | | |
| Surplus on the provision of services | | 1,509.8 | - | - | 1,509.8 | - | 1,509.8 |
| Other comprehensive income and expenditure | | - | - | - | - | (12.7) | (12.7) |
| Total comprehensive income and expenditure | | 1,509.8 | - | - | 1,509.8 | (12.7) | 1,497.1 |
| Adjustments between accounting basis and funding basis under regulations | 34 | (1,165.2) | - | 198.7 | (966.5) | 966.5 | - |
| Net increase before transfers to/ from earmarked reserves | | 344.6 | - | 198.7 | 543.3 | 953.8 | 1,497.1 |
| Transfer to/ (from) earmarked reserves | | (336.6) | 336.6 | - | - | - | - |
| Increase in 2011/12 | | 8.0 | 336.6 | 198.7 | 543.3 | 953.8 | 1,497.1 |
| Balance at 31 March 2012 | | 162.4 | 855.0 | 1,395.9 | 2,413.3 | 3,164.6 | 5,577.9 |

Earmarked reserves have been established to finance future capital projects, consistent with TfL's approved Business Plan, and form part of the overall funding available for the Investment Programme. In addition, reserves have been set aside to finance certain capital projects not included in the approved Business Plan, but committed to by the Board. Earmarked reserves will be expended over the period to 31 March 2015 on a number of major capital programmes.

Corporation Statement of Cash Flows

| | Note | 2012 £m | 2011 £m |
|--|------|------------------|--------------|
| Year ended 31 March | | | |
| Net surplus on the provision of services | | 1,509.8 | 1,140.3 |
| Adjustments to net surplus for non-cash movements | 30 a | (1,208.8) | (1,056.2) |
| Net cash flows from operating activities | | 301.0 | 84.1 |
| Investing activities | 30 b | (670.4) | (2,043.4) |
| Financing activities | 30 c | 378.4 | 1,950.8 |
| Net increase/ (decrease) in cash and cash equivalents in the year | | 9.0 | (8.5) |
| Cash and cash equivalents/ (overdrafts) at the start of the year | | (1.5) | 7.0 |
| Cash and cash equivalents/ (overdrafts) at the end of the year | | 7.5 | (1.5) |

Accounting Policies

a) Code of practice

TfL is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011 (the 2011 Regulations), which those Regulations require to be prepared in accordance with proper accounting practices. The Statement of Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code), as amended by the 2011/12 Code Update, 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 2011 Regulations.

The Code for 2011/12 is based on International Financial Reporting Standards adopted by the EU ('Adopted IFRS') and requires that local authorities prepare their financial statements in accordance with the International Accounting Standards Board 'Framework for the Preparation and Presentation of Financial Statements' as interpreted by the Code.

The Code is compliant with Adopted IFRS except for:

Capital grants and contributions

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

FRS 30 Heritage Assets

The 2011/12 Code, for the first time, has adopted the requirements of FRS 30 Heritage

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

IAS 36 Impairment of Assets

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

b) Basis of preparation

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

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

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

Where items are sufficiently significant by virtue of their size or nature, they are disclosed separately in the financial

statements in order to aid the reader's understanding of the Corporation's and Group's financial performance.

c) Basis of consolidation

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

The Group financial statements presented with the Corporation's financial statements consolidate the individual financial statements of TfL and its subsidiary undertakings.

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

d) Going concern

The financial statements have been prepared on a going concern basis as it is considered by the Board that TfL will continue in operational existence for the foreseeable future and meet its liabilities as they fall due for payment.

e) The application of new and revised standards

The provisions of FRS 30 Heritage Assets have for the first time been incorporated into the 2011/12 Code, resulting in a change in accounting policy for the year ended 31 March 2012. 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 Corporation's collection of transport-related

artefacts held at the London Transport Museum. Due to the diverse nature of the assets held and the lack of comparable values, TfL considers it impracticable to obtain a valuation of its heritage assets at a cost which is commensurate with the benefits to users of the financial statements, and has therefore taken the exemption available under the Code to hold heritage assets at historical cost less any accumulated depreciation or impairment losses.

Improvements to IFRSs issued in 2010 has also been adopted in these consolidated financial statements. Its application has not had any material impact on the amounts reported for the current and prior years, but may affect the accounting for future transactions or arrangements.

f) 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.

g) Uses of estimates and judgements

The preparation of financial statements in conformity with the Code requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed below:

Accounting Policies (continued)

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Goodwill recognised on the acquisition of the WARE and CARE group of companies was assessed for impairment during the year and written down to £nil as outlined in note 31.

Valuation of acquired businesses

Judgement and estimation is required in the identification and valuation of separable assets and liabilities on acquisitions. Judgement and estimation is also required in determining contingent consideration payable in respect of acquisitions. Details of the fair value of the net liabilities of the WARE and CARE group of companies acquired during the year, and of the contingent consideration receivable are set out in note 31.

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 29.

Useful economic life of property, plant and equipment

When determining the useful economic life of property, plant and equipment judgement needs to be exercised in estimating the length of time that the assets will be operational.

Derivative financial instruments

The Group uses derivative financial instruments to manage certain exposures to fluctuations in foreign currency exchange rates and interest rates. In making its assessment and judgements, the Group assesses the effectiveness of the derivatives and changes in their fair values. Note 28 and the accounting policies note on financial instruments (note ac) 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. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Determining whether an arrangement contains a lease

When determining whether an arrangement contains a lease, as required by IFRIC 4, judgement needs to be exercised in determining whether the arrangement conveys the right to use an asset. Given that this could result in additional finance leases being recognised on the balance sheet this can have a significant effect on the reported financial position of the Group.

Classification of investment properties

IAS 40 Investment properties ('IAS 40') requires that properties are classified as investment properties where they are held for the purpose of capital appreciation or to earn rentals. The Group owns a number of commercial properties as part of its infrastructure where part of the property is leased out to third parties. Judgement needs to be exercised in determining whether these properties should be classified as investment properties in accordance with IAS 40. As investment properties are valued at fair value with movements in the fair value being recorded in the Comprehensive Income and Expenditure Statement this could have a significant effect on the financial performance of the Group.

Leases

In assessing whether a lease is an operating lease or a finance lease, judgement needs to be exercised in determining whether or not substantially all the risks and rewards of ownership of the leased asset are held by the Group. Given that finance lease obligations are recognised as liabilities, and operating lease obligations are not, this can have a significant effect on the reported financial position of the Group.

Provisions

Judgement and estimation techniques are employed in the calculation of the best estimate of the amount required to settle obligations, including determining how likely it is that expenditure will be required by the Group. This can be very complex, especially when there is a wide range of possible outcomes. More details are given in note 24.

Investment property

Investment property, which is held to earn rentals and/or capital appreciation, is stated at its fair value at the balance sheet date. Gains and losses from changes in the fair value of investment property are included in the Comprehensive Income and Expenditure statement for the period in which they arise.

Office buildings

Office buildings held within property, plant and equipment are held at fair value (open market value on an existing use basis), as calculated by internal and external professionally qualified surveyors in accordance with Royal Institution of Chartered Surveyors (RICS) Guidelines. Movements in the fair value of the property are taken to the revaluation reserve.

h) Revenue recognition

Revenue is generated from the provision of travel, the letting of commercial advertising space and the rental of commercial properties.

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

Fares revenue

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

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

Revenue from the London Borough Councils in respect of free travel for the elderly and disabled is recognised on a straight line basis over the financial year to which the settlement relates.

Congestion Charging

The standard daily congestion charge, including those paying through Auto-pay, is recognised as income on the day the eligible vehicle enters the congestion charge areas. Prepayments by fleets of vehicles are deferred to the balance sheet and released on a daily basis as the vehicles enter the congestion charge area.

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

Road network compliance

Income from penalty charge notices is recognised as they become due. Each increase in charge results in income being recognised in full at that date.

Accounting Policies (continued)

Taxi licensing

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

Commercial advertising

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

Rental income

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

i) Segmental reporting

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

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

- London Underground (including former Metronet businesses) – Provision of passenger rail services and refurbishment and maintenance of certain parts of the rail network
- Tube Lines – Refurbishment and maintenance certain parts of the rail network (Jubilee, Northern and Piccadilly lines)
- London Rail – Provision of passenger rail services
- Surface Transport – Provision of surface transport, and maintenance of London's roads
- Corporate Directorate – Provision of TfL wide services, property investment, commercial advertising, and the development of corporate strategy and policy, including grants made to fund the operations of the Museum.

j) Grants and other funding

The main source of grant is Transport Grant, which is non-specific in that it is applied both to maintaining services and to fund capital expenditure. Other key funding streams include specific capital grants from the Department for Transport and the Greater London Authority for the Crossrail project and grants for transport related works in preparation for the London 2012 Olympic and Paralympic Games from the Olympic Delivery Authority.

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

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

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

k) Financing and Investment income and expenses

Financing and investment income comprises

interest income on funds invested, premiums received on the early settlement of borrowings, and the expected return on pension assets. 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 interest expense on borrowings and finance lease liabilities and the expected cost of pension scheme defined benefit obligations. Also included are premiums paid on the early settlement of borrowings and interest rate derivatives. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the Comprehensive Income and Expenditure Statement using the effective interest rate method.

l) Taxation

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

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

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

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is

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

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

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

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.

m) Business combinations

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

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

Accounting Policies (continued)

n) Intangible assets

Goodwill

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

Other intangible assets

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

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

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

| | | |
|----------------|---------------|-----------|
| Software costs | Straight-line | 3-5 years |
|----------------|---------------|-----------|

o) Property, plant and equipment Recognition and measurement

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

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

Office buildings are valued at fair value (open market value on an existing use basis), by internal and external professionally qualified surveyors in accordance with Royal Institution of Chartered Surveyors (RICS) Guidelines. Valuations are performed on a rolling basis, with approximately 75 per cent of the portfolio by value being valued each year. Movements in the fair value of the property are taken to the revaluation reserve.

The cost of certain items of property, plant and equipment was determined by reference to a previous GAAP revaluation. The Group elected to apply the optional exemption to use this previous revaluation 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 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.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment

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

Depreciation

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

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

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

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

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

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

p) Heritage assets

Property, plant and equipment includes a number of assets classified as heritage assets in accordance with the Code. Heritage assets are those assets that are intended to be preserved in trust for future generations

because of their cultural, environmental or historical associations. These provisions apply to the collection of transport-related artefacts held at the London Transport Museum. Due to the diverse nature of the assets held and the lack of comparable market values, TfL considers it impracticable to obtain a valuation of its heritage assets at a cost which is commensurate with the benefits to users of the financial statements, and has therefore taken the exemption available under the Code to hold its heritage assets at historical cost less any accumulated depreciation or impairment losses.

q) Investment property

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

Investment property is measured initially at cost, including transaction costs, and subsequently measured at fair value with any change therein recognised in the Comprehensive Income and Expenditure Statement. 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.

Properties are valued by internal and external professionally qualified surveyors in accordance with Royal Institution of Chartered Surveyors (RICS) Guidelines. Properties with a carrying value in excess of £5,000,000 are valued annually. Properties with a value in excess of £250,000 but less than £5,000,000 are revalued every three years. Properties with a value in excess of £100,000 but less than £250,000 are revalued every five years.

Accounting Policies (continued)

r) Inventories

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

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

s) Non-current assets held for sale

Non-current 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, non-current 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 non-current assets (including those in disposal groups) classified as held for sale.

t) 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'). At the transition

date, the majority of the projects funded by borrowing, including Crossrail, had already commenced and are therefore not impacted by 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.

u) 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.

v) 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 note ac) below for hedging accounting policies).

w) Leases (the Group as lessee)

Leased assets

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

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

Lease payments

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

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

Determining whether an arrangement contains a lease

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

At inception or upon reassessment of the arrangement, the Group separates payments

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

x) Leases (the Group as lessor)

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

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

y) 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 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.

Accounting Policies (continued)

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

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

Services received

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

Assets

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

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

Liabilities

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

An annual finance cost is calculated by applying the implicit interest rate in the lease to the opening lease liability for the year, and is charged to 'Financing and Investment Expenditure' within the 'Comprehensive Income and Expenditure Statement'.

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

Life cycle replacement

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

Off balance sheet PFI and PPP arrangements which are accounted for as operating leases are dealt with as detailed in note v) above.

z) Impairment of non-financial assets

At each balance sheet date, the Group reviews the carrying amount of those assets that are subject to amortisation to determine whether there is an indication that any of those assets has suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

Impairment occurs when an asset's carrying value is below its recoverable amount. An asset's recoverable amount is the higher of its value in use and its fair value less costs to sell.

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

An impairment review is completed for all assets on an annual basis and additionally when there is an indication that an asset may be impaired.

aa) Employee benefits

Defined benefit plans

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

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

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 defined benefit obligations 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. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the Comprehensive Income and Expenditure Statement, actuarial gains and losses. Generally, amounts are charged to operating expenditure on the basis of the current service cost of the present employees that are members of the schemes.

Defined benefit plans – 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. The Group's contributions are charged to the

Comprehensive Income and Expenditure Statement as incurred.

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 also made to the pensions of certain employees who retired prior to the index linking of pensions. The Group augments the pensions of certain employees who retire early under voluntary severance arrangements. 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.

ab) 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, and the capital grants unapplied account.

Unusable reserves cannot be applied to fund expenditure as they are not cash backed. They include the capital adjustment account,

Accounting Policies (continued)

pension reserve, the hedging reserve, the financial instruments adjustment account, the retained earnings reserve in subsidiaries and the fixed asset revaluation reserve.

ac) Financial instruments

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

- Financial assets at fair value through the Comprehensive Income and Expenditure Statement
- Loans and receivables; or
- Available for sale financial assets

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

The Group determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each financial year end. When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus any directly attributable transactional costs. The exception to this is for assets and liabilities measured at fair value, where transaction costs are immediately expensed.

The subsequent measurement of financial instruments depends on their classification as follows:

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

Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives are also classified as held for trading unless they are designated as

hedging instruments. Assets are carried in the balance sheet at fair value with gains or losses recognised in the Comprehensive Income and Expenditure Statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, do not qualify as trading assets and have not been designated as either 'fair value through the Comprehensive Income and Expenditure Statement' or 'available for sale'. Such assets are carried at amortised cost using the effective interest rate method if the time value of money is significant. Gains and losses are recognised in the Comprehensive Income and Expenditure Statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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

Other investments

Other investments are classified as loans and receivables financial instruments and include short-term deposits with Government or banks, including Money Market Fund investments.

Trade and other receivables

Trade and other receivables are classified as loans and receivables financial assets and are recognised initially at fair value and subsequently at amortised cost. For trade receivables this is after an allowance for estimated impairment. The allowance is based on objective evidence that the Group will not be able to recover all amounts due, through

a review of all accounts and prior experience of collecting outstanding balances. Changes in the carrying amount of the allowance are recognised in the Comprehensive Income and Expenditure Statement.

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

Available for sale financial assets

'Available for sale financial assets' are non-derivative financial assets that are designated as such or are not classified in any of the other categories. After initial recognition, interest is taken to the Comprehensive Income and Expenditure Statement using the effective interest rate method and the assets are measured at fair value with gains or losses being recognised as a separate component of reserves until the investment is derecognised, or until the investment is deemed to be impaired at which time the cumulative gain or loss previously reported in reserves is included in the Comprehensive Income and Expenditure Statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturity of less than or equal to three months. Cash equivalents are classified as loans and receivables financial instruments.

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

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

Financial liabilities measured at amortised cost

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

Trade and other creditors

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

Interest bearing loans and borrowings

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

Obligations under finance leases and PFI arrangements

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

Derivative financial instruments

The Group uses derivative financial instruments to manage certain exposures to fluctuations in foreign currency exchange rates and interest rates. The Group does not hold or issue derivative instruments for speculative purposes. The use of derivatives is governed by the Group's policies, approved by the Board. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. The resulting gain or loss is recognised in

Accounting Policies (continued)

profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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

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

Hedge accounting

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

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge

transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Derivatives qualify for hedge accounting if changes in the fair value or cash flows of the hedging instrument attributable to the hedged risk are expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedged item on a prospective basis and on a retrospective basis where actual results are within a range of 80 per cent to 125 per cent. Where derivatives or portions of hedges do not qualify for hedge accounting, they are recorded at fair value through the Comprehensive Income and Expenditure Statement and any change in value is immediately recognised in the Comprehensive Income and Expenditure Statement.

Cash flow hedges

Derivative instruments are classified as cash flow hedges when they hedge the Group's exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction. Derivative instruments qualifying for treatment as cash flow hedges are principally interest rate swaps and foreign currency forward exchange contracts.

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

Amounts deferred in reserves are recycled in profit or loss in the periods when the hedged items (the hedged asset or liability)

are recognised in the Comprehensive Income and Expenditure Statement. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the related asset or liability.

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

Fair value measurement of financial instruments

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date, within Level 1 of the fair value hierarchy as defined within IFRS 7.

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

In the absence of quoted market prices, derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date). Hence, derivatives are within Level 2 of the fair value hierarchy as defined within IFRS 7.

Impairment of financial assets

Financial assets are assessed at each balance sheet date to determine whether there is any objective evidence that they are impaired. Individually significant financial assets are tested for impairment on an individual basis. All impairment losses are recognised in the Comprehensive Income and Expenditure Statement.

Embedded derivatives

Derivatives that are embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts, and the host contracts are not carried at fair value. Embedded derivatives are carried on the balance sheet at fair value from inception of the host contract. Unrealised changes in fair value are recognised as gains/losses within the Comprehensive Income and Expenditure Statement during the period in which they arise.

1. Gross income

a) Gross income

| Year ended 31 March | 2012 £m | % of total | 2011 £m | % of total |
|--|----------------|---------------|----------------|---------------|
| Fares | 3,271.1 | 78.2 | 2,942.3 | 75.8 |
| Revenue in respect of free travel for the elderly and disabled | 275.5 | 6.6 | 251.0 | 6.5 |
| Congestion Charging | 226.7 | 5.4 | 286.5 | 7.4 |
| Charges to London boroughs | 14.3 | 0.3 | 13.2 | 0.3 |
| Charges to transport operators | 8.9 | 0.2 | 8.3 | 0.2 |
| Road Network compliance income | 43.6 | 1.0 | 41.7 | 1.1 |
| Commercial advertising receipts | 129.7 | 3.1 | 109.6 | 2.8 |
| Rents receivable | 53.4 | 1.3 | 59.2 | 1.5 |
| Contributions from third parties to operating costs | 45.1 | 1.1 | 28.1 | 0.7 |
| Taxi licensing | 20.6 | 0.5 | 20.6 | 0.5 |
| Ticket and photocard commission income | 11.1 | 0.3 | 11.4 | 0.3 |
| ATM and car parking income | 9.5 | 0.2 | 10.5 | 0.3 |
| Museum income | 5.5 | 0.1 | 5.1 | 0.1 |
| Other | 65.9 | 1.7 | 96.7 | 2.5 |
| | 4,180.9 | 100.0 | 3,884.2 | 100.0 |

b) Congestion charging

| | Group and Corporation 2012 £m | Group and Corporation 2011 £m |
|---|--|--|
| Income | 226.7 | 286.5 |
| Toll facilities and traffic management | (81.2) | (102.6) |
| | 145.5 | 183.9 |
| Administration, support services and depreciation | (8.7) | (10.4) |
| Net income from Congestion Charging | 136.8 | 173.5 |

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

2. Segmental analysis

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

Year ended 31 March 2012

| | London Underground £m | Tube Lines £m | London Rail £m | Surface Transport £m | Corporate items £m | Total £m |
|--|-----------------------------|------------------|-------------------|----------------------------|--------------------------|------------------|
| Income | 2,166.6 | 12.4 | 224.7 | 1,687.8 | 51.0 | 4,142.5 |
| Expenditure | (1,736.0) | (397.9) | (315.4) | (2,575.0) | (341.6) | (5,365.9) |
| Net operating income/ (expenditure) | 430.6 | (385.5) | (90.7) | (887.2) | (290.6) | (1,223.4) |

Year ended 31 March 2011

| | London Underground £m | Tube Lines £m | London Rail £m | Surface Transport £m | Corporate items £m | Total £m |
|--|-----------------------------|------------------|-------------------|----------------------------|--------------------------|------------------|
| Income | 1,932.2 | 8.3 | 196.4 | 1,687.1 | 54.4 | 3,878.4 |
| Expenditure | (1,799.4) | (255.3) | (303.0) | (2,580.0) | (286.6) | (5,224.3) |
| Net operating income/ (expenditure) | 132.8 | (247.0) | (106.6) | (892.9) | (232.2) | (1,345.9) |

2. Segmental analysis (continued)

The segmental analysis is prepared using internal management reporting accounting methodologies. In some cases, these methodologies are different from the accounting policies used in the financial statements. The main differences between the methodologies are explained below and reconciliations between the two are included on the following pages:

- Ad hoc items which do not fit into any of the reporting segments are known internally as 'Group items'. Group items are reported separately to management and are not included in the segmental analysis
- Due to its charitable status, London Transport Museum is treated at arm's length for management reporting and the only entry in relation to the museum in the management reports is the grant that TfL has agreed to pay the Museum
- Depreciation, amortisation and impairment charges are not included in the segmental analysis
- Changes resulting from the adoption of IFRS were not included in internal management reporting for the year ended 31 March 2011, but they were included for the year ended 31 March 2012
- The cost of retirement benefits in the management reports is based on cash flows rather than the current service costs of benefits accrued in the year
- The capital elements (i.e. capital repayment and financing costs) relating to PPP and PFI contracts are included in the management reports in net operating expenditure but they are not included in net cost of services in the Comprehensive Income and Expenditure Statement
- Some interest income and debt servicing costs in the subsidiaries are included in net operating expenditure in the management reports but they are not included in net cost of services in the Comprehensive Income and Expenditure Statement

2. Segmental analysis (continued)

Reconciliation of net operating expenditure per the segmental analysis to net cost of services for the year ended 31 March 2012

| | £m | £m |
|--|---------|------------------|
| Net operating expenditure per the segmental analysis | | (1,223.4) |
| Net expenditure of services not included in the segmental analysis | | |
| Group items | 1.4 | |
| Museum net revenue cost | (5.7) | |
| | | (4.3) |
| Amounts included in the Comprehensive Income and Expenditure Statement not reported to management in the segmental analysis | | |
| Depreciation | (895.3) | |
| Amortisation | (52.7) | |
| Goodwill write off | (106.3) | |
| Pension service costs (note 29) | (181.2) | |
| | | (1,235.5) |
| Amounts included in the segmental analysis not included in the Comprehensive Income and Expenditure Statement | | |
| Capital and interest payments under the PPP and PFI schemes | 145.2 | |
| Pension payments charged to operating costs | 262.7 | |
| Grant funding of museum | 5.8 | |
| | | 413.7 |
| Net cost of services | | (2,049.5) |

2. Segmental analysis (continued)

Reconciliation of net operating expenditure per the segmental analysis to net cost of services for the year ended 31 March 2011

| | £m | £m |
|--|---------|-----------|
| Net operating expenditure per the segmental analysis | | (1,345.9) |
| Net expenditure of services not included in the segmental analysis | | |
| Group items | 9.0 | |
| Museum net revenue cost | (4.8) | |
| | | 4.2 |
| Amounts included in the Comprehensive Income and Expenditure Statement not reported to management in the segmental analysis | | |
| Depreciation | (882.5) | |
| Amortisation of deferred capital grants | 456.2 | |
| Goodwill write off | (242.9) | |
| Pension service costs (note 29) | (205.1) | |
| IFRS adjustments | (428.2) | |
| | | (1,302.5) |
| Amounts included in the segmental analysis not included in the Comprehensive Income and Expenditure Statement | | |
| Capital and interest payments under the PPP and PFI schemes | 198.5 | |
| Pension payments charged to operating costs | 251.7 | |
| Interest charged to operating costs | 5.6 | |
| Grant funding of museum | 6.0 | |
| | | 461.8 |
| Net cost of services | | (2,182.4) |

2. Segmental analysis (continued)

Reconciliation of segmental analysis to subjective analysis for the year ended 31 March 2012

| | Net revenue cost per the segmental analysis £m | Net expenditure on services not included in the segmental analysis £m | Amounts included in the Comprehensive Income and Expenditure Statement not reported to management in the segmental analysis £m | Amounts included in the segmental analysis not included in the Comprehensive Income and Expenditure Statement £m | Total £m |
|---|---|--|---|---|------------------|
| Income | 4,142.5 | 38.4 | - | - | 4,180.9 |
| Staff costs | (1,591.8) | (4.3) | (181.2) | 262.7 | (1,514.6) |
| Other service expenses | (3,774.1) | (38.4) | - | 151.0 | (3,661.5) |
| Depreciation, amortisation and impairment | - | - | (1,054.3) | - | (1,054.3) |
| Total cost | (5,365.9) | (42.7) | (1,235.5) | 413.7 | (6,230.4) |
| Net cost of services | (1,223.4) | (4.3) | (1,235.5) | 413.7 | (2,049.5) |
| Gain on disposal of assets | | | | | 2.5 |
| Interest income | | | | | 441.7 |
| Interest payable | | | | | (943.3) |
| Non specific grant income | | | | | 4,823.1 |
| Surplus on the provision of services before taxation | | | | | 2,274.5 |

2. Segmental analysis (continued)

Reconciliation of segmental analysis to subjective analysis for the year ended 31 March 2011

| | Net revenue cost per the segmental analysis £m | Net expenditure on services not included in the segmental analysis £m | Amounts included in the Comprehensive Income and Expenditure Statement not reported to management in the segmental analysis £m | Amounts included in the segmental analysis not included in the Comprehensive Income and Expenditure Statement £m | Total £m |
|---|---|--|---|---|------------------|
| Income | 3,878.4 | 5.1 | 0.7 | - | 3,884.2 |
| Staff costs | (1,497.2) | (4.6) | (205.5) | 251.7 | (1,455.6) |
| Other service expenses | (3,727.1) | 3.7 | 37.5 | 210.1 | (3,475.8) |
| Depreciation, amortisation and impairment | - | - | (1,135.2) | - | (1,135.2) |
| Total cost | (5,224.3) | (0.9) | (1,303.2) | 461.8 | (6,066.6) |
| Net cost of services | (1,345.9) | 4.2 | (1,302.5) | 461.8 | (2,182.4) |
| Loss on disposal of assets | | | | | (321.8) |
| Interest income | | | | | 408.0 |
| Interest payable | | | | | (813.0) |
| Non-specific grant income | | | | | 4,672.6 |
| Surplus on the provision of services before taxation | | | | | 1,763.4 |

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

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

3. Gross expenditure

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

| Note | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|--------------------------------------|------------------|------------------|------------------------|------------------------|
| Staff costs: | | | | |
| Wages and salaries | 1,207.3 | 1,141.6 | 183.7 | 161.5 |
| Social security costs | 109.5 | 96.8 | 15.6 | 14.2 |
| Pension costs | 197.8 | 217.2 | 42.6 | 31.4 |
| | 1,514.6 | 1,455.6 | 241.9 | 207.1 |
| Other service expenditure | 3,661.5 | 3,475.8 | 723.4 | 622.0 |
| Depreciation | 12 | 849.7 | 158.2 | 159.8 |
| Amortisation of software intangibles | 11 | 42.6 | 39.3 | 34.8 |
| Impairment of goodwill | 11 | 242.9 | - | - |
| | 6,230.4 | 6,066.6 | 1,162.8 | 1,023.7 |

Included in the Corporation's other service expenditure is £165.7m (2010/11 £193.2m) relating to financial assistance to London boroughs and other third parties (see note 37 for detailed analysis).

The average number of persons employed in the year was:

| | Group 2012 Number | Group 2011 Number | Corporation 2012 Number | Corporation 2011 Number |
|--|----------------------|----------------------|----------------------------|----------------------------|
| Permanent staff (including fixed term contracts) | 25,668 | 26,653 | 3,490 | 3,547 |
| Agency staff | 1,826 | 1,814 | 277 | 290 |
| | 27,494 | 28,467 | 3,767 | 3,837 |

4. External audit fees

External audit fees are made up as follows:

| | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|----------------------------------|---------------------|---------------------|---------------------------|---------------------------|
| Auditor's remuneration: | | | | |
| for statutory audit services | 1.6 | 2.1 | 0.4 | 0.6 |
| for non-statutory audit services | 0.2 | 0.1 | 0.1 | 0.1 |
| for non-audit services* | - | 0.1 | - | 0.1 |
| | 1.8 | 2.3 | 0.5 | 0.8 |

* The Audit and Assurance Committee reviews and notes the nature and extent of non-audit services to ensure that independence is maintained.

5. Remuneration

a) Employees' remuneration

The Code requires the disclosure of remuneration for the Corporation's employees whose total remuneration in the year was £50,000 or more, grouped in rising bands of £5,000. The impact of the transfer of employees into and out of the Corporation from subsidiaries can cause distortion for year on year comparison purposes. This is particularly the case for the current year, when a number of employees transferred their employment from London Underground Limited to the Corporation as a result of the Horizon project, through which support functions were centralised in order to generate significant savings. Consequently, an additional voluntary disclosure for the Group is provided that shows the combined employee bands for TfL and its subsidiaries. The full year remuneration of these transferred employees has been included in the disclosures for the Corporation even though they transferred part of the way through the year.

The statutory remuneration disclosures have been further distorted in the year ended 31 March 2012 by the timing of TfL's payroll. The Code requires that disclosure of employees' remuneration be based on cash payments made in the tax year to 5 April. TfL operates a number of payrolls, the majority of which pay on a four-weekly cycle, with 13 payments in most years. Approximately once in every 22 years, the timing of the payroll is such that there are 14 payments in the financial year. This occurred for one of TfL's payrolls in the year to 5 April 2012. The inclusion of the additional payment has the effect of increasing reported remuneration, without affecting the underlying annual remuneration earned. To facilitate comparability between years, additional columns have been added to the tables showing remuneration paid over 13 periods as was disclosed in the prior year and as is expected to be disclosed in future years. The payroll run excluded from the disclosure was the first of the financial year, namely 6 April 2011.

The Group's remuneration disclosure for 2010/11 included the employees of the Tube Lines companies for the first time. The remuneration for these employees was included for a full year in order to facilitate comparison with future years.

The remuneration disclosure is also affected by the Crossrail project. The number of employees of Crossrail Limited receiving total remuneration of £50,000 or more has increased from 131 in 2010/11 to 141 in 2011/12. The corresponding figures for those receiving total remuneration of more than £100,000 are 31 for 2010/11 and 30 for 2011/12.

Total remuneration includes termination payments, and these have the effect of increasing reported remuneration. Of those disclosed as having received total remuneration of £50,000 or more on a 13-period basis, 162 have seen their total remuneration for the year exceed £50,000 due to termination payments (2010/11 184). Of those disclosed as having received total remuneration of £100,000 or more on a 13-period basis, excluding Crossrail, 112 have seen their total remuneration for the year exceed £100,000 due to termination payments (2010/11 117). Further details of termination payments are shown in note 5c.

Excluding Crossrail and the impact of termination payments referred to above, but including Tube Lines, the number of staff earning over £100,000 on a 13-period basis is 223 (2010/11 231).

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

5. Remuneration (continued)

a) Employees' remuneration

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

| £ | Group 2012 Number (cash basis) | Group 2012 Number (13 period basis) | Group 2011 Number (13 period basis) | Corporation 2012 Number (cash basis) | Corporation 2012 Number (13 period basis) | Corporation 2011 Number (13 period basis) |
|-------------------|---|---|---|---|---|---|
| 50,000 – 54,999 | 2,304 | 2,247 | 1,845 | 427 | 404 | 224 |
| 55,000 – 59,999 | 1,501 | 1,413 | 1,125 | 331 | 277 | 164 |
| 60,000 – 64,999 | 1,118 | 1,053 | 837 | 254 | 236 | 146 |
| 65,000 – 69,999 | 778 | 664 | 549 | 219 | 179 | 103 |
| 70,000 – 74,999 | 500 | 437 | 383 | 148 | 121 | 69 |
| 75,000 – 79,999 | 342 | 289 | 241 | 112 | 85 | 49 |
| 80,000 – 84,999 | 243 | 190 | 195 | 75 | 65 | 47 |
| 85,000 – 89,999 | 181 | 136 | 122 | 71 | 52 | 22 |
| 90,000 – 94,999 | 121 | 103 | 106 | 53 | 34 | 25 |
| 95,000 – 99,999 | 104 | 100 | 76 | 34 | 41 | 16 |
| 100,000 – 104,999 | 93 | 62 | 64 | 36 | 25 | 13 |
| 105,000 – 109,999 | 64 | 55 | 50 | 26 | 17 | 8 |
| 110,000 – 114,999 | 47 | 43 | 60 | 19 | 17 | 12 |
| 115,000 – 119,999 | 38 | 23 | 26 | 16 | 11 | 5 |
| 120,000 – 124,999 | 28 | 22 | 19 | 11 | 5 | 4 |
| 125,000 – 129,999 | 21 | 16 | 24 | 6 | 6 | 4 |
| 130,000 – 134,999 | 15 | 21 | 27 | 5 | 10 | 5 |
| 135,000 – 139,999 | 19 | 15 | 11 | 9 | 7 | 5 |
| 140,000 – 144,999 | 19 | 16 | 10 | 10 | 12 | 1 |
| 145,000 – 149,999 | 13 | 6 | 14 | 9 | 4 | 2 |
| 150,000 – 154,999 | 10 | 7 | 11 | 6 | 3 | 3 |
| 155,000 – 159,999 | 9 | 9 | 8 | 4 | 4 | 1 |
| 160,000 – 164,999 | 6 | 2 | 9 | 5 | 1 | 1 |
| 165,000 – 169,999 | 5 | 9 | 7 | 1 | 5 | 2 |
| 170,000 – 174,999 | 5 | 7 | 4 | 3 | 3 | - |
| 175,000 – 179,999 | 6 | 4 | 5 | 3 | 3 | 3 |
| 180,000 – 184,999 | 5 | 1 | 1 | 3 | - | 1 |
| 185,000 – 189,999 | 5 | 5 | 3 | 3 | 2 | - |
| 190,000 – 194,999 | 7 | 5 | 2 | 1 | 1 | 1 |
| 195,000 – 199,999 | 2 | 7 | - | 1 | 5 | - |
| 200,000 – 204,999 | 5 | 2 | 3 | 2 | 1 | - |
| 205,000 – 209,999 | 3 | 2 | 1 | 3 | 1 | - |
| 210,000 – 214,999 | 2 | 2 | 1 | 2 | 1 | - |
| 215,000 – 219,999 | 4 | 1 | 2 | 1 | 1 | 1 |
| 220,000 – 224,999 | 1 | 1 | 1 | 1 | - | 1 |
| 230,000 – 234,999 | 1 | 1 | 3 | - | 1 | 1 |
| 235,000 – 239,999 | - | 1 | - | - | 1 | - |

5. Remuneration (continued)

| £ | Group 2012 Number (cash basis) | Group 2012 Number (13 period basis) | Group 2011 Number (13 period basis) | Corporation 2012 Number (cash basis) | Corporation 2012 Number (13 period basis) | Corporation 2011 Number (13 period basis) |
|-------------------|---|---|---|---|---|---|
| 240,000 – 244,999 | 1 | 2 | - | 1 | 2 | - |
| 245,000 – 249,999 | 1 | - | - | 1 | - | - |
| 250,000 – 254,999 | 3 | 1 | 2 | 2 | - | - |
| 255,000 – 259,999 | - | 2 | - | - | - | - |
| 265,000 – 269,999 | 1 | 2 | 2 | - | 1 | 1 |
| 270,000 – 274,999 | 2 | 1 | 1 | - | - | - |
| 275,000 – 279,999 | 1 | - | - | 1 | - | - |
| 280,000 – 284,999 | - | - | 1 | - | - | - |
| 285,000 – 289,999 | 1 | 1 | 1 | - | 1 | 1 |
| 295,000 – 299,999 | 1 | 2 | - | - | 1 | - |
| 300,000 – 304,999 | 1 | - | - | 1 | - | - |
| 305,000 – 309,999 | - | 1 | 1 | - | - | - |
| 310,000 – 314,999 | 2 | 3 | - | 1 | - | - |
| 315,000 – 319,999 | 1 | 1 | - | - | 1 | - |
| 320,000 – 324,999 | 1 | - | - | - | - | - |
| 325,000 – 329,999 | - | - | 1 | - | - | - |
| 330,000 – 334,999 | 2 | 1 | 1 | 1 | 1 | 1 |
| 355,000 – 359,999 | 1 | - | - | 1 | - | - |
| 365,000 – 369,999 | - | - | 1 | - | - | - |
| 380,000 – 384,999 | 1 | 1 | - | - | - | - |
| 385,000 – 389,999 | - | - | 1 | - | - | - |
| 400,000 – 404,999 | 1 | 1 | - | - | - | - |
| 495,000 – 499,999 | - | 1 | - | - | - | - |
| 510,000 – 514,999 | 1 | - | - | - | - | - |
| 855,000 – 859,999 | - | - | 1 | - | - | - |
| Total | 7,647 | 6,997 | 5,858 | 1,919 | 1,648 | 942 |

b) Remuneration for senior employees

The Accounts and Audit Regulations 2011 require disclosure of individual remuneration details for senior employees. Senior employees are those with a base salary of £150,000 or more, calculated on a full-time equivalent basis for those working part-time.

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

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

The basis of disclosure has been restated this year to include salary, fees and allowances on an earned basis, rather than the cash basis previously used. This avoids the distortion caused by the variable timing of payroll payments referred to above, and ensures that reported salary is based on annual salary. The disclosure for prior years has also been restated to an earned basis. Bonuses continue to be reported on a cash paid basis as bonus amounts may not be determined for many months after the end of the relevant year.

5. Remuneration (continued)

b) Remuneration for senior employees (continued)

| | Notes | Salary (including fees and allowances) 2011/12 £ |
|---|-------|---|
| Current employees excluding Crossrail | | |
| Peter Hendy, Commissioner | a | 331,175 |
| Steve Allen, Managing Director, Finance | | *289,577 |
| Mike Brown, Managing Director, Rail and Underground | | *310,734 |
| Howard Carter, General Counsel | | *235,456 |
| Leon Daniels, Managing Director, Surface Transport | b | 234,906 |
| Michèle Dix, Managing Director, Planning | c | *158,267 |
| Vernon Everitt, Managing Director, Group Marketing and Communications | | 229,020 |
| Gillian Alford, Director of Corporate Industrial Relations | d | 115,191 |
| Sarah Atkins, Commercial Director, Rail and Underground | e | *170,096 |
| Howard Collins, Chief Operating Officer, London Underground | | *185,982 |
| Stephen Critchley, Chief Finance Officer | | *176,640 |
| Robert Doyle, Head of Track and Signals, London Underground | f | 157,581 |
| Gerald Duffy, Director of Employee Relations, London Underground | | *164,934 |
| Garrett Emmerson, Chief Operating Officer Streets, Surface Transport | | *177,317 |
| David Hendry, Finance Director, Surface Transport | g | *164,368 |
| Philip Hufton, Asset Performance Director, London Underground | | 255,377 |
| Jon Lamonte, Chief Executive, Tube Lines | h | *179,807 |
| Chris Macleod, Director of Group Marketing | i | 142,541 |
| Stuart Munro, Director of Finance and Commercial, Tube Lines | j | 152,801 |
| Gareth Powell, Director of Strategy and Service Development, London Underground | k | *155,150 |
| Patricia Riley, Human Resources Director | l | *183,973 |
| Robert Stewart, Programme Director, Line Upgrades | m | 121,858 |
| Steve Townsend, Chief Information Officer | n | 151,670 |
| Shashi Verma, Director of Customer Experience | o | *167,117 |
| David Waboso, Director of Capital Programmes, London Underground | p | *227,744 |
| Colin Wood, Head of Games Readiness | q | *59,645 |

| Performance related pay for 2010/11 paid in year 2011/12 £ | Compensation for loss of employment 2011/12 £ | Benefits in kind 2011/12 £ | Total remuneration excluding pension contributions 2011/12 £ | Employer's contribution to pension 2011/12 £ | Salary (including fees and allowances) 2010/11 Restated £ | Performance related pay for 2009/10 paid in year 2010/11 Restated £ |
|---|--|-------------------------------|---|---|--|--|
| - | - | 2,028 | 333,203 | - | 331,267 | - |
| - | - | 607 | 290,184 | 23,393 | 270,000 | - |
| - | - | 2,028 | 312,762 | 23,393 | 289,700 | - |
| - | - | 2,028 | 237,484 | 23,393 | 217,777 | - |
| - | - | - | 234,906 | 22,178 | 97,000 | - |
| - | - | 2,028 | 160,295 | 24,047 | 145,740 | - |
| - | - | 2,028 | 231,048 | 23,393 | 229,020 | - |
| - | - | 459 | 115,650 | 27,016 | - | - |
| 26,000 | - | 1,633 | 197,729 | 23,393 | 156,150 | 31,230 |
| 17,000 | - | 1,633 | 204,615 | 31,588 | 175,000 | 26,250 |
| 20,000 | - | - | 196,640 | 22,051 | 159,969 | 20,000 |
| 7,500 | - | 5,653 | 170,734 | 23,393 | 167,514 | - |
| 16,000 | - | 607 | 181,541 | 23,393 | 151,401 | 22,540 |
| 20,000 | - | 607 | 197,924 | 23,393 | 162,618 | 20,000 |
| 10,000 | - | 1,633 | 176,001 | 34,083 | 153,231 | 25,000 |
| 17,000 | - | - | 272,377 | 23,393 | 241,763 | 35,000 |
| - | - | - | 179,807 | 29,873 | 8,849 | - |
| - | - | - | 142,541 | 51,436 | 120,000 | - |
| 13,000 | - | 1,633 | 167,434 | 35,511 | 136,459 | 20,907 |
| 24,000 | - | 1,633 | 180,783 | 33,338 | 132,500 | 23,500 |
| 18,000 | - | 606 | 202,579 | 31,870 | 125,124 | 20,000 |
| - | - | 1,017 | 122,875 | 14,253 | - | - |
| 13,000 | - | 1,633 | 166,303 | 29,873 | 138,586 | 22,984 |
| 25,000 | - | 607 | 192,724 | 29,873 | 145,000 | 25,000 |
| 28,000 | - | 1,633 | 257,377 | 29,873 | 187,826 | 15,345 |
| - | - | 549 | 60,194 | 4,178 | - | - |

5. Remuneration (continued)

| | Notes | Salary (including fees and allowances) 2011/12 £ |
|---|-------|---|
| Crossrail current office holders/employees | | |
| Terry Morgan, Non-executive Chairman | r | 250,000 |
| Andrew Wolstenholme, Chief Executive | s | 295,249 |
| David Allen, Finance Director | | 240,722 |
| Neil Farmer, IT Director | | 163,933 |
| Robert Flanagan, Finance Operations Director | t | 62,207 |
| Ian Lindsay, Land and Property Director | u | 156,384 |
| Andy Mitchell, Programme Director | | 308,600 |
| Chris Sexton, Technical Director | | 182,090 |
| Valerie Todd, Talent and Resources Director | v | *206,279 |
| Former employees | | |
| Ian Campbell, Chief Information Officer | w | 51,971 |
| Frank Douglas, Group Human Resources Director | x | 25,892 |
| Richard Parry, Strategy and Commercial Director, London Underground | y | *112,737 |
| Peter Regan, Corporate Finance Director | z | 1,694 |
| Geoff Virrels, Director of Projects, Tube Lines | aa | 38,129 |
| Rob Holden, Chief Executive, Crossrail | bb | 163,348 |
| Simon Philips, Finance Operations Director, Crossrail | cc | 43,216 |

b) Remuneration for senior employees (continued)

- * salary, fees and allowances for 2011/12 includes an allowance paid as a result of the individual opting out of part or all of the benefits provided by the Supplementary Pension Scheme. The allowance was introduced in 2011/12 and is paid at the rate of the supplementary scheme pension scheme contribution foregone, discounted by the employer rate of National Insurance in order to ensure no additional employer cost is incurred.
- a salary sacrificed for pension of £17,269 (2010/11 £17,177)
- b entered service 20 April 2011. Payment in 2010/11 includes recompense for loss of benefits from previous employers and/or to comply with TfL's policies
- c part-time, three days per week

- d entered service 4 July 2011
- e formerly Commercial Director, Tube Lines
- f performance related pay of £nil (2010/11 £13,023) sacrificed to pension fund
- g performance related pay of £10,000 (2010/11 £nil) sacrificed to pension fund
- h entered service 14 March 2011
- i performance related pay of £17,000 (2010/11 £15,000) sacrificed to pension fund
- j formerly Finance Director, London Rail
- k formerly Director of Group Business Planning & Performance
- l formerly Director of Human Resources, London Underground

| Performance related pay for 2010/11 paid in 2011/12 £ | Compensation for loss of employment 2011/12 £ | Benefits in kind 2011/12 £ | Total remuneration excluding pension contributions 2011/12 £ | Employer's contribution to pension 2011/12 £ | Salary (including fees and allowances) 2010/11 Restated £ | Performance related pay for 2009/10 paid in year 2010/11 Restated £ |
|--|--|-------------------------------|---|---|--|--|
| - | - | 1,632 | 251,632 | - | 250,000 | - |
| - | - | 1,098 | 296,347 | 21,139 | - | - |
| 72,000 | - | 1,632 | 314,354 | 31,331 | 206,010 | 61,200 |
| 26,000 | - | 1,632 | 191,565 | 31,331 | 153,060 | 14,875 |
| - | - | 659 | 62,866 | 15,422 | - | - |
| - | - | 1,255 | 157,639 | 24,390 | - | - |
| 90,000 | - | 1,632 | 400,232 | 31,331 | 281,599 | 43,750 |
| 8,250 | - | - | 190,340 | 31,331 | 167,205 | - |
| 49,109 | - | 2,028 | 257,416 | 29,873 | 192,585 | 38,517 |
| - | 90,861 | 311 | 143,143 | 10,304 | 165,000 | - |
| 13,000 | - | - | 38,892 | 1,917 | 192,338 | - |
| 23,000 | 367,534 | - | 503,271 | 13,039 | 194,421 | 31,353 |
| 95,000 | - | - | 96,694 | 383 | 162,027 | 58,776 |
| - | - | 392 | 38,521 | 7,390 | 133,209 | - |
| 220,500 | - | 439 | 384,287 | - | 570,502 | 285,000 |
| - | - | 565 | 43,781 | - | - | - |

- m entered service 22 August 2011
- n formerly Director of IM, London Underground
- o formerly Director of Fares and Ticketing
- p performance related pay of £nil (2010/11 £15,960) sacrificed to pension fund
- q entered service 5 December 2011
- r paid for providing services three days a week
- s entered service 1 August 2011
- t entered service 7 November 2011
- u entered service 27 June 2011
- v employed by TfL but on secondment to Crossrail since January 2009
- w entered service 1 February 2010. Left service 31 July 2011
- x entered service 15 February 2010. Left service 30 April 2011
- y left service 21 October 2011. Performance related pay of £nil (2010/11 £21,280) sacrificed to pension fund
- z left service 4 April 2011. formerly Commercial Adviser, London Underground two days per week. Seconded to Tube Lines with effect from 25 June 2010, part-time four days per week.
- aa performance related pay of nil (2009/10 £27,500) sacrificed to pension fund. Left service 2 July 2011
- bb left service 10 July 2011
- cc entered service 1 August 2011. Left service 31 October 2011

5. Remuneration (continued)

c) Termination payments

The 2011/12 Code for the first time requires the separate disclosure of the number and cost of compulsory and voluntary severance termination packages agreed during the year.

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

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

| £ | Group 2012 Number | Group 2012 £m | Group 2011 Number | Group 2011 £m |
|---|-------------------------|---------------------|-------------------------|---------------------|
| Non-compulsory exit packages | | | | |
| 0 – 20,000 | 212 | 2.3 | 218 | 1.9 |
| 20,001 – 40,000 | 159 | 4.6 | 114 | 3.3 |
| 40,001 – 60,000 | 108 | 5.3 | 86 | 4.2 |
| 60,001 – 80,000 | 70 | 4.8 | 62 | 4.3 |
| 80,001 – 100,000 | 47 | 4.2 | 53 | 4.8 |
| 100,001 – 150,000 | 61 | 7.2 | 28 | 3.2 |
| 150,001 – 200,000 | 14 | 2.4 | 8 | 1.4 |
| 200,001 – 250,000 | 11 | 2.4 | 4 | 0.9 |
| 250,001 – 300,000 | 5 | 1.4 | 2 | 0.6 |
| 300,001 – 350,000 | 1 | 0.3 | 2 | 0.6 |
| 350,001 – 400,000 | 1 | 0.4 | 1 | 0.4 |
| 400,001 – 450,000 | - | - | 1 | 0.4 |
| Total non-compulsory exit packages | 689 | 35.3 | 579 | 26.0 |
| Compulsory exit packages | | | | |
| 0 – 20,000 | 18 | 0.1 | 2 | - |
| Total | 707 | 35.4 | 581 | 26.0 |

5. Remuneration (continued)

c) Termination payments (continued)

| £ | Corporation 2012 Number | Corporation 2012 £m | Corporation 2011 Number | Corporation 2011 £m |
|---|-------------------------------|---------------------------|-------------------------------|---------------------------|
| Non-compulsory exit packages | | | | |
| 0 – 20,000 | 72 | 0.9 | 51 | 0.5 |
| 20,001 – 40,000 | 70 | 2.0 | 18 | 0.5 |
| 40,001 – 60,000 | 39 | 1.9 | 10 | 0.5 |
| 60,001 – 80,000 | 20 | 1.4 | 8 | 0.6 |
| 80,001 – 100,000 | 11 | 1.0 | 2 | 0.2 |
| 100,001 – 150,000 | 19 | 2.3 | 4 | 0.4 |
| 150,001 – 200,000 | 7 | 1.2 | 2 | 0.4 |
| 200,001 – 250,000 | 5 | 1.1 | 1 | 0.2 |
| 250,001 – 300,000 | 1 | 0.3 | - | - |
| 300,001 – 350,000 | 1 | 0.3 | - | - |
| 350,001 – 400,000 | - | - | 1 | 0.4 |
| 400,001 – 450,000 | - | - | - | - |
| Total non-compulsory exit packages | 245 | 12.4 | 97 | 3.7 |
| Compulsory exit packages | | | | |
| 0 – 20,000 | - | - | - | - |
| Total | 245 | 12.4 | 97 | 3.7 |

6. Other operating income/expenditure

| | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|---|---------------------|---------------------|---------------------------|---------------------------|
| Net profit/ (loss) on disposal of property, plant and equipment | 2.5 | (321.8) | (2.4) | (39.2) |
| Total other operating income/ (expenditure) | 2.5 | (321.8) | (2.4) | (39.2) |

7. Financing and investment income

| | Note | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|---|------|---------------------|---------------------|---------------------------|---------------------------|
| Interest income on bank deposits | | 13.4 | 9.4 | 12.8 | 8.8 |
| Interest income on loans to subsidiaries | | - | - | 235.9 | 136.1 |
| Change in fair value of investment properties | 13 | 21.4 | 29.1 | 9.4 | 0.5 |
| Net gain on disposal of investment properties | | 0.3 | 7.7 | 0.3 | - |
| Expected return on pension assets | 29 | 406.5 | 361.8 | 1.7 | 2.4 |
| Other investment income | | 0.1 | - | - | - |
| | | 441.7 | 408.0 | 260.1 | 147.8 |

8. Financing and investment expenditure

| | Note | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|---|------|---------------------|---------------------|---------------------------|---------------------------|
| Interest payable on loans | | 261.8 | 258.1 | 204.5 | 188.2 |
| Interest payable on loans to subsidiaries | | - | - | 55.5 | 68.3 |
| Interest payable on finance lease liabilities | | 90.6 | 137.4 | 8.8 | 9.1 |
| Contingent rentals on PFI contracts | | 12.2 | 12.0 | 3.2 | 2.6 |
| Premiums on early repayment of borrowings * | | 168.6 | - | 216.5 | - |
| Swap breakage costs | | 0.8 | - | - | - |
| Expected cost of pension scheme liabilities | 29 | 409.2 | 399.4 | 4.4 | 5.7 |
| Other financing and investment expenditure | | 0.1 | 6.1 | 0.1 | 0.2 |
| | | 943.3 | 813.0 | 493.0 | 274.1 |

*During the year the Group paid premiums totalling £216.5m on the early repayment of borrowings with a nominal value of £1,219.8m, acquired as part of the acquisition of the Tube Lines Group in 2010/11. The book value of the borrowings in the Group accounts was £1,267.7m, as a result of fair value adjustments made on the acquisition of Tube Lines. The net premium expense recognised at the Group level was therefore £168.6m. The Corporation recognised a premium expense of £216.5m in relation to these transactions. These loans were refinanced in 2011/12 by the Corporation at a lower cost of borrowings.

9. Grant income

| | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|---|---------------------|---------------------|---------------------------|---------------------------|
| Non ring-fenced grant from the DfT used to fund operations | 1,634.1 | 1,162.7 | 1,634.1 | 1,162.7 |
| Other revenue grant received | 67.7 | 107.6 | 67.7 | 107.6 |
| Council tax precept | 6.0 | 12.0 | 6.0 | 12.0 |
| Total grants allocated to revenue | 1,707.8 | 1,282.3 | 1,707.8 | 1,282.3 |
| Non ring-fenced grant from the DfT used to fund capital | 1,620.0 | 2,022.2 | 1,620.0 | 2,022.2 |
| Ring-fenced grant used to fund capital expenditure relating to Crossrail | 1,217.0 | 1,020.0 | 1,217.0 | 1,020.0 |
| Business Rate Supplement levied to fund capital expenditure relating to Crossrail | 168.0 | 202.0 | 168.0 | 202.0 |
| Other capital grants and contributions received | 110.3 | 146.1 | 14.7 | 27.1 |
| Total grants allocated to capital | 3,115.3 | 3,390.3 | 3,019.7 | 3,271.3 |
| Total grants | 4,823.1 | 4,672.6 | 4,727.5 | 4,553.6 |

Allocation of capital grants

| | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|---------------------------------------|---------------------|---------------------|---------------------------|---------------------------|
| Capital grant funding of subsidiaries | - | - | 1,445.0 | 1,704.9 |
| Applied capital grants (note 32) | 2,916.6 | 2,365.1 | 1,376.0 | 541.2 |
| Unapplied capital grants (note 34) | 198.7 | 1,025.2 | 198.7 | 1,025.2 |
| Total capital grants | 3,115.3 | 3,390.3 | 3,019.7 | 3,271.3 |

10. Taxation

TfL Corporation is exempt from corporation tax but its subsidiaries are assessable individually to taxation in accordance with current tax legislation. All companies, with the exception of Crossrail Limited, are able to claim group relief. Current tax credits relate to repayable tax credits in respect of claims for earlier periods for Land Remediation Relief and Enhanced Capital Allowances.

a) Corporation tax

The Group tax credit for the year, based on the rate of corporation tax of 26% (2011 28%) comprised:

| | Group 2012 £m | Group 2011 £m |
|---------------------------------------|---------------------|---------------------|
| Current tax | | |
| UK corporation tax | - | - |
| Adjustments in respect of prior years | (1.5) | (1.3) |
| Total current tax credit | (1.5) | (1.3) |
| Deferred tax | - | - |
| Total tax credit for the year | (1.5) | (1.3) |

Reconciliation of tax credit

| | Group 2012 £m | Group 2011 £m |
|--|---------------------|---------------------|
| Surplus on the provision of services before tax | 2,274.5 | 1,763.4 |
| Surplus on the provision of services before tax multiplied by standard rate of corporation tax in the UK of 26% (2011 28%) | 591.4 | 493.8 |
| Effects of: | | |
| Non-deductible expenses | (287.7) | (264.6) |
| Permanent difference in TfL Corporation | (392.6) | (319.3) |
| Amount charged to the current tax computation for which no deferred tax was recognised | 67.6 | (487.7) |
| Tax losses carried forward for which no deferred tax was recognised | 22.4 | 578.9 |
| Overseas earnings | (1.1) | (1.1) |
| Adjustments in respect of prior years | (1.5) | (1.3) |
| Total tax credit for the year | (1.5) | (1.3) |

10. Taxation (continued)

b) Unrecognised deferred tax assets

The Group has a potential net deferred tax asset of £2,187.8m (2011 £1,946.8m) in respect of the following items:

| | Group 2012 £m | Group 2011 £m |
|--|---------------------|---------------------|
| Deductible temporary differences | 977.7 | 683.7 |
| Tax losses | 1,210.1 | 1,263.1 |
| Unrecognised deferred tax asset | 2,187.8 | 1,946.8 |

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

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

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

| | Balance at 1 April 2011 £m | Movement in period £m | Balance at 31 March 2012 £m |
|--|-------------------------------------|-----------------------------|--------------------------------------|
| For the year ended 31 March 2012 | | | |
| Deferred tax assets | | | |
| Property, plant and equipment | 73.5 | (27.8) | 45.7 |
| Derivative financial instruments | - | 28.1 | 28.1 |
| Total | 73.5 | 0.3 | 73.8 |
| Deferred tax liabilities | | | |
| Investment properties | (70.8) | 4.4 | (66.4) |
| Other | (2.7) | (4.7) | (7.4) |
| Total | (73.5) | (0.3) | (73.8) |
| Net deferred tax asset/ (liability) | - | - | - |

10. Taxation (continued)

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

For the year ended 31 March 2011

| | Balance at 1 April 2010 £m | Movement in period £m | Balance at 31 March 2011 £m |
|--|-------------------------------------|-----------------------------|--------------------------------------|
| Deferred tax assets | | | |
| Property, plant and equipment | 74.7 | (1.2) | 73.5 |
| Total | 74.7 | (1.2) | 73.5 |
| Deferred tax liabilities | | | |
| Investment properties | (74.3) | 3.5 | (70.8) |
| Other | (0.4) | (2.3) | (2.7) |
| Total | (74.7) | 1.2 | (73.5) |
| Net deferred tax asset/ (liability) | - | - | - |

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

- The movement on property, plant and equipment relates to assets acquired in the year, movements in the market value of assets held and capital allowances disclaimed. Included in property, plant and equipment and investment properties is the deferred tax on revaluation of £1.1m recognised in Other Comprehensive Income.
- The movement in derivative financial instruments relates to movement in the fair value of derivatives.

The corporation tax rate was reduced from 28 per cent to 26 per cent on 1 April 2011 and from 26 per cent to 24 per cent on 1 April 2012. The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce further to 22 per cent by 2014.

The reduction in the rate to 24 per cent (effective from 1 April 2012) was substantively enacted on 26 March 2012. Deferred tax balances at 31 March 2012 have therefore been calculated using this corporation tax rate of 24 per cent (2011 26 per cent).

It has not yet been possible to quantify the full anticipated effect of the announced further two per cent rate reduction, although this will further reduce the Company's future current tax charge and deferred tax asset/liability accordingly.

I I. Intangible assets

a) Group intangible assets

| | Note | Software costs £m | Intangible assets under construction £m | Goodwill £m | Total £m |
|--|------|----------------------|--|----------------|--------------|
| Cost | | | | | |
| At 1 April 2010 | | 182.5 | 41.7 | - | 224.2 |
| Additions | | 13.8 | 14.3 | - | 28.1 |
| Acquisitions | | 2.0 | 1.5 | 242.9 | 246.4 |
| Transfers between asset classes | | 36.5 | (36.5) | - | - |
| Disposals | | (27.8) | - | - | (27.8) |
| At 31 March 2011 | | 207.0 | 21.0 | 242.9 | 470.9 |
| Additions | | 9.9 | 23.9 | - | 33.8 |
| Acquisitions | 31 | - | - | 106.3 | 106.3 |
| Transfers to property, plant and equipment | | - | (6.7) | - | (6.7) |
| Transfers between asset classes | | 7.6 | (7.6) | - | - |
| At 31 March 2012 | | 224.5 | 30.6 | 349.2 | 604.3 |
| Amortisation and impairment | | | | | |
| At 1 April 2010 | | 61.9 | - | - | 61.9 |
| Amortisation charge for the year | 3 | 42.6 | - | - | 42.6 |
| Impairment | 3 | - | - | 242.9 | 242.9 |
| Disposals | | (16.1) | - | - | (16.1) |
| At 31 March 2011 | | 88.4 | - | 242.9 | 331.3 |
| Amortisation charge for the year | 3 | 52.7 | - | - | 52.7 |
| Impairment | 3 | - | - | 106.3 | 106.3 |
| At 31 March 2012 | | 141.1 | - | 349.2 | 490.3 |
| Net book value at 31 March 2012 | | 83.4 | 30.6 | - | 114.0 |
| Net book value at 31 March 2011 | | 118.6 | 21.0 | - | 139.6 |

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

I I. Intangible assets (continued)

b) Corporation intangible assets

| | Note | Software costs £m | Intangible assets under construction £m | Total £m |
|--|------|----------------------|--|--------------|
| Cost | | | | |
| At 1 April 2010 | | 154.6 | 30.5 | 185.1 |
| Additions | | 1.5 | 6.5 | 8.0 |
| Transfers between asset classes | | 29.3 | (29.3) | - |
| Disposals | | (33.6) | - | (33.6) |
| At 31 March 2011 | | 151.8 | 7.7 | 159.5 |
| Additions | | 0.7 | 1.1 | 1.8 |
| Transfers between asset classes | | 2.4 | (2.4) | - |
| At 31 March 2012 | | 154.9 | 6.4 | 161.3 |
| Amortisation and impairment | | | | |
| At 1 April 2010 | | 51.4 | - | 51.4 |
| Amortisation charge for the year | 3 | 34.8 | - | 34.8 |
| Disposals | | (16.0) | - | (16.0) |
| At 31 March 2011 | | 70.2 | - | 70.2 |
| Amortisation charge for the year | 3 | 39.3 | - | 39.3 |
| At 31 March 2012 | | 109.5 | - | 109.5 |
| Net book value at 31 March 2012 | | 45.4 | 6.4 | 51.8 |
| Net book value at 31 March 2011 | | 81.6 | 7.7 | 89.3 |

Assets under construction comprise software assets under development by TfL.

12. Property, plant and equipment

a) Group property, plant and equipment at 31 March 2012 comprised the following elements:

| Note | Infrastructure and office buildings £m | Rolling stock £m | Plant and equipment £m | Assets under construction £m | Total £m |
|--|---|---------------------|---------------------------|---------------------------------|-----------------|
| Cost or valuation | | | | | |
| At 1 April 2011 | 25,658.9 | 3,857.2 | 1,331.6 | 5,121.0 | 35,968.7 |
| Additions | 175.6 | 3.8 | 24.7 | 2,413.0 | 2,617.1 |
| Transfers from intangible assets | - | - | - | 6.7 | 6.7 |
| Disposals | (188.8) | (221.9) | (38.6) | - | (449.3) |
| Transfers between asset classes | 1,194.5 | 429.9 | 56.8 | (1,681.2) | - |
| Revaluation | 2.8 | - | - | - | 2.8 |
| At 31 March 2012 | 26,843.0 | 4,069.0 | 1,374.5 | 5,859.5 | 38,146.0 |
| Depreciation | | | | | |
| At 1 April 2011 | 9,551.2 | 2,168.9 | 843.9 | - | 12,564.0 |
| Depreciation charge for the year | 3 662.3 | 109.8 | 123.2 | - | 895.3 |
| Disposals | (156.8) | (221.9) | (38.5) | - | (417.2) |
| Revaluation | (2.1) | - | - | - | (2.1) |
| At 31 March 2012 | 10,054.6 | 2,056.8 | 928.6 | - | 13,040.0 |
| Net book value at 31 March 2012 | 16,788.4 | 2,012.2 | 445.9 | 5,859.5 | 25,106.0 |
| Net book value at 31 March 2011 | 16,107.7 | 1,688.3 | 487.7 | 5,121.0 | 23,404.7 |

12. Property, plant and equipment (continued)

b) Group property, plant and equipment at 31 March 2011 comprised the following elements:

| Note | Infrastructure and office buildings £m | Rolling stock £m | Plant and equipment £m | Assets under construction £m | Total £m |
|----------------------------------|---|---------------------|---------------------------|---------------------------------|-----------------|
| Cost or valuation | | | | | |
| At 1 April 2010 | 23,268.4 | 3,645.7 | 1,329.5 | 5,575.9 | 33,819.5 |
| Additions | 276.8 | 2.6 | 32.3 | 2,566.4 | 2,878.1 |
| Acquisitions | 10.9 | 23.7 | 6.9 | 6.9 | 48.4 |
| Transfers to investment property | - | - | - | (2.3) | (2.3) |
| Disposals | (455.4) | (214.0) | (104.8) | - | (774.2) |
| Reclassifications | 2,559.0 | 399.2 | 67.7 | (3,025.9) | - |
| Revaluation | (0.8) | - | - | - | (0.8) |
| At 31 March 2011 | 25,658.9 | 3,857.2 | 1,331.6 | 5,121.0 | 35,968.7 |
| Depreciation | | | | | |
| At 1 April 2010 | 9,109.9 | 2,267.0 | 790.9 | - | 12,167.8 |
| Depreciation charge for the year | 3 615.8 | 104.7 | 129.2 | - | 849.7 |
| Disposals | (172.8) | (202.0) | (77.0) | - | (451.8) |
| Reclassifications | - | (0.8) | 0.8 | - | - |
| Revaluation | (1.7) | - | - | - | (1.7) |
| At 31 March 2011 | 9,551.2 | 2,168.9 | 843.9 | - | 12,564.0 |

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

Borrowing costs are included in the costs of qualifying assets to the extent that the asset is funded by borrowings. However, 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'). At the transition date, the majority of the projects funded by borrowing, including Crossrail, had already commenced and are therefore not impacted by IAS 23. As a result, the total borrowing costs capitalised during the year were £nil (2011 £nil). The cumulative borrowing costs capitalised are also £nil (2011 £nil).

At 31 March 2012, the Group had capital commitments which are contracted for but not provided for in the financial statements amounting to £4,218.7m (2011 £4,764.0m).

12. Property, plant and equipment (continued)

c) Group PFI assets, and other leased assets

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

| | Infrastructure and office buildings £m | Rolling stock £m | Plant and equipment £m | Assets under construction £m | Total £m |
|--|---|---------------------|------------------------------|------------------------------------|----------------|
| Gross cost | | | | | |
| PFI assets | 1,095.3 | 45.3 | 16.7 | - | 1,157.3 |
| Other leased assets | - | 407.7 | - | - | 407.7 |
| | 1,095.3 | 453.0 | 16.7 | - | 1,565.0 |
| Depreciation | | | | | |
| PFI assets | 273.2 | 27.8 | 12.6 | - | 313.6 |
| Other leased assets | - | 97.6 | - | - | 97.6 |
| | 273.2 | 125.4 | 12.6 | - | 411.2 |
| Net book value at 31 March 2012 | 822.1 | 327.6 | 4.1 | - | 1,153.8 |
| Net book value at 31 March 2011 | 1,152.8 | 341.8 | 22.2 | - | 1,516.8 |

d) Depreciation charge

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

| | 2012 £m | 2011 £m |
|---|--------------|--------------|
| Depreciation of owned assets | 869.4 | 775.7 |
| Depreciation of assets held under PFI | 16.1 | 64.2 |
| Depreciation of asset held under other leases | 9.8 | 9.8 |
| Total depreciation | 895.3 | 849.7 |

12. Property, plant and equipment (continued)

e) Group office buildings

Office buildings are valued at fair value (open market value on an existing use basis), by DTZ, a property valuation company not connected with the Group, and by chartered surveyors working for Transport for London, in accordance with Royal Institution of Chartered Surveyors (RICS) Guidelines. Valuations are performed on a rolling basis, with approximately 75 per cent of the portfolio by value being valued each year. The value of these buildings at 31 March 2012 was £140.1m (2011 £104.7m) and the historic cost was £52.5m (2011 £52.5m).

f) Group and Corporation heritage assets

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

These assets are primarily former operational assets of the TfL group whose legal title is retained by the Corporation. They remain recorded in the accounts at historical cost less accumulated depreciation as it is not practicable to obtain market valuations at a cost commensurate with the benefits to the users of the financial statements. The collections have been externally valued for insurance purposes only. Management do not consider these insurance valuations to be necessarily indicative of open market fair value and hence have not incorporated the insurance values into the financial statements. As at 31 March 2012, the latest available insurance value for the collection was £23.5m (2011 £23.5m). The net book value of these assets at 31 March 2012 was £nil (2011 £nil).

12. Property, plant and equipment (continued)

g) Corporation property, plant and equipment at 31 March 2012 comprised the following elements:

| | Note | Infrastructure and office buildings £m | Plant and equipment £m | Assets under construction £m | Total £m |
|--|------|---|---------------------------|---------------------------------|----------------|
| Cost or valuation | | | | | |
| At 1 April 2011 | | 4,712.8 | 191.7 | 826.7 | 5,731.2 |
| Additions | | 74.1 | 5.4 | 144.0 | 223.5 |
| Disposals | | (9.2) | (0.2) | - | (9.4) |
| Reclassifications | | 86.1 | 0.9 | (87.0) | - |
| At 31 March 2012 | | 4,863.8 | 197.8 | 883.7 | 5,945.3 |
| Depreciation | | | | | |
| At 1 April 2011 | | 2,239.2 | 121.7 | - | 2,360.9 |
| Depreciation charge for the year | 3 | 132.9 | 25.3 | - | 158.2 |
| Disposals | | (6.8) | (0.2) | - | (7.0) |
| At 31 March 2012 | | 2,365.3 | 146.8 | - | 2,512.1 |
| Net book value at 31 March 2012 | | 2,498.5 | 51.0 | 883.7 | 3,433.2 |
| Net book value at 31 March 2011 | | 2,473.6 | 70.0 | 826.7 | 3,370.3 |

12. Property, plant and equipment (continued)

h) Corporation property, plant and equipment at 31 March 2011 comprised the following elements:

| | Note | Infrastructure and office buildings £m | Plant and equipment £m | Assets under construction £m | Total £m |
|----------------------------------|------|---|---------------------------|---------------------------------|----------------|
| Cost or valuation | | | | | |
| At 1 April 2010 | | 4,555.2 | 262.2 | 591.6 | 5,409.0 |
| Additions | | 113.2 | 8.2 | 302.8 | 424.2 |
| Transfers to investment property | | - | - | (2.3) | (2.3) |
| Disposals | | (19.3) | (80.4) | - | (99.7) |
| Reclassifications | | 63.7 | 1.7 | (65.4) | - |
| At 31 March 2011 | | 4,712.8 | 191.7 | 826.7 | 5,731.2 |
| Depreciation | | | | | |
| At 1 April 2010 | | 2,125.5 | 153.6 | - | 2,279.1 |
| Depreciation charge for the year | 3 | 126.6 | 33.2 | - | 159.8 |
| Disposals | | (12.9) | (65.1) | - | (78.0) |
| At 31 March 2011 | | 2,239.2 | 121.7 | - | 2,360.9 |

Borrowing costs are included in the costs of qualifying assets to the extent that the asset is funded by borrowings. However, the Corporation 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'). At the transition date, the majority of the projects funded by borrowing, including Crossrail, had already commenced and are therefore not impacted by IAS 23. As a result, the total borrowing costs capitalised during the year were £nil (2011 £nil). The cumulative borrowing costs capitalised are also £nil (2011 £nil).

At 31 March 2012, the Corporation had capital commitments which are contracted for but not provided for in the financial statements amounting to £35.2m (2011 £69.1m).

12. Property, plant and equipment (continued)

i) Corporation PFI assets and other leased assets

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

| | Infrastructure and office buildings £m | Plant and equipment £m | Total £m |
|--|---|------------------------------|--------------|
| Gross cost | | | |
| PFI assets | 209.1 | 16.7 | 225.8 |
| Depreciation | | | |
| PFI assets | 57.7 | 12.6 | 70.3 |
| Net book value at 31 March 2012 | 151.4 | 4.1 | 155.5 |
| Net book value at 31 March 2011 | 159.0 | 5.8 | 164.8 |

j) Depreciation charge

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

| | 2012 £m | 2011 £m |
|---------------------------------------|--------------|------------|
| Depreciation of owned assets | 148.9 | 150.4 |
| Depreciation of assets held under PFI | 9.3 | 9.4 |
| Total depreciation | 158.2 | 159.8 |

k) Corporation office buildings

The Corporation did not have any office buildings.

13. Investment properties

| | Note | Group £m | Corporation £m |
|--|------|--------------|-------------------|
| Valuation | | | |
| At 1 April 2010 | | 294.5 | 18.1 |
| Transfers from property, plant and equipment | | 2.3 | 2.3 |
| Disposals | | (31.6) | (7.1) |
| Fair value adjustments | 7 | 29.1 | 0.5 |
| At 31 March 2011 | | 294.3 | 13.8 |
| Additions | | 0.8 | 0.8 |
| Disposals | | (8.8) | (2.4) |
| Fair value adjustments | 7 | 21.4 | 9.4 |
| At 31 March 2012 | | 307.7 | 21.6 |

The fair value of the Group's investment properties at 31 March 2012 has been arrived at on the basis of valuations carried out at that date by DTZ, a property valuation company not connected with the Group, and by chartered surveyors working for Transport for London.

Properties are valued in accordance with the Valuation Standards (seventh edition) published by the Royal Institution of Chartered Surveyors. Properties with a carrying value in excess of £5,000,000 are valued annually. Properties with a value in excess of £250,000 but less than £5,000,000 are revalued every three years. Properties with a value in excess of £100,000 but less than £250,000 are revalued every five years.

14. Investments

| | Corporation 2012 £m | Corporation 2011 £m |
|---------------------|---------------------------|---------------------------|
| At 1 April | 472.5 | 22.5 |
| Investments in year | 650.0 | 450.0 |
| At 31 March | 1,122.5 | 472.5 |

During the year, the Corporation increased its investment in ordinary share capital of Transport Trading Limited (TTL) by £650.0m (2010/11 £450.0m). TTL subsequently increased its investment in ordinary share capital in Crossrail Limited by the same amount.

14. Investments (continued)

The Group's principal subsidiaries are:

| Subsidiaries | Principal activity |
|---|---|
| Transport Trading Limited | Holding company |
| London Underground Limited | Passenger transport by underground train |
| LUL Nominee BCV Limited | Maintenance of underground lines |
| LUL Nominee SSL Limited | Maintenance of underground lines |
| Tube Lines (Holdings) Limited | Holding company |
| Tube Lines Limited | Maintenance of underground lines |
| Tube Lines (Finance) Plc | Financing company |
| UIC Transport (JNP) Limited | Holding company |
| Rail for London Limited | Passenger transport by rail |
| Docklands Light Railway Limited | Passenger transport by rail |
| City Airport Rail Enterprises Plc* | Construction and maintenance of DLR lines |
| City Airport Rail Enterprises (Holdings) Limited* | Holding company |
| Woolwich Arsenal Rail Enterprises Limited* | Construction and maintenance of DLR lines |
| Woolwich Arsenal Rail Enterprises (Holdings) Limited* | Holding company |
| Tramtrack Croydon Limited | Passenger transport by tram |
| London Bus Services Limited | Passenger transport by bus |
| London Buses Limited | Dial-a-Ride |
| Victoria Coach Station Limited | Coach station |
| London River Services Limited | Pier operator |
| Crossrail Limited | Construction of Crossrail infrastructure |
| Transport for London Finance Limited | Manages financial risk of the Group |
| London Transport Museum Limited | Charitable company |
| London Transport Museum (Trading) Limited | Trading company |
| London Transport Insurance (Guernsey) Limited | Insurance |

The Group holds 100 per cent of the share capital of all subsidiaries. The financial statements of these companies are lodged at Companies House and also at the Charity Commission for the London Transport Museum Limited. The financial statements for the subsidiary companies for the period ended 31 March 2012 all received unqualified audit opinions.

*Acquired in year (see note 31)

15. Inventories

| | Group 2012 £m | Group 2011 £m |
|-------------------------------|---------------------|---------------------|
| Raw materials and consumables | 36.9 | 35.1 |
| Goods held for resale | 0.7 | 0.5 |
| | 37.6 | 35.6 |

| | Corporation 2012 £m | Corporation 2011 £m |
|-------------------------------|---------------------------|---------------------------|
| Raw materials and consumables | 2.9 | 3.2 |

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

The movement on inventories was as follows:

| | Group £m | Corporation £m |
|---------------------------------------|---------------|-------------------|
| Balance at 1 April 2010 | 18.3 | 2.3 |
| Acquisitions | 7.9 | - |
| Purchases in the year | 48.4 | 5.0 |
| Recognised as an expense in the year: | | |
| Consumed in the year | (35.4) | (4.1) |
| Goods sold in the year | (1.6) | - |
| Write-offs in the year | (2.0) | - |
| Balance at 31 March 2011 | 35.6 | 3.2 |
| Purchases in the year | 60.3 | 2.8 |
| Recognised as an expense in the year: | | |
| Consumed in the year | (55.0) | (3.0) |
| Goods sold in the year | (1.8) | - |
| Write-offs in the year | (1.5) | (0.1) |
| Balance at 31 March 2012 | 37.6 | 2.9 |

16. Debtors

| | Group 2012 £m | Group 2011 £m |
|--|---------------------|---------------------|
| Short-term | | |
| Trade debtors | 155.0 | 95.9 |
| Capital debtors | 7.4 | 12.4 |
| Other debtors | 33.0 | 16.4 |
| Other tax and social security | 125.6 | 77.0 |
| Grant debtors | 55.1 | 242.0 |
| Amounts due relating to sale of non-current assets | 7.9 | 47.4 |
| Interest debtors | 2.0 | 2.3 |
| Prepayments and accrued income | 137.3 | 107.0 |
| | 523.3 | 600.4 |
| Long-term | | |
| Amounts due from third parties | 152.6 | - |
| Prepayments for goods and services | 11.8 | 6.9 |
| | 164.4 | 6.9 |

Long-term amounts due from third parties include funds totalling £160.0m advanced during the year to Network Rail Infrastructure Limited to provide interim financing for the construction of assets related to the Crossrail project. This receivable is non interest bearing and has been discounted to its fair value of £152.6m using a discount rate of 2.417 per cent.

16. Debtors (continued)

| | Corporation 2012 £m | Corporation 2011 £m |
|--|---------------------------|---------------------------|
| Short-term | | |
| Trade debtors | 23.1 | 17.9 |
| Capital debtors | 3.4 | 12.4 |
| Amounts due from subsidiary companies | 41.1 | 15.4 |
| Other debtors | 1.4 | 2.1 |
| Other tax and social security | 13.4 | 2.0 |
| Grant debtors | 33.8 | 227.3 |
| Amounts due relating to sale of non-current assets | 1.7 | 39.1 |
| Interest debtors | 1.7 | 2.0 |
| Prepayments and accrued income | 20.7 | 13.5 |
| | 140.3 | 331.7 |
| Long-term | | |
| Loans made to subsidiary companies | 6,498.9 | 5,284.8 |
| Prepayments for goods and services | - | 0.5 |
| | 6,498.9 | 5,285.3 |

17. Short-term investments

| | 2012 £m | 2011 £m |
|-------------|------------|------------|
| Group | 2,582.9 | 2,012.7 |
| Corporation | 2,574.3 | 1,978.9 |

Short-term investments relate to investments in UK Treasury bills and deposits with UK clearing banks, and also to Money Market Fund investments.

18. Cash and cash equivalents

| | Group 2012 £m | Group 2011 £m |
|-----------------------------|---------------------|---------------------|
| Cash at bank | 62.8 | 33.5 |
| Cash in hand and in transit | 16.0 | 20.6 |
| | 78.8 | 54.1 |

| | Corporation 2012 £m | Corporation 2011 £m |
|--------------|---------------------------|---------------------------|
| Cash at bank | 7.5 | - |

19. Creditors

| | Note | Group 2012 £m | Group 2011 £m |
|--|------|---------------------|---------------------|
| Short-term | | | |
| Trade creditors | | 187.5 | 219.0 |
| Interest accruals | | 97.0 | 13.4 |
| Capital works | | 581.8 | 593.4 |
| Retentions on capital contracts | | 9.7 | 2.1 |
| Capital grants received in advance | | 38.4 | 10.8 |
| Wages and salaries | | 84.2 | 81.5 |
| Other taxation and social security creditors | | 34.1 | 30.5 |
| Receipts in advance for travelcards, bus passes and Oyster cards | | 272.2 | 224.4 |
| Other deferred income | | 49.2 | 55.9 |
| Deferred consideration payable in relation to acquisitions | 31 | 1.5 | 155.1 |
| Accruals and other payables | | 594.5 | 570.7 |
| | | 1,950.1 | 1,956.8 |
| Long-term | | | |
| Trade creditors | | 13.2 | 14.3 |
| Capital grants received in advance | | 1.6 | 3.0 |
| Retentions on capital contracts | | 11.4 | 12.6 |
| Other deferred income | | 16.5 | 25.5 |
| Accruals and other payables | | 8.6 | 0.2 |
| | | 51.3 | 55.6 |

19. Creditors (continued)

| | Corporation 2012 £m | Corporation 2011 £m |
|--|---------------------------|---------------------------|
| Short-term | | |
| Trade creditors | 26.5 | 27.5 |
| Interest accruals | 93.5 | 7.5 |
| Capital works | 42.3 | 46.3 |
| Retentions on capital contracts | 1.9 | 1.7 |
| Capital grants received in advance | 38.4 | 10.8 |
| Amounts due to subsidiary companies | 226.6 | 236.1 |
| Wages and salaries | 17.3 | 13.7 |
| Other taxation and social security creditors | 1.3 | 0.9 |
| Other deferred income | 15.5 | 14.5 |
| Accruals and other payables | 157.4 | 155.9 |
| | 620.7 | 514.9 |
| Long-term | | |
| Capital grants received in advance | 1.6 | 3.0 |
| Retentions on capital contracts | 0.6 | 1.6 |
| Other deferred income | 12.3 | 18.9 |
| Accruals and other payables | - | 0.2 |
| | 14.5 | 23.7 |

20. Borrowings and overdrafts

| | Group 2012 £m | Group 2011 £m |
|-------------------|---------------------------|---------------------------|
| Borrowings | | |
| Short-term | 2,179.0 | 494.2 |
| Long-term | 4,943.9 | 5,892.5 |
| | | |
| | Corporation 2012 £m | Corporation 2011 £m |
| Short-term | | |
| Borrowings | 2,179.0 | 494.2 |
| Bank overdraft | - | 1.5 |
| | 2,179.0 | 495.7 |
| Long-term | | |
| Borrowings | 4,951.6 | 5,848.1 |

Further information about the maturity and interest rate profiles of the Group and Corporation's borrowings is provided in note 28 (Funding and financial risk management).

21. Finance lease liabilities

a) Group finance lease liabilities

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

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

| | Minimum lease payments £m | Interest £m | Principal (present value of minimum lease payments) £m |
|---|------------------------------------|----------------|---|
| At 31 March 2012 | | | |
| Not later than one year | 135.9 | (67.7) | 68.2 |
| Later than one year but not later than five years | 553.8 | (222.1) | 331.7 |
| Later than five years | 902.2 | (274.6) | 627.6 |
| | 1,591.9 | (564.4) | 1,027.5 |
| At 31 March 2011 | | | |
| Not later than one year | 170.1 | (100.9) | 69.2 |
| Later than one year but not later than five years | 685.9 | (355.5) | 330.4 |
| Later than five years | 1,651.1 | (631.7) | 1,019.4 |
| | 2,507.1 | (1,088.1) | 1,419.0 |
| | | 2012 | 2011 |
| | | £m | £m |
| Principal outstanding | | | |
| Current | | 68.2 | 69.2 |
| Non-current | | 959.3 | 1,349.8 |
| | | 1,027.5 | 1,419.0 |

21. Finance lease liabilities (continued)

b) Corporation finance lease liabilities

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

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

| | Minimum lease payments £m | Interest £m | Principal (present value of minimum lease payments) £m |
|---|------------------------------------|----------------|---|
| At 31 March 2012 | | | |
| Not later than one year | 16.3 | (8.5) | 7.8 |
| Later than one year but not later than five years | 65.0 | (30.5) | 34.5 |
| Later than five years | 199.5 | (46.9) | 152.6 |
| | 280.8 | (85.9) | 194.9 |
| At 31 March 2011 | | | |
| Not later than one year | 16.2 | (8.8) | 7.4 |
| Later than one year but not later than five years | 64.1 | (31.9) | 32.2 |
| Later than five years | 216.7 | (54.0) | 162.7 |
| | 297.0 | (94.7) | 202.3 |
| | | 2012 | 2011 |
| | | £m | £m |
| Principal outstanding | | | |
| Current | | 7.8 | 7.4 |
| Non-current | | 187.1 | 194.9 |
| | | 194.9 | 202.3 |

22. Private Finance Initiative contracts

Private Finance Initiative contracts accounted for under IFRIC 12 Service concession arrangements

The Group is party to the following Private Finance Initiative (PFI) arrangements where the Group controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement. These arrangements are treated as service concession arrangements and are accounted for in accordance with IFRIC 12 Service concession arrangements ('IFRIC 12').

The Group therefore recognises PFI assets as items of plant, property and equipment together with a liability to pay for them (see note 12 for details of PFI assets). The fair values of services received under the contract are recorded as operating expenses.

In accordance with IFRIC 12, 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 DBFO Company and the payment mechanisms defined in the contract. |
| London Underground Limited ('LU'): | | |
| Connect | 1999 to 2019 with a voluntary break option on provision of 12 months' written notice | Design, installation, management and maintenance of integrated digital radio system. The contract requires LU to make an annual unitary payment which is adjusted for indexation and performance as specified in the contract. |
| Power | 1998 to 2028 with a voluntary break option from 2013 and every five years thereafter, subject to at least 12 months' written notice | Procurement, maintenance and management of the electricity supply services for the Emergency Supply Plan for LU and the Northern Line Power Upgrade. The contract requires LU to make an annual unitary payment which is charged monthly and adjusted for any penalties relating to adverse performance against output measures describing all relevant aspects of the contract. |
| British Transport Police (London Underground) | 1999 to 2021 with a voluntary break option on provision of 12 months' written notice | Provision and ongoing management and maintenance of operational infrastructure to support efficient policing of the Jubilee line extension and the delivery of the long-term policing strategy for LU. The contract requires LU to make a base annual unitary payment which is adjusted for indexation and performance as specified in the contract. |

22. Private Finance Initiative contracts (continued)

| Contract | Contract dates | Description |
|---|----------------|--|
| Docklands Light Railway Limited (DLR): | | |
| Greenwich | 1996 to 2021 | Design, construction and ongoing maintenance of the Greenwich extension to the DLR. The contract requires DLR to make payments, which are charged monthly and adjusted for any penalties relating to adverse performance against output measures describing all relevant aspects of the contract. |

DLR contracts for Woolwich and City Airport

In addition to the Greenwich contract listed above, DLR was also party to contracts for the design, construction and maintenance of the Woolwich and City Airport extensions to the DLR.

The Woolwich contract commenced on 31 May 2005 and was due to terminate on 31 May 2035. The construction of the extension was completed on 10 January 2009, which is when the line became operational.

The City Airport contract commenced on 25 February 2003 and was due to terminate on 25 February 2033. The construction of the extension was completed on 5 December 2005, which is when the line became operational.

In 2010/11 these assets were recorded as finance leased assets in accordance with the provisions of IFRIC 12 Service concession arrangements. On 23 November 2011, however, the TfL Group acquired the CARE and WARE groups of companies, which hold the contracts relating to the Woolwich and City airport extensions. These concession arrangements have been consolidated into the Group accounts from that date and the imputed finance lease liability held by DLR has been settled.

22. Private Finance Initiative contracts (continued)

PFI finance lease liabilities

The following PFI finance lease liabilities are included within total finance liabilities in note 21.

| | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|--|---------------------|---------------------|---------------------------|---------------------------|
| At 1 April | 1,049.9 | 1,099.0 | 202.4 | 209.1 |
| Disposal on acquisition of CARE and WARE | (324.0) | - | - | - |
| Payments | (114.1) | (124.7) | (16.2) | (15.8) |
| Interest | 62.4 | 75.6 | 8.8 | 9.1 |
| At 31 March | 674.2 | 1,049.9 | 195.0 | 202.4 |

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 |
|----------------------------|-------------------------------|-------------------------------|---------------------------------------|--|
| As at 31 March 2012 | | | | |
| Less than 1 year | 40.7 | 54.1 | 112.2 | 207.0 |
| Between 1 to 5 years | 127.8 | 264.4 | 458.7 | 850.9 |
| Between 5 to 10 years | 79.2 | 193.2 | 536.1 | 808.5 |
| Between 10 to 15 years | 41.4 | 117.4 | 399.5 | 558.3 |
| Between 15 to 20 years | 4.5 | 45.1 | 141.9 | 191.5 |
| | 293.6 | 674.2 | 1,648.4 | 2,616.2 |

As at 31 March 2011

| | | | | |
|------------------------|--------------|----------------|----------------|----------------|
| Between 1 year | 72.6 | 53.5 | 111.9 | 238.0 |
| Between 1 to 5 years | 254.1 | 271.2 | 470.2 | 995.5 |
| Between 5 to 10 years | 217.5 | 298.2 | 591.3 | 1,107.0 |
| Between 10 to 15 years | 150.4 | 159.3 | 440.8 | 750.5 |
| Between 15 to 20 years | 77.9 | 187.0 | 284.1 | 549.0 |
| Between 20 to 25 years | 16.6 | 80.7 | 44.2 | 141.5 |
| | 789.1 | 1,049.9 | 1,942.5 | 3,781.5 |

22. 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 |
|----------------------------|-------------------------------|-------------------------------|---------------------------------------|--|
| As at 31 March 2012 | | | | |
| Less than 1 year | 8.5 | 7.8 | 10.7 | 27.0 |
| Between 1 to 5 years | 30.5 | 34.5 | 60.3 | 125.3 |
| Between 5 to 10 years | 28.6 | 51.0 | 109.0 | 188.6 |
| Between 10 to 15 years | 16.4 | 75.3 | 161.8 | 253.5 |
| Between 15 to 20 years | 1.9 | 26.4 | 76.0 | 104.3 |
| | 85.9 | 195.0 | 417.8 | 698.7 |

As at 31 March 2011

| | | | | |
|------------------------|-------------|--------------|--------------|--------------|
| Between 1 year | 8.8 | 7.5 | 9.9 | 26.2 |
| Between 1 to 5 years | 31.9 | 32.3 | 53.1 | 117.3 |
| Between 5 to 10 years | 30.8 | 51.4 | 101.9 | 184.1 |
| Between 10 to 15 years | 19.2 | 65.4 | 152.6 | 237.2 |
| Between 15 to 20 years | 3.9 | 45.8 | 110.3 | 160.0 |
| | 94.6 | 202.4 | 427.8 | 724.8 |

23. Derivative financial instruments

Group: cash flow hedges

| | Fair value 2012 £m | Notional amount 2012 £m | Fair value 2011 £m | Notional amount 2011 £m |
|--|--------------------------|----------------------------------|--------------------------|----------------------------------|
| Long-term assets | | | | |
| Forward starting interest rate swaps | - | - | 4.9 | 350.0 |
| Short-term assets | | | | |
| Gilt locks | 0.8 | 350.0 | - | - |
| Short-term liabilities | | | | |
| Interest rate swaps | 1.0 | 300.0 | - | - |
| Gilt locks | 6.5 | 472.8 | - | - |
| Foreign currency forward contracts | 0.5 | 9.7 | - | - |
| | 8.0 | 782.5 | - | - |
| Long-term liabilities | | | | |
| Interest rate swaps and forward starting interest rate swaps | 74.0 | 836.9 | 0.5 | 150.0 |

The Corporation has not entered into any derivative financial instruments.

24. Provisions

a) Group provisions

| | At 1 April 2011 £m | Payments in the year £m | Charge for the year £m | Releases in the year £m | At 31 March 2012 £m |
|-------------------------------|--------------------------|-------------------------------|------------------------------|-------------------------------|---------------------------|
| Compensation | 77.8 | (26.4) | 15.5 | (41.4) | 25.5 |
| Capital investment activities | 298.4 | (118.0) | 73.8 | (28.6) | 225.6 |
| Environmental harm | 2.5 | (1.6) | - | - | 0.9 |
| Other | 41.1 | (17.5) | 6.5 | (6.6) | 23.5 |
| | 419.8 | (163.5) | 95.8 | (76.6) | 275.5 |
| | | | | 2012 £m | 2011 £m |
| Due: | | | | | |
| Current | | | | 140.8 | 254.1 |
| Non-current | | | | 134.7 | 165.7 |
| | | | | 275.5 | 419.8 |

b) Corporation provisions

| | At 1 April 2011 £m | Payments in the year £m | Charge for the year £m | Releases in the year £m | At 31 March 2012 £m |
|-------------------------------|--------------------------|-------------------------------|------------------------------|-------------------------------|---------------------------|
| Compensation | 23.5 | (11.7) | 14.4 | (10.5) | 15.7 |
| Capital investment activities | 298.4 | (118.0) | 73.8 | (28.6) | 225.6 |
| Other | 3.2 | (1.4) | 2.9 | (1.0) | 3.7 |
| | 325.1 | (131.1) | 91.1 | (40.1) | 245.0 |
| | | | | 2012 £m | 2011 £m |
| Due: | | | | | |
| Current | | | | 132.4 | 224.3 |
| Non-current | | | | 112.6 | 100.8 |
| | | | | 245.0 | 325.1 |

24. Provisions (continued)

c) Nature of provisions

Compensation

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

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 two years.

Capital investment activities

Capital investment activities includes compulsory purchases, claims in respect of structural damage or diminution in value of properties affected by transport schemes, and other related third party claims. Management expects these provisions to be settled within the next six years.

Other

Other provisions include Pension Protection Fund fees and levies in respect of the LUL BCV and LUL SSL former sections of the TfL Pension Fund for the two years to 31 March 2010, voluntary severance costs arising from reorganisations, and other smaller claims.

25. Contingencies

There are a number of uncertainties surrounding projects, including claims in the course of negotiations, which may affect the Group's financial performance. Where claims are possible but not probable, or unquantifiable, such claims are treated as contingent liabilities. Contingent liabilities are not recognised in the financial statements, but are monitored to ensure that, where a possible obligation has become probable or a transfer of economic benefits has become probable, a provision is made.

The impact of these contingent liabilities on the Group's financial performance, liquidity or financial position is not considered to be material.

26. Guarantees

Section 160 of the Greater London Authority Act 1999 sets out the conditions under which TfL may give certain guarantees, indemnities or similar arrangements.

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 gave the guarantee under section 160(1) of the Greater London Authority Act 1999.

TfL has given guarantees in respect of some of its subsidiary companies' contracts. The amount that could be payable by TfL under the guarantees (as described below) varies depending on a number of factors, including, inter alia, responsibility for termination of the underlying contract, when termination occurs during the life of the contract, breakage cost and other contractual costs 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. For the avoidance of doubt, these amounts may 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.

Approximate maximum amount of debt available for drawdown under the relevant debt facilities as part of the:

| | £m |
|--|-----|
| Agreement with City Link | 502 |
| Agreement with Canary Wharf Properties (Crossrail) Limited | 500 |
| Agreement with QW Rail Leasing Ltd | 290 |
| Agreement with PADCo and EDF Energy Powerlink Ltd | 168 |
| Agreement with Pittville Leasing Limited | 51 |
| Agreement with APSLL | 4 |

TfL also guarantees LU termination obligations under the Northern line train service contracts and the Jubilee line agreement. Unlike the agreements listed above, the contracts are not based on an initial amount of debt and so cannot be quantified in a similar manner.

TfL acts as a guarantor in respect of Tube Lines (Finance) Plc's external borrowings which have a nominal value of £75m (2011 £1,592m).

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) and no indemnities associated with the guarantees were given by virtue of section 160 (5) of the Greater London Authority Act 1999.

27. Financial commitments

a) Operating leases – The Group as lessee

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

The Group is committed to the following future minimum lease payments under non-cancellable operating leases:

| | Land and buildings £m | Rail access £m | Motor vehicles £m | Other £m | Total £m |
|----------------------------|--------------------------|-------------------|----------------------|--------------|----------------|
| At 31 March 2012 | | | | | |
| Within one year | 56.4 | 7.5 | 3.7 | 16.5 | 84.1 |
| Between one and five years | 181.0 | 10.0 | 3.6 | 65.7 | 260.3 |
| Later than five years | 465.0 | 33.9 | - | 168.2 | 667.1 |
| | 702.4 | 51.4 | 7.3 | 250.4 | 1,011.5 |
| At 31 March 2011 | | | | | |
| Within one year | 53.5 | 7.8 | 5.4 | 15.5 | 82.2 |
| Between one and five years | 178.7 | 15.2 | 4.3 | 64.8 | 263.0 |
| Later than five years | 519.2 | 36.4 | - | 182.1 | 737.7 |
| | 751.4 | 59.4 | 9.7 | 262.4 | 1,082.9 |

b) Operating leases – The Group as lessor

The Group leases out commercial, retail and office property, rail access and land that it holds as a result of its infrastructure holdings.

At the balance sheet date, the Group had contracted with customers for the following future minimum lease payments:

| | Land and buildings £m | Rail access £m | Motor vehicles £m | Total £m |
|----------------------------|--------------------------|-------------------|----------------------|--------------|
| At 31 March 2012 | | | | |
| Within one year | 38.2 | 6.0 | 0.2 | 44.4 |
| Between one and five years | 106.1 | 11.8 | 0.2 | 118.1 |
| Later than five years | 413.0 | - | - | 413.0 |
| | 557.3 | 17.8 | 0.4 | 575.5 |
| At 31 March 2011 | | | | |
| Within one year | 40.8 | 4.3 | 0.2 | 45.3 |
| Between one and five years | 118.5 | 9.3 | 0.2 | 128.0 |
| Later than five years | 454.8 | 27.3 | - | 482.1 |
| | 614.1 | 40.9 | 0.4 | 655.4 |

27. Financial commitments (continued)

c) Operating leases – The Corporation as lessee

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

The Corporation is committed to the following future minimum lease payments under non-cancellable operating leases at 31 March 2012:

| | Land and buildings £m | Motor vehicles £m | Total £m |
|----------------------------|--------------------------|----------------------|--------------|
| At 31 March 2012 | | | |
| Within one year | 25.9 | - | 25.9 |
| Between one and five years | 89.0 | - | 89.0 |
| Later than five years | 211.0 | - | 211.0 |
| | 325.9 | - | 325.9 |
| At 31 March 2011 | | | |
| Within one year | 23.4 | 0.2 | 23.6 |
| Between one and five years | 78.5 | 0.2 | 78.7 |
| Later than five years | 206.1 | - | 206.1 |
| | 308.0 | 0.4 | 308.4 |

d) Operating leases – The Corporation as lessor

The Corporation leases out commercial, retail and office property and land that it holds as a result of its infrastructure holdings.

At the balance sheet date, the Corporation had contracted with customers for the following future minimum lease payments:

| | Land and buildings £m | Total £m |
|----------------------------|--------------------------|-------------|
| At 31 March 2012 | | |
| Within one year | 1.5 | 1.5 |
| Between one and five years | 4.5 | 4.5 |
| Later than five years | 8.0 | 8.0 |
| | 14.0 | 14.0 |
| At 31 March 2011 | | |
| Within one year | 3.1 | 3.1 |
| Between one and five years | 11.4 | 11.4 |
| Later than five years | 17.6 | 17.6 |
| | 32.1 | 32.1 |

28. Funding and financial risk management

Introduction

TfL is a statutory corporation established under the Greater London Authority Act 1999 ('the GLA Act'). TfL is funded by revenues (predominantly fares), grant and prudential borrowing. The majority of the Group's debt is issued by the statutory body, Transport for London, in the form of loans from the Public Works Loan Board, the European Investment Bank, 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. In addition, following the acquisition of Tube Lines (Holdings) Limited in June 2010, TfL guarantees the debt issued by Tube Lines (Finance) Plc.

Treasury management

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

The Treasury Management Strategy also takes account of the CIPFA recommendations contained in the Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code) issued in 2011 for Treasury Management in the Public Services, the Local Government Act 2003, the Capital Finance and Accounts Regulations 2003 and the fully revised second edition of CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) issued in 2011, in managing the financial risks faced by the Group.

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

TfL Group Treasury monitors the risk profile of its borrowing, investment and derivative programmes against approved benchmarks and provides regular reports to the Managing Director, Finance and the Chief Finance Officer. An annual report on overall performance against approved strategy is considered by the Finance and Policy Committee (a committee of the TfL Board). Section 49 of the TfL Act 2008 confers upon TfL the powers to use financial instruments for risk management purposes only.

The Prudential Borrowing Regime

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

TfL also agrees its maximum in-year incremental borrowing capacity with Government as part of the Comprehensive Spending Review 'funding settlement'.

Financial risks and risk management

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

- Credit risk
- Liquidity risk
- Market risk

28. Funding and financial risk management (continued)

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

Credit risk

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

(i) Trade and other receivables

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

(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 Department for Communities and Local Government Guidance, which requires a prudent approach to the investment of surplus funds with priority given to security and liquidity.

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

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

Counterparty limits are set according to the assessed risk of each counterparty and exposures are monitored against these limits on a regular basis. Deposit limits per institution on the Approved Investment List, and the maximum term of deposits, are linked to the credit rating of the institution (in the range of A+ to AAA) at the time of making the deposit).

The centrally managed cash reserves at 31 March 2012 totalled £2,574 million. TfL's operational cash reserves at 31 March 2012 were £1,444m.

28. Funding and financial risk management (continued)

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

| | Amount £m | Credit Rating (S&P/ Moody's/ Fitch) | Weighted average days to maturity |
|--|----------------|--|---|
| At 31 March 2012 | | | |
| UK Treasury Bills, UK Government Guaranteed, Supranationals, UK Debt Management Office | 1,418.3 | AAA | 64 |
| Money Market Funds | 846.0 | AAA | 34 |
| UK Banks | 310.0 | A-/A3/A to A+/Aa2/AA | 134 |
| Total | 2,574.3 | | 63 |
| At 31 March 2011 | | | |
| UK Treasury Bills | 922.6 | AAA | 33 |
| Money Market Funds | 797.7 | AAA | 36 |
| UK Banks | 258.6 | A/A1/AA- to A+/A2/AA- | 94 |
| Total | 1,978.9 | | 42 |

The weighted average days to maturity of the Money Market Funds in the table above refers to the underlying assets held by the fund. TfL has same day access to its investments in Money Market Funds.

28. 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. The Group spreads its exposure over a number of counterparties, and have strict policies on how much exposure can be assigned to each counterparty.

The credit risk with regard to derivative financial instruments is limited because TfL has arrangements in place which limit the exposure with each bank to a threshold, which if breached, allows TfL to require the bank to post collateral in cash or eligible securities. TfL only envisages using these rights in the event that the financial strength of the institution has deteriorated since the limits were approved.

(iv) Guarantees

The Corporation provides guarantees to third parties under Section 160 of the GLA Act, which are deemed necessary for the fulfilment of its policies. The Group's policy is to recognise guarantees at fair value initially and amortise this over the life of the guarantee. Where indications are that a payment is likely to occur under a guarantee, this is accounted for as a provision, in accordance with the Code.

Liquidity risk

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

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

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

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income, expenditure or the value of its holdings of financial instruments. The Group, through its wholly owned subsidiary Transport for London Finance Limited, uses derivatives (hedging instruments) to reduce exposure to interest rate and foreign exchange rate movements (the hedged risks) on highly probable future transactions. The Group does not use derivative financial instruments for speculative purposes.

On inception, all derivatives are designated in highly effective hedge relationships and hedge accounting is applied. If a derivative should no longer satisfy the hedging criteria in accordance with adopted IAS 39 *Financial Instruments: Recognition and measurement* ('IAS 39'), hedge accounting ceases and the derivative is fair valued immediately through the Comprehensive Income and Expenditure Statement.

The use of derivative instruments can itself give rise to credit and market risk. Market risk is the possibility that future changes in interest rates may make a derivative more or less valuable. Since the Group uses derivatives for risk management, market risk relating to derivative instruments is principally offset by changes in the cash flows of the transactions being hedged.

28. Funding and financial risk management (continued)

For the years ended 31 March 2012 and 2011, no ineffectiveness was recognised and all derivatives were assessed as highly effective. Accordingly, the movement in the fair value of the derivatives was taken to reserves.

Foreign exchange risk

The Group has no material financial assets or liabilities denominated in foreign currencies, and thus has no translation exposure to gains or losses arising from movements in exchange rates. For 2011/12, the broad policy on managing transactional foreign exchange risk arising from contractual obligations with overseas providers was to pass the exchange risk to the vendor. For specific transactions where the risk was retained by the Group, exchange rate exposures were managed through the use of forward foreign exchange contracts. At 31 March 2012 the Group held forward foreign exchange contracts to hedge planned future euro payments related to the construction of cable car infrastructure and the purchase of tram rolling stock. The maturity of these contracts is disclosed later in this note.

The aggregate amount of unrealised losses under forward foreign exchange contracts recognised in other comprehensive income and accumulated in the cash flow hedging reserve in respect of these anticipated future transactions was £0.5m (2011 unrealised losses of £nil). It is anticipated that the purchases will take place during the 12 months ending 31 March 2013, at which time the amount deferred in equity will be included in the carrying amount of the assets acquired.

Where funds were received in specific currencies in which the Group expected to have future exposures, the Investment Strategy made allowances to place these funds on deposit. This gave the Group the flexibility to offer certain payments in specific foreign currencies where required.

Sensitivity analysis on foreign exchange risk

As at 31 March 2012 the Group holds Euro forward foreign exchange contracts with a combined nominal value of £9.7m (2011 £nil) which are designated as cash flow hedges.

A 10 per cent increase/(decrease) in GBP against the Euro would (decrease)/increase the fair value of these derivative instruments by £(0.8)m / £1.0m (2011 £nil) / £nil).

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

Interest rate risk

As at 31 March 2012, 74 per cent, (2011 93 per cent), of the Group's borrowings were at fixed rates of interest after hedging. The remaining 26 per cent was Commercial Paper which, although having fixed rates of interest for the duration of the note, in practice behaves more like variable rate debt if used on a revolving basis.

The Group is mainly exposed to interest rate risk on its planned future borrowings, which are agreed with Government as part of the funding settlement. As TfL is required by legislation to produce a balanced budget and produces a balanced business plan annually, any uncertainty over the cost of future borrowing requires funding to be set aside in the Business Plan against that risk rather than invested in the transport system.

In order to achieve certainty over the cost of a portion of its planned borrowing TfL entered into a number of forward starting interest rate swaps and gilt locks, allowing additional funds to be allocated for investment in transport infrastructure in the Business Plan. As at 31 March 2012, the Group, through its wholly owned subsidiary Transport for London Finance Limited, held 23 forward fixing contracts and gilt locks at a notional value of £1,960m (2011 11 forward fixing contracts at a total notional value of £500m). The net fair value of these contracts at 31 March 2012 was a liability of £80.7m (2011 an asset of £4.4m). A further two gilt locks with a combined nominal value of £473m expired during the year and new gilt locks were put in place to extend the protection these gilt locks provided. The negative

28. Funding and financial risk management (continued)

market value of the expiring gilt locks was cash settled at a cost of £35.9m on expiry. This cost has been deferred in the hedging reserve until the related borrowings are issued; at which time the cost will be released to profit or loss over the term of the borrowings. The amounts held in the hedging reserve are expected to impact the Comprehensive Income and Expenditure Statement over the period to December 2042.

The maturity of these forward fixing contracts is disclosed later in this note.

The Group is also exposed to interest rate risk in respect to its investments. Investments are made in accordance with the Investment Strategy, which prioritises security and liquidity over yield.

Fair value sensitivity analysis for fixed interest instruments

All of the Group's non-derivative financial instruments with fixed rates of interest are accounted for at amortised cost. Fluctuations in market interest rates would therefore have no impact on the balance sheet or net income figures in respect of these items.

Fair value sensitivity analysis for derivative instruments

As at 31 March 2012, the Group holds interest rate derivative contracts with a combined notional value of £1,960m (2011 £500m) 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 £60.1m / (£59.5m) (2011 £27.8m / (£27.7m)).

Inflation risk

The Group has a number of exposures to inflation including staff pay awards and fares revenue. The Group has not entered into any derivative instrument to manage its exposure to inflation risk. At present, the risk is partially offset with index linked revenues and index linked costs creating a natural hedge within the Group.

28. Funding and financial risk management (continued)

Maturity profile of derivatives

The Group's derivatives have the following maturities:

| | 2012 Average exchange rate | 2012 Fair value £m | 2012 Notional amount £m | 2011 Average exchange rate | 2011 Fair value £m | 2011 Notional amount £m |
|---|-------------------------------------|--------------------------|----------------------------------|----------------------------------|--------------------------|----------------------------------|
| Foreign currency forward contracts | | | | | | |
| Buy euro | | | | | | |
| Less than 3 months | 0.878 | (0.4) | 8.7 | - | - | - |
| 3 to 6 months | 0.871 | (0.1) | 1.0 | - | - | - |
| Total | 0.877 | (0.5) | 9.7 | - | - | - |

| | 2012 Average contracted fixed interest rate | 2012 Fair value £m | 2012 Notional amount £m | 2011 Average contracted fixed interest rate | 2011 Fair value £m | 2011 Notional amount £m |
|-----------------------------|---|--------------------------|----------------------------------|---|--------------------------|----------------------------------|
| Interest rate hedges | | | | | | |
| Less than one year | 2.332 | (6.7) | 1,122.8 | - | - | - |
| After five years | 3.623 | (74.0) | 836.9 | 3.680 | 4.4 | 500.0 |
| Total | 2.861 | (80.7) | 1,959.7 | 3.680 | 4.4 | 500.0 |

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.

28. 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 two and five years £m | More than five years £m | Total £m |
|--|-----------------------------|-------------------------------------|-------------------------------|---------------|
| Group – 2012 | | | | |
| Derivatives settled gross | | | | |
| Foreign exchange forward contracts: | | | | |
| Amounts receivable | 9.2 | - | - | 9.2 |
| Amounts payable | (9.7) | - | - | (9.7) |
| Derivatives settled net | | | | |
| Interest rate swaps and gilt locks | (14.9) | (67.4) | (2.5) | (84.8) |
| | (15.4) | (67.4) | (2.5) | (85.3) |
| Group – 2011 | | | | |
| Derivatives settled net | | | | |
| Interest rate swaps and gilt locks | (0.2) | (3.7) | 10.7 | 6.8 |
| | (0.2) | (3.7) | 10.7 | 6.8 |

The total asset or liability due to the Group as recognised in 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 2012, the fair value of the interest rate derivatives was a net liability of £80.7m (2011 a net asset of £4.4m). The fair value of forward foreign exchange derivatives was a liability of £0.5m (2011 £nil).

28. 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 five years £m | More than five years £m | Total £m |
|---------------------------|-----------------------------|-------------------------------------|-------------------------------|-----------------|
| Group - 2012 | | | | |
| Trade and other creditors | 1,950.1 | 51.3 | - | 2,001.4 |
| Borrowings - principal | 2,177.5 | 143.1 | 4,811.2 | 7,131.8 |
| Borrowings - interest | 232.8 | 896.1 | 4,144.9 | 5,273.8 |
| Finance lease liabilities | 135.9 | 553.8 | 902.2 | 1,591.9 |
| | 4,496.3 | 1,644.3 | 9,858.3 | 15,998.9 |
| Group - 2011 | | | | |
| Trade and other creditors | 1,956.8 | 55.6 | - | 2,012.4 |
| Borrowings - principal | 494.9 | 419.7 | 5,436.1 | 6,350.7 |
| Borrowings - interest | 281.8 | 1,075.9 | 4,343.6 | 5,701.3 |
| Finance lease liabilities | 170.1 | 685.9 | 1,651.1 | 2,507.1 |
| | 2,903.6 | 2,237.1 | 11,430.8 | 16,571.5 |
| Corporation - 2012 | | | | |
| Trade and other payables | 620.7 | 14.5 | - | 635.2 |
| Borrowings - principal | 2,177.5 | 143.1 | 4,811.2 | 7,131.8 |
| Borrowings - interest | 232.8 | 896.1 | 4,144.9 | 5,273.8 |
| Finance lease liabilities | 16.3 | 65.0 | 199.5 | 280.8 |
| | 3,047.3 | 1,118.7 | 9,155.6 | 13,321.6 |
| Corporation - 2011 | | | | |
| Trade and other payables | 514.9 | 23.7 | - | 538.6 |
| Overdraft | 1.5 | - | - | 1.5 |
| Borrowings - principal | 494.9 | 419.7 | 5,436.1 | 6,350.7 |
| Borrowings - interest | 281.8 | 1,075.9 | 4,343.6 | 5,701.3 |
| Finance lease liabilities | 16.2 | 64.1 | 216.7 | 297.0 |
| | 1,309.3 | 1,583.4 | 9,996.4 | 12,889.1 |

28. Funding and financial risk management (continued)

Fair values

In accordance with IAS 39, the fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. 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
- Trade and other debtors - approximates to the carrying amount
- Derivative financial instruments –
 - 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 – based on market data in the case of fixed rate borrowings; and approximates to the carrying amount in the case of short-term commercial paper
- Finance lease liabilities – approximates to the carrying amount

28. Funding and financial risk management (continued)

Fair values

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

| | 2012 Carrying value £m | 2012 Fair value £m | 2011 Carrying value £m | 2011 Fair value £m |
|------------------------------------|---------------------------------|--------------------------|---------------------------------|--------------------------|
| Cash and cash equivalents | 78.8 | 78.8 | 54.1 | 54.1 |
| Short-term investments | 2,582.9 | 2,582.9 | 2,012.7 | 2,012.7 |
| Trade and other debtors | 687.7 | 687.7 | 607.3 | 607.3 |
| Derivative financial instruments | 0.8 | 0.8 | 4.9 | 4.9 |
| Total financial assets | 3,350.2 | 3,350.2 | 2,679.0 | 2,679.0 |
| Trade and other creditors | 2,001.4 | 2,001.4 | 2,012.4 | 2,012.4 |
| Borrowings | 7,122.9 | 7,490.4 | 6,386.7 | 6,170.6 |
| Finance lease liabilities | 1,027.5 | 1,027.5 | 1,419.0 | 1,419.0 |
| Derivative financial instruments | 82.0 | 82.0 | 0.5 | 0.5 |
| Total financial liabilities | 10,233.8 | 10,601.3 | 9,818.6 | 9,602.5 |
| Net financial liabilities | (6,883.6) | (7,251.1) | (7,139.6) | (6,923.5) |

The fair values of financial assets and liabilities of the Corporation determined in accordance with IAS 39, together with the carrying amounts recorded in the balance sheet are:

| | 2012 Carrying value £m | 2012 Fair value £m | 2011 Carrying value £m | 2011 Fair value £m |
|------------------------------------|---------------------------------|--------------------------|---------------------------------|--------------------------|
| Cash and cash equivalents | 7.5 | 7.5 | - | - |
| Short-term investments | 2,574.3 | 2,574.3 | 1,978.9 | 1,978.9 |
| Trade and other debtors | 6,639.2 | 6,639.2 | 5,617.0 | 5,617.0 |
| Total financial assets | 9,221.0 | 9,221.0 | 7,595.9 | 7,595.9 |
| Trade and other creditors | 635.2 | 635.2 | 538.6 | 538.6 |
| Borrowings | 7,130.6 | 7,490.4 | 6,343.8 | 6,053.5 |
| Finance lease liabilities | 194.9 | 194.9 | 202.3 | 202.3 |
| Total financial liabilities | 7,960.7 | 8,320.5 | 7,084.7 | 6,794.4 |
| Net financial assets | 1,260.3 | 900.5 | 511.2 | 801.5 |

29. Pensions

The majority of the Group's staff are members of two of the sections of the TfL Pension Fund, namely the Public Sector Section and the Tube Lines Section. The majority of the Group's remaining staff belongs to the Local Government Pension Scheme, the Principal Civil Service Pension Scheme or the Tube Lines defined contribution scheme.

a) Amount included in net cost of services

| Note | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|---|---------------------|---------------------|---------------------------|---------------------------|
| TfL Pension Fund | 174.0 | 205.7 | - | - |
| Local Government Pension Scheme | 1.3 | (4.1) | 1.3 | (4.1) |
| Unfunded schemes provision | 5.9 | 3.5 | 2.6 | 1.1 |
| Schemes accounted for as defined benefit | 181.2 | 205.1 | 3.9 | (3.0) |
| TfL Pension Fund | - | - | 36.8 | 32.8 |
| Principal Civil Service Pension Scheme | 0.8 | 1.0 | 0.7 | 0.9 |
| Other schemes | 15.8 | 11.1 | 1.2 | 0.7 |
| Amount included in net cost of services | 197.8 | 217.2 | 42.6 | 31.4 |

The service cost for the Corporation for the TfL Pension Fund represents the employer's contributions payable.

b) Defined benefit schemes

This section deals with those pension funds to which the Group contributes that are accounted for under IAS 19 as defined benefit schemes.

TfL Pension Fund

The TfL Pension Fund is a final salary scheme established under trust. The Fund's Trustee is the TfL Trustee Company Limited, a wholly owned subsidiary of TfL. Under the rules of the Fund, its 18 Trustee Directors are nominated in equal numbers by TfL and on behalf of the Fund's membership.

Every three years, the TfL Pension Fund's actuary makes valuations and recommends the level of contributions to be made by the participating employers to ensure the long-term solvency of the Fund. The latest valuation of the Fund was carried out as at 31 March 2009 by the Actuary, a partner of consulting actuaries Towers Watson, using the projected unit method. A revised Schedule of Contributions was agreed between the Trustee and the employers following the formal funding valuation of the TfL Pension Fund.

For the Public Sector Section, employers' contributions for the period from 1 April 2010 until 31 March 2020 will continue to be 31.0 per cent, with additional lump sum payments due in 2018, 2019 and 2020. The recovery plan states that the expectation is that the funding shortfall will be eliminated by 31 March 2020.

For the Tube Lines Section, employers' contributions for the period from 1 July 2010 to 31 December 2017 will be 20.95 per cent, with additional lump sum contributions of £0.9m payable each month until 31 December 2017. The recovery plan states that the expectation is that the funding shortfall will be eliminated by 31 December 2017.

29. Pensions (continued)

A full actuarial valuation of the Public Sector and Tube Lines section of the TfL Pension Fund as at 31 March 2012 is currently under way, and the results will be available later in 2012. Contributions payable from 1 April 2013 may differ from those set out above, dependent on the outcome of the valuation.

The Corporation and the Group both account for pension costs in accordance with IAS 19. The underlying assets and defined benefit obligation of the Public Sector Section cover a number of Group entities and cannot be readily split between each undertaking on a consistent and reliable basis. Thus, in accordance with the standard, the Corporation treats contributions to the Public Sector Section as if they were contributions to a defined contribution plan. The pension cost recognised in the Corporation's financial statements for the Public Sector Section is the amount of contributions payable to the scheme during the year.

A separate valuation of the Public Sector and Tube Lines sections of the TfL Pension Fund has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2012. The assumptions used by the actuary 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 funding valuation as at 31 March 2009. 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 in line with the medium cohort projections.

Local Government Pension Scheme

The Local Government Pension Scheme is a funded multi-employer defined benefit scheme. 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 15.8 per cent (2010/11 15.8 per cent) of pensionable pay. The Corporation's share of the underlying assets and defined benefit obligation resulted in a deficit of £36.7m (2010/11 £26.3m). The last full actuarial valuation was carried out at 31 March 2007. The results of an actuarial valuation as at 31 March 2010 will be published later in 2012. The annual report and financial statements for the whole scheme can be found on the London Pensions Fund Authority website (www.lpfa.org.uk).

Unfunded pension costs

The Group bears the cost of the augmentation of the pensions of certain employees, who retire early under voluntary severance arrangements.

In addition, the Group bears the cost of:

- Ex-gratia payments which are made to certain former employees on retirement in respect of service prior to the establishment of pension funds for those employees
- Supplementary pensions, which are made to certain former employees who retired prior to index linking of pensions
- Pensions of London Regional Transport (LRT) former board members who did not qualify to join the TfL Pension Fund

29. Pensions (continued)

Punter Southall, consulting actuaries, were instructed to report on the financial position of the unfunded pension defined benefit obligation as at 31 March 2012 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 2012 was £63.4m, (2011 £52.8m) and is fully provided for in these financial statements.

(b) Defined benefit schemes (continued)

Assumptions for defined benefit sections

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

| | IAS 19 valuation at 31 March 2012 % | IAS 19 valuation at 31 March 2011 % |
|---|---|---|
| RPI Inflation | 2.95-3.30 | 3.35-3.5 |
| CPI Inflation | 2.5 | 2.7 |
| Rate of increase in salaries | 3.7-4.2 | 4.1-4.5 |
| Rate of increase in pensions in payment and deferred pensions | 2.5-3.1 | 2.7-3.5 |
| Discount rate | 4.45-4.75 | 5.5-5.65 |
| Investment return | 5.9 | 6.7-7.0 |

During 2010/11, the UK Government announced that public sector pension schemes should base their future statutory minimum pension increases on the Consumer Price Inflation Index (CPI) rather than the generally higher Retail Price Index (RPI), which they have used in the past.

The Government announcement affected the Local Government Pension Scheme, which is now using CPI rather than RPI. The lower CPI resulted in a £6.0m past service credit being taken to the Comprehensive Income and Expenditure Statement for the year ended 31 March 2011. The Group's other pension arrangements were not affected by the change.

29. Pensions (continued)

c) Accounting

The total assets in the Schemes and the expected rate of return were:

| | Expected return % pa | 2012 Value at 31 March £m | Expected return % pa | 2011 Value at 31 March £m |
|-----------------------------------|----------------------------|------------------------------------|----------------------------|------------------------------------|
| Equities and alternatives | 6.3 | 4,058.4 | 7.8 | 3,912.3 |
| Bonds | 3.8 | 1,869.1 | 5.0 | 1,679.8 |
| Cash and other | 2.8 | 29.7 | 4.0 | 18.2 |
| Total fair value of assets | | 5,957.2 | | 5,610.3 |

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

| | 31 March 2012 % | 31 March 2011 % |
|----------|-----------------------|-----------------------|
| Equities | 68 | 70 |
| Bonds | 32 | 30 |
| | 100 | 100 |

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

29. Pensions (continued)

Total pension deficit at the end of the year

| | 2012 £m | 2011 £m |
|---|------------------|------------------|
| Group | | |
| Fair value of scheme assets | 5,957.2 | 5,610.3 |
| Actuarial valuation of defined benefit obligation | (8,249.9) | (7,230.4) |
| Deficit recognised as a liability in the balance sheet | (2,292.7) | (1,620.1) |

| | 2012 £m | 2011 £m |
|---|------------------|------------------|
| Group | | |
| TfL Pension Fund – Public Sector section | (2,134.3) | (1,492.6) |
| TfL Pension Fund – Tube Lines section | (58.3) | (48.4) |
| Local Government Pension Scheme | (36.7) | (26.3) |
| Unfunded schemes provision | (63.4) | (52.8) |
| Deficit recognised as a liability in the balance sheet | (2,292.7) | (1,620.1) |

| | 2012 £m | 2011 £m |
|---|---------------|---------------|
| Corporation | | |
| Fair value of scheme assets | 25.5 | 23.8 |
| Actuarial valuation of defined benefit obligation | (94.9) | (78.2) |
| Deficit recognised as a liability in the balance sheet | (69.4) | (54.4) |

| | 2012 £m | 2011 £m |
|---|---------------|---------------|
| Corporation | | |
| Local Government Pension Scheme | (36.7) | (26.3) |
| Unfunded schemes provision | (32.7) | (28.1) |
| Deficit recognised as a liability in the balance sheet | (69.4) | (54.4) |

29. Pensions (continued)

Analysis of amounts included in the Comprehensive Income and Expenditure Statement

Analysis of amounts charged to net cost of services

| | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|------------------------------|---------------------|---------------------|---------------------------|---------------------------|
| Current service cost | 187.3 | 207.6 | 1.3 | 1.9 |
| Past service cost | 5.9 | (2.5) | 2.6 | (4.9) |
| Curtailement and settlements | (12.0) | - | - | - |
| | 181.2 | 205.1 | 3.9 | (3.0) |

Amounts charged to financing and investment income and expenditure

| | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|--|---------------------|---------------------|---------------------------|---------------------------|
| Interest on Schemes' defined benefit obligations | 409.2 | 399.4 | 4.4 | 5.7 |
| Expected return on Schemes' assets | (406.5) | (361.8) | (1.7) | (2.4) |
| | 2.7 | 37.6 | 2.7 | 3.3 |

Amount recognised in other comprehensive income and expenditure

| | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|---|---------------------|---------------------|---------------------------|---------------------------|
| Actuarial loss/ (gain) recognised in the year | 755.2 | (647.2) | 12.7 | (16.6) |
| Cumulative loss recognised at the end of the year | 1,911.7 | 1,156.5 | 44.2 | 31.5 |

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

| | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|--|---------------------|---------------------|---------------------------|---------------------------|
| Wholly unfunded schemes | 63.4 | 52.8 | 32.7 | 28.1 |
| Wholly or partly funded schemes | 8,186.5 | 7,177.6 | 62.2 | 50.1 |
| Total scheme defined benefit obligation | 8,249.9 | 7,230.4 | 94.9 | 78.2 |

29. Pensions (continued)

Reconciliation of defined benefit obligation

| | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|---|---------------------|---------------------|---------------------------|---------------------------|
| Actuarial value of defined benefit obligation at start of year | 7,230.4 | 7,108.1 | 78.2 | 119.4 |
| Defined benefit obligation acquired in the year | - | 241.6 | - | - |
| Current service cost | 187.3 | 207.6 | 1.3 | 1.9 |
| Interest cost | 409.2 | 399.4 | 4.4 | 5.7 |
| Employee contributions | 41.3 | 40.8 | 0.5 | 0.5 |
| Actuarial loss/ (gain) on liabilities | 663.3 | (540.3) | 11.3 | (11.8) |
| Actual benefit payments | (275.5) | (224.3) | (3.4) | (32.6) |
| Past service cost | 5.9 | (2.5) | 2.6 | (4.9) |
| Settlements and curtailments | (12.0) | - | - | - |
| Actuarial value of defined benefit obligation at end of year | 8,249.9 | 7,230.4 | 94.9 | 78.2 |

Reconciliation of fair value of the scheme assets:

| | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|---|---------------------|---------------------|---------------------------|---------------------------|
| Fair value of assets at start of year | 5,610.3 | 4,914.4 | 23.8 | 44.7 |
| Assets acquired in the year | - | 150.5 | - | - |
| Expected return on assets net of expenses | 406.5 | 361.8 | 1.7 | 2.4 |
| Actuarial gain/ (loss) | (91.9) | 106.9 | (1.4) | 4.8 |
| Actual employer contributions | 262.7 | 256.6 | 2.1 | 1.8 |
| Employee contributions | 41.3 | 40.8 | 0.5 | 0.5 |
| Actual benefits paid | (271.7) | (220.7) | (1.2) | (30.4) |
| | 5,957.2 | 5,610.3 | 25.5 | 23.8 |

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £314.7m (2010/11 £464.0m).

Total contributions of £258.3m are expected to be made to the schemes in the year to 31 March 2013.

29. Pensions (continued)

History of experience gains and losses

The history of experience adjustments on the plans for the current and previous financial years is as follows:

| The Schemes | Group only | | | | |
|--|------------------|-----------|-----------|-----------|-----------|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| Difference between the expected and actual return on assets (loss)/ gain | | | | | |
| Amount (£m) | (90.5) | 106.8 | 852.3 | (1,162.0) | (321.9) |
| Percentage of scheme assets | 1.5% | 1.9% | 17.3% | 30.9% | 7.8% |
| Differences between actuarial assumptions about defined benefit obligation and actual experience gain/ (loss) | | | | | |
| Amount (£m) | 42.0 | 70.0 | 380.0 | (71.7) | (156.2) |
| Percentage of the present value of the scheme defined benefit obligation | 0.5% | 1.0% | 5.3% | 1.4% | 3.3% |
| Changes in the demographic and financial assumptions used to estimate defined benefit obligation (loss)/gain | | | | | |
| Amount (£m) | (696.5) | 457.7 | (2,234.2) | 703.2 | 789.4 |
| Percentage of the present value of the scheme defined benefit obligation | 8.4% | 6.3% | 31.4% | 14.2% | 16.5% |
| Deficit at year end | | | | | |
| Fair value of assets at year end | 5,957.2 | 5,610.3 | 4,914.4 | 3,757.2 | 4,124.7 |
| Actuarial value of defined benefit obligation at year end | (8,249.9) | (7,230.4) | (7,108.1) | (4,944.7) | (4,774.3) |
| Deficit at year end | (2,292.7) | (1,620.1) | (2,193.7) | (1,187.5) | (649.6) |

29. Pensions (continued)

d) Other pension arrangements

Principal Civil Service Pension Scheme

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. The Group is unable to identify its share of the underlying assets and defined benefit obligation on a consistent and reasonable basis and, as permitted by the multi-employer exemption in IAS 19, the Group treats contributions to the PCSPS as if they were contributions to a defined contribution plan. A full actuarial valuation was carried out at 31 March 2010, and the next valuation is due as at 31 March 2013. Details can be found in the Civil Service Superannuation Resource Accounts (www.civilservice-pensions.gov.uk).

Employers' contributions were payable to the PCSPS at one of four rates in the range 17.1 per cent to 25.5 per cent of pensionable pay, based on salary bands. Employer contributions are reviewed every three years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Railways Pension Scheme

Crossrail Limited (CRL) contributes to the Omnibus Section of the Railways Pension Scheme (RPS). The RPS is a defined benefit arrangement for rail industry employees. The Omnibus Section is made up of 53 participating employers, each (apart from CRL) having fewer than 51 active members in the scheme.

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

The last actuarial valuation of the Omnibus Section of the scheme was carried out at 31 December 2007. The actuarial report showed that there was a surplus of assets over liabilities of £6.2m for the total Omnibus Section. The results of an actuarial valuation as at 31 December 2010 will be published later in 2012.

The current level of total contribution is 31 per cent, effective from 1 July 2009. Once it has been finalised, the results of the 2010 valuation will be evaluated to determine future contribution levels.

Defined contribution schemes

The Group contributes to a number of defined contribution schemes, with contributions amounting to £15.8m (2010/11 £11.1m). The Tube Lines defined contribution scheme is one such scheme with contributions amounting to £3.4m (2010/11 £2.5m).

30. Cash flow notes

a. Adjustments to net surplus for non-cash movements

| | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|---|---------------------|---------------------|---------------------------|---------------------------|
| Depreciation of property, plant and equipment and amortisation of intangibles | 948.0 | 892.3 | 197.5 | 194.6 |
| Impairment of goodwill | 106.3 | 242.9 | - | - |
| (Gain)/ loss on sale of property, plant and equipment | (2.5) | 321.8 | 2.4 | 39.2 |
| (Gain)/ loss on sale of investment property | (0.3) | (7.7) | (0.3) | 0.2 |
| Movements in the value of investment properties | (21.4) | (29.1) | (9.4) | (0.5) |
| Reversal of impairment losses on property plant and equipment | - | (0.1) | - | - |
| Financing income | (420.0) | (371.2) | (250.4) | (147.3) |
| Financing expense | 943.3 | 813.0 | 493.0 | 273.9 |
| Capital grants received | (3,115.3) | (3,390.3) | (3,019.7) | (3,271.3) |
| Capital grants paid to subsidiaries | - | - | 1,445.0 | 1,704.9 |
| Reversal of defined benefit pension service costs | 181.2 | 205.1 | 3.9 | (3.0) |
| Reversal of taxation credit | (1.5) | (1.3) | - | - |
| Cash flow from operating activities before movements in working capital | (1,382.2) | (1,324.6) | (1,138.0) | (1,209.3) |
| (Decrease)/ increase in creditors | (2.9) | (191.9) | (10.8) | 143.6 |
| (Increase)/ decrease in debtors | (138.8) | 45.7 | (48.7) | 9.2 |
| (Increase)/ decrease in inventories | (2.0) | (9.5) | 0.3 | (0.9) |
| (Decrease)/ increase in provisions | (71.5) | (21.0) | (7.3) | 5.2 |
| Cash flow utilised by operations | (1,597.4) | (1,501.3) | (1,204.5) | (1,052.2) |
| Cash payments for employers' contributions to defined benefit pension funds and direct payments to pensioners | (266.5) | (260.2) | (4.3) | (4.0) |
| Taxation refund received | 16.0 | 1.4 | - | - |
| Net cash utilised by operating activities | (1,847.9) | (1,760.1) | (1,208.8) | (1,056.2) |

30. Cash flow notes (continued)

b. Investing activities

| | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|---|---------------------|---------------------|---------------------------|---------------------------|
| Interest received | 13.8 | 7.9 | 249.0 | 143.6 |
| Capital grants received | 3,328.4 | 3,232.6 | 3,239.4 | 3,100.0 |
| Capital grants paid to subsidiaries | - | - | (1,445.0) | (1,704.9) |
| Purchase of property, plant and equipment and investment property | (2,690.8) | (2,699.3) | (292.8) | (361.2) |
| Purchase of intangible assets | (33.8) | (28.1) | (1.8) | (8.0) |
| Proceeds from the sale of property, plant and equipment and intangible assets | 34.6 | 12.4 | - | - |
| Purchases of short-term investments | (570.1) | (434.0) | (595.3) | (551.1) |
| Interim financing advanced to third parties for the Crossrail project | (160.0) | - | - | - |
| Loans to subsidiaries | - | - | (1,214.1) | (2,224.9) |
| Proceeds from sale of investment property | 48.6 | 37.3 | 40.2 | 13.1 |
| Loan notes acquired | - | (90.0) | - | - |
| Payments to acquire subsidiaries/ investments in subsidiaries (Note 31 / 14) | (184.3) | (65.1) | (650.0) | (450.0) |
| Cash acquired with subsidiaries | 32.6 | 74.2 | - | - |
| Net cash flows from investing activities | (181.0) | 47.9 | (670.4) | (2,043.4) |

c. Financing activities

| | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|---|---------------------|---------------------|---------------------------|---------------------------|
| (Repayments)/drawdowns of loans from subsidiaries | - | - | (1,527.3) | 1,592.3 |
| Cash payments for reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI arrangements | (158.1) | (83.7) | (16.2) | (6.9) |
| Proceeds from new borrowing | 1,921.8 | 651.2 | 2,315.4 | 632.3 |
| Repayments of borrowings | (1,483.1) | (161.2) | - | - |
| Premiums paid on early repayment of borrowings | (216.5) | - | (216.5) | - |
| Cash paid on early settlement of derivatives | (96.3) | - | - | - |
| Interest paid | (190.2) | (441.6) | (177.0) | (266.9) |
| Net cash flows from financing activities | (222.4) | (35.3) | 378.4 | 1,950.8 |

31. Acquisitions

WARE and CARE Group

On 23 November 2011, the acquisition of both the Woolwich Arsenal Rail Enterprises ('WARE') and the City Airport Rail Enterprises ('CARE') groups was completed, with 100 per cent of the shares acquired for consideration of £30.7m. The consideration comprised £29.2m in cash and £1.5m of contingent consideration as detailed in the sale and purchase agreement. The fair value of the deferred contingent consideration was not considered materially different to the nominal amount.

The WARE and CARE groups of companies consist of Woolwich Arsenal Rail Enterprises (Holdings) Limited (a holding company), Woolwich Arsenal Rail Enterprises Limited (which maintains part of the Docklands Light Railway network), City Airport Rail Enterprises (Holdings) Limited (a holding company) and City Airport Rail Enterprises PLC (which maintains part of the Docklands Light Railway network). WARE and CARE hold concession contracts with Docklands Light Railway Limited (DLR) for the design, construction and maintenance of the extensions of the Docklands Light Railway to Woolwich and City Airport. Prior to the acquisition, these contracts were accounted for by the TfL group as Private Finance Initiative contracts (see note 22).

As part of the sale and purchase agreement, the Group also acquired £32.9m of shareholder loan notes. This amount entitled the Group to receive payment of the loan notes from WARE and CARE rather than being a payment made to obtain control, and as such, the loan notes have been included in the tables below as a liability of the acquired companies rather than as part of the purchase consideration.

Adjustments are made to identifiable assets and liabilities on acquisition to reflect their fair value. The fair value of the net liabilities acquired was £75.6m, which resulted in goodwill of £106.3m. These fair values are provisional and represent estimates following a preliminary valuation exercise. The estimates may be adjusted to reflect any development in the issues to which they relate.

As part of the exercise, management have reviewed WARE and CARE's activities and concluded that there are no intangible assets to be recognised in the fair valued acquisition balance sheets of the acquired companies.

Following acquisition, WARE and CARE received early repayment of their contract debtors from DLR and in turn repaid their outstanding senior debt obligations with the exception of a £85.5m EIB loan note held by Woolwich Arsenal Rail Enterprises limited. This EIB liability was subsequently novated to TfL Corporation.

In order to reflect the now debt-free status of WARE and CARE, DLR and WARE and CARE management agreed to amend the terms of the concession arrangements, reducing the fees payable by DLR to WARE and CARE to a level such as to ensure the WARE and CARE companies break even.

Accordingly, the Group has impaired the goodwill recognised on acquisition down to £nil as it is unlikely that this amount will be recoverable through the future operations of the acquired businesses.

31. Acquisitions (continued)

The assets and liabilities acquired are set out below:

| | 23 November 2011 Book value £m | 23 November 2011 Fair value adjustments £m | 23 November 2011 Fair value total £m |
|---------------------------------|---|--|--|
| Debtors | 19.3 | (5.8) | 13.5 |
| Finance lease receivable | 348.9 | (24.9) | 324.0 |
| Cash and cash equivalents | 32.6 | - | 32.6 |
| Creditors | (45.7) | 4.9 | (40.8) |
| Borrowings | (348.8) | 3.6 | (345.2) |
| Derivative instruments | - | (59.7) | (59.7) |
| Deferred tax | (0.5) | 0.5 | - |
| Net liabilities acquired | 5.8 | (81.4) | (75.6) |
| Cash | | | (29.2) |
| Contingent consideration | | | (1.5) |
| Total consideration | | | (30.7) |
| Goodwill | | | 106.3 |

Reconciliation to Group Statement of Cash Flows

| | Note | £m |
|---|------------|----------------|
| Cash consideration paid for acquisition for WARE and CARE | | (29.2) |
| Deferred consideration paid for prior year acquisition of Tube Lines | | (155.1) |
| Total payments to acquire subsidiaries per Group Statement of Cash Flows | 30b | (184.3) |

In accordance with IFRS 3 Business Combinations, a review was completed to determine the value of the pre-existing relationship that TfL had with the WARE and CARE groups. It was determined that there was no value to the pre-existing relationship as the contracts were neither favourable nor unfavourable to either party.

WARE's and CARE's revenues derive solely from DLR and hence when WARE and CARE are consolidated into the TfL Group there is no impact on Group revenue. In the four month period ended 31 March 2012, the WARE and CARE groups contributed a profit of £0.5m to the Group's surplus or deficit on the provision of services. If the acquisition had occurred on 1 April 2011, the impact on the consolidated revenue of the TfL Group would have been £nil and the impact on the consolidated profit would have been £nil.

32. Unusable reserves

| | 2012 £m | 2011 £m |
|---|-----------------|-----------------|
| Group | | |
| Capital adjustment account | 14,638.0 | 12,435.4 |
| Pension reserve | (2,203.7) | (1,547.0) |
| Accumulated absences reserve | (5.0) | (4.5) |
| Retained earnings reserve in subsidiaries | 1,087.3 | 1,437.1 |
| Revaluation reserve | 51.1 | 47.7 |
| Hedging reserve | (117.1) | 4.4 |
| Financial instruments adjustment account | (216.5) | - |
| Merger reserve | 466.1 | 466.1 |
| At 31 March | 13,700.2 | 12,839.2 |
| | | |
| | 2012 £m | 2011 £m |
| Corporation | | |
| Capital adjustment account | 3,455.5 | 2,269.7 |
| Pension reserve | (69.4) | (54.4) |
| Accumulated absences reserve | (5.0) | (4.5) |
| Financial instruments adjustment account | (216.5) | - |
| At 31 March | 3,164.6 | 2,210.8 |

32. Unusable reserves (continued)

Capital adjustment account

The Capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by TfL as finance for the costs of acquisition, construction and enhancement. The account also contains accumulated gains and losses on investment properties.

| | Note | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|--|--------|---------------------|---------------------|---------------------------|---------------------------|
| Balance at 1 April | | 12,435.4 | 10,974.5 | 2,269.7 | 1,962.0 |
| Charges for depreciation and impairment of non current assets | 11, 12 | (197.5) | (194.6) | (197.5) | (194.6) |
| Gain/ (loss) on sale of investment property | 7,8 | 0.3 | (0.2) | 0.3 | (0.2) |
| Movements in the market value of investment properties | 7 | 9.4 | 0.5 | 9.4 | 0.5 |
| Capital grants and contributions | 9 | 2,916.6 | 2,365.1 | 1,376.0 | 541.2 |
| Profit or loss on disposal of non current assets | 6,7 | (2.4) | (26.0) | (2.4) | (39.2) |
| Adjustments between Group and Corporation financial statements | * | (523.8) | (683.9) | - | - |
| Balance at 31 March | | 14,638.0 | 12,435.4 | 3,455.5 | 2,269.7 |

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

32. 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 Pensions reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources that have been set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|--|---------------------|---------------------|---------------------------|---------------------------|
| Balance at 1 April | (1,547.0) | (2,170.4) | (54.4) | (74.7) |
| Actuarial gains and losses on pension assets and defined benefit obligations | (731.1) | 609.4 | (12.7) | 16.6 |
| Reversal of charges relating to retirement benefits | (262.8) | (229.2) | (6.6) | (0.3) |
| Employer's pension contributions and direct payments to pensioners payable in the year | 337.2 | 243.2 | 4.3 | 4.0 |
| Balance at 31 March | (2,203.7) | (1,547.0) | (69.4) | (54.4) |

32. 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, eg 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 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|---|---------------------|---------------------|---------------------------|---------------------------|
| Balance at 1 April | (4.5) | (4.9) | (4.5) | (4.9) |
| Settlement or cancellation of accrual made at the end of the preceding year | 4.5 | 4.9 | 4.5 | 4.9 |
| Amounts accrued at the end of the current year | (5.0) | (4.5) | (5.0) | (4.5) |
| Balance at 31 March | (5.0) | (4.5) | (5.0) | (4.5) |

Retained earnings reserve in subsidiaries

The retained earnings reserve in subsidiaries represents the retained earnings in the Group's subsidiary companies. These are disclosed as unusable reserves as unless and until they are paid up in dividends to the Corporation, they are not available to fund the expenditure of the Corporation.

| | Group 2012 £m | Group 2011 £m |
|---|---------------------|---------------------|
| Balance at 1 April | 1,437.1 | 1,935.6 |
| Loss for the year | (327.2) | (539.2) |
| Actuarial (loss)/ gain | (24.1) | 37.8 |
| Release of revaluation reserve relating to the difference between historic cost of disposal and fair value cost of disposal | 1.5 | 2.4 |
| Release of capital reserve | - | 0.5 |
| Balance at 31 March | 1,087.3 | 1,437.1 |

32. Unusable reserves (continued)

Revaluation reserve

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

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

| | | Group 2012 £m | Group 2011 £m |
|--|------|---------------------|---------------------|
| Balance at 1 April | Note | 47.7 | 49.6 |
| Revaluation of assets | 12 | 4.9 | 1.0 |
| Release of Revaluation reserve relating to the difference between fair value depreciation and historic cost depreciation | | (1.5) | (2.4) |
| Release of capital reserve | | - | (0.5) |
| Balance at 31 March | | 51.1 | 47.7 |

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 2012 £m | Group 2011 £m |
|---|---------------------|---------------------|
| Balance at 1 April | 4.4 | - |
| Net change in fair value of cash flow interest rate hedges | (121.0) | 4.4 |
| Net change in fair value of cash flow foreign exchange hedges | (0.5) | - |
| Balance at 31 March | (117.1) | 4.4 |

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

32. Unusable reserves (continued)

Financial instruments adjustment account

The financial instruments adjustment account provides a balancing mechanism between the different rates at which gains and losses (such as premium on the early repayment of debt) are recognised under the Code and are required by statute to be met from the General Fund.

| | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|---|---------------------|---------------------|---------------------------|---------------------------|
| Balance at 1 April | - | - | - | - |
| Transfers arising from debt restructuring during the year | (216.5) | - | (216.5) | - |
| Balance at 31 March | (216.5) | - | (216.5) | - |

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 LU, to TfL in 2003. It represents the share capital of LU and was taken as a credit to merger reserve. The Group has taken advantage of the exemption in IFRS 1 not to restate business combinations occurring prior to the transition date of 1 April 2009.

| | Group 2012 £m | Group 2011 £m | Corporation 2012 £m | Corporation 2011 £m |
|--|---------------------|---------------------|---------------------------|---------------------------|
| Balance at 1 April and 31 March | 466.1 | 466.1 | - | - |

33. Business rate supplement

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

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

In 2010/11, the GLA made its first grant to TfL from BRS funding to support the delivery of the Crossrail Project. In the year to 31 March 2012, TfL recognised £168.0m (2011 £202.0m) of BRS income in its Income and Expenditure Statement (see note 9) of which £166.4m (2011 £32.4m) was received and £1.6m (2011 £169.6m) was held as a debtor on the Corporation and Group's balance sheets.

| | Corporation 2012 £m | Corporation 2011 £m |
|--|---------------------------|---------------------------|
| Opening Balance on BRS Account | - | - |
| Transfer to Capital Adjustment Account in respect of BRS capital expenditure | (168.0) | (202.0) |
| Transfer from General Fund to clear BRS account deficit | 168.0 | 202.0 |
| Closing Balance on BRS Account | - | - |

34. 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.

Corporation 2012

| Note | General fund £m | Capital adjustment account £m | Pension reserve £m | Financial instruments adjustment account £m | Accumulated absences reserve £m |
|--|-----------------------|--|--------------------------|---|--|
| Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement | | | | | |
| Charges for depreciation amortisation and impairment of non current assets | 3 | 197.5 | (197.5) | - | - |
| Movements in the market value of investment properties | 7 | (9.4) | 9.4 | - | - |
| Gain on sale of investment property | | (0.3) | 0.3 | - | - |
| Capital grants and contributions | 9 | (1,376.0) | 1,376.0 | - | - |
| Unapplied capital grants | 9 | (198.7) | - | - | - |
| Loss on disposal of non current assets | 6 | 2.4 | (2.4) | - | - |
| Reversal of items relating to retirement benefits | | 6.6 | - | (6.6) | - |
| Premium on refinancing | 8 | 216.5 | - | - | (216.5) |
| Difference between the remuneration charged on an accruals basis and the remuneration chargeable in accordance with statutory requirements | | 0.5 | - | - | (0.5) |
| Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement which are required to be charged in accordance with statutory requirements | | | | | |
| Employers pension contributions and direct payments to pensioners payable in the year | | (4.3) | - | 4.3 | - |
| | | (1,165.2) | 1,185.8 | (2.3) | (216.5) |
| | | | (2.3) | (216.5) | (0.5) |

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

Corporation 2011

| Note | General fund £m | Capital adjustment account £m | Pension reserve £m | Accumulated absences reserve £m |
|--|--------------------|--|--------------------------|--|
| Reversal of items debited or credited to the Comprehensive income and Expenditure account | | | | |
| Charges for depreciation and impairment of non-current assets | 159.8 | (159.8) | - | - |
| Loss on sale of investment property | 0.2 | (0.2) | - | - |
| Amortisation of intangible assets | 34.8 | (34.8) | - | - |
| Movements in the market value of investment properties | (0.5) | 0.5 | - | - |
| Capital grants and contributions | (541.2) | 541.2 | - | - |
| Unapplied capital grants | (1,025.2) | - | - | - |
| Loss on disposal of non-current assets | 39.2 | (39.2) | - | - |
| Reversal of items relating to retirement benefits | 0.3 | - | (0.3) | - |
| Difference between the remuneration charged on an accruals basis and the remuneration chargeable in accordance with statutory requirements | (0.4) | - | - | 0.4 |
| 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 | | | | |
| Employers pension contributions and direct payments to pensioners payable in the year | (4.0) | - | 4.0 | - |
| | (1,337.0) | 307.7 | 3.7 | 0.4 |

35. Sources of finance

Capital expenditure analysed by source of finance:

| Note | Corporation 2012 £m | Corporation 2011 £m |
|---|---------------------------|---------------------------|
| Capital expenditure | | |
| Intangible asset additions | 1.8 | 8.0 |
| Property, plant and equipment additions | 223.5 | 424.2 |
| Investment property | 0.8 | - |
| Investments in year | 650.0 | 450.0 |
| Loans made to subsidiaries in year for capital purposes | 1,208.1 | 2,224.9 |
| Capital grants allocated to subsidiaries in year | 1,445.0 | 1,704.9 |
| Total capital expenditure | 3,529.2 | 4,812.0 |
| Sources of finance | | |
| Transport grants used to fund capital | 1,620.0 | 2,014.6 |
| Business rates supplement | 168.0 | 202.0 |
| Crossrail specific grant | 1,217.0 | 2.4 |
| Prudential borrowing | 794.3 | 2,589.4 |
| Third party contributions | 14.7 | 27.1 |
| Capital receipts | - | 6.9 |
| Repayments of finance leases | (7.4) | (6.9) |
| Working capital | (277.4) | (23.5) |
| Total sources of finance | 3,529.2 | 4,812.0 |

36. Minimum revenue provision

The Local Government and Housing Act 1989 requires a Minimum Revenue Provision (MRP) to be set aside for the redemption of external debt. As a statutory corporation regulated as if it were a local authority, TfL is required to comply with the Local Authorities Capital Finance Regulations. New MRP regulations were approved by the Secretary of State in February 2008. TfL is required to approve an Annual MRP Statement determining the amount of MRP which it considers to be prudent.

The Department for Communities and Local Government issued guidance setting out four possible methods which are deemed automatically prudent, but also states that 'approaches differing from those exemplified should not be ruled out... the broad aim of prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.'

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

TfL has therefore adopted the following policy:

- No provision is made for debt repayment in advance of years where any such repayment is due
- Debt service, including principal repayment, is treated as an in-year operating cost and is funded from income in the year the debt service is required

37. 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 Greater London Authority Act 1999 is outlined below:

| | Corporation 2012 £m | Corporation 2011 £m |
|--|---------------------------|---------------------------|
| Financial assistance to subsidiaries | | |
| Transport Trading Limited | 319.7 | 141.2 |
| London Underground Limited | 1,059.6 | 3,666.1 |
| London Bus Services Limited | 568.0 | 606.1 |
| Docklands Light Railway Limited | 480.0 | 126.7 |
| Rail for London Limited | 169.1 | 243.8 |
| London River Services Limited | 4.5 | 0.3 |
| Tramtrack Croydon Limited | 12.5 | 13.6 |
| London Transport Museum Limited | 5.8 | 6.0 |
| Crossrail Limited | 1,098.7 | 477.4 |
| Transport for London Finance Limited | 325.0 | - |
| City Airport Rail Enterprises Limited | 26.5 | - |
| Woolwich Arsenal Rail Enterprises Limited | 49.5 | - |
| | 4,118.9 | 5,281.2 |
| | Corporation 2012 £m | Corporation 2011 £m |
| | Note | |
| Financial assistance to London boroughs and other third parties | | |
| London Investment Programme | 139.5 | 145.3 |
| Taxicard | 10.8 | 13.8 |
| Safety schemes | 4.0 | 5.6 |
| Cycle network | 6.8 | 7.3 |
| Cycle hire scheme | - | 6.7 |
| Other | 4.6 | 14.5 |
| | 165.7 | 193.2 |
| | 3 | |

38. Related parties

Transport for London is required by the Code and IAS 24 Related party transactions (IAS 24) to disclose material transactions with related parties. Related parties are entities or individuals who have the potential to control, indirectly control or significantly influence TfL or to be controlled, indirectly controlled or significantly influenced by TfL.

TfL is a statutory corporation established by section 154 of the Greater London Authority Act 1999 (GLA Act 1999). It is a functional body of the Greater London Authority and is controlled by the Mayor of London. TfL is classified as a government entity in accordance with IAS 24, as it is controlled by the GLA, through the Mayor. The GLA and its other functional bodies are considered to be related parties of TfL and its subsidiaries, as they are all under the control of the Mayor. Other related parties include TfL's Board Members, Chief Officers, Commissioner, the Mayor of London and the TfL Pension Fund. In addition, central government has the potential to influence TfL by providing the statutory framework within which TfL operates and through the provision of funding in the form of grants.

Disclosure of related party transactions allows readers to assess the extent to which the Corporation might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with it.

GLA and functional bodies

Details of the funding granted to TfL by the GLA from the Business Rates Supplement levied by the GLA are included in note 33. In addition, the GLA made grants to TfL in respect of the Crossrail project amounting to £700m. This amount is included in note 9 as part of 'Ring-fenced grant to fund capital expenditure relating to Crossrail'. The Council Tax precept paid to TfL by the GLA is also shown in note 9.

During 2011/12 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 2012 £m |
|---|---|--|---|
| Greater London Authority (GLA) | 3.7 | 2.4 | 1.1 |
| Mayor's Office for Policing and Crime (MOPC) (formerly Metropolitan Police Authority) | 0.1 | - | - |
| London Development Agency (LDA) | 0.4 | 0.1 | (0.4) |
| London Fire and Emergency Planning Authority (LFEPA) | 0.3 | - | - |

Board Members and Officers

Board Members, Chief Officers, the Commissioner and the Mayor of London are required to complete a declaration regarding any related party transactions. During the year, none of the Corporation Board, key management personnel or parties related to them have undertaken any material transactions with the Corporation or its subsidiaries (2010/11 none).

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 29.

38. Related parties (continued)

Central Government

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

The Department for Transport sets the level of Transport Grant through the spending review process. The last such spending review was SR 2010, and the settlement covered grant funding and permitted levels of borrowing for the period up to 31 March 2015.

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 37.

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

TfL has borrowings outstanding from the Public Works Loan Board (PWLb), and pays interest to PWLb in respect of those borrowings.

TfL makes payments to the British Transport Police for the provision of policing services on the Underground and Overground railways.

TfL makes payments to the Metropolitan Police Service for policing services provided by the Safer Transport Command.

TfL has received funding from the Olympic Development Authority in respect of transport projects to support the 2012 Games.

Transactions between the Corporation and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

39. Events after the balance sheet date

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

Annual governance statement

Scope of responsibility

Transport for London (TfL) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. TfL also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, TfL is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Under section 127 of the Greater London Authority Act 1999, an individual must be given personal responsibility by appointment of TfL to 'make arrangements for the proper administration of financial affairs'. This role is performed by TfL's Chief Finance Officer (CFO). TfL's financial management arrangements conform with the governance requirements of the Chartered Institute of Public Finance and Accountancy Statement on the Role of the Chief Financial Officer in Local Government (2010), except that the CFO is not a member of the leadership team. However, the CFO plays an active part in TfL strategic decision making.

His responsibilities are discharged through:

- Involvement in all key decisions with a significant financial implication
- Attendance at regular Business Management Review meetings with each Chief Officer; and
- Management responsibilities for the production of the Business Plan and statutory accounts

The CFO is appointed and removed by the Board, reviews all papers relating to financial management for the Chief Officers, Committees or Board in advance, attends all Board meetings and has unrestricted access to the Commissioner. The CFO reports to the Managing Director (MD) Finance.

TfL has approved and adopted a Code of Governance, which is consistent with the principles of the CIPFA/Society of Local Authority Chief Executives Framework Delivering Good Governance in Local Government.

A copy of the TfL Code of Governance is available online at tfl.gov.uk or can be obtained from the Secretariat, Windsor House, 42-50 Victoria Street, London, SW1H 0TL. This statement explains how TfL has complied with the Code and also meets the requirements of the Accounts and Audit (England) Regulations 2011 in relation to the publication of a statement on internal control.

The purpose of the governance framework

The governance framework comprises the systems, processes, culture and values by which TfL is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables TfL to monitor the achievement of its strategic objectives and the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk and provide reasonable, although not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of TfL's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at TfL since the year ended 31 March 2001. It remains in place at the date of approval of the 2011/12 Statement of Accounts.

The governance framework

The Mayor, who serves as its Chair, appoints the TfL Board members. The Board determines and agrees TfL's strategic direction and oversees the performance of the executive team.

The Board has three committees:

- Finance and Policy
- Audit and Assurance; and
- Remuneration

There are four panels, made up of Board members, which provide strategic advice to the Board on the development and execution of policy:

- Rail and Underground
- Surface Transport
- Projects and Planning; and
- Safety and Sustainability

The Audit and Assurance Committee has been delegated the responsibility for overseeing corporate governance in TfL. It has received reports on the implementation of the Code of Governance, the Annual Governance Statement contained in these accounts and the results of the compliance review. It receives regular reports from the General Counsel and the Director of Internal Audit and is responsible for the annual assurance process.

The Commissioner of TfL, advised by his Chief Officers, is responsible and accountable for the delivery of the day-to-day operations of TfL. The General Counsel has the overall responsibility for the operation of the Code and for ensuring that it is integral to the routine functioning of TfL. In addition, the Director of Internal Audit annually comments on the adequacy and effectiveness of the Code and the extent of TfL's compliance with it.

TfL is working to ensure that good governance is fully incorporated into the culture of the organisation and is applied consistently and transparently.

TfL identifies and communicates its vision of its purpose and intended outcomes for citizens and service users by:

- The Mayor developing and publishing a Transport Strategy reflecting national and local priorities
- The Budget and Business Plan reflecting the Transport Strategy and allocating resources accordingly
- Reviewing on a regular basis the implications of the Transport Strategy for its governance arrangements
- Ensuring that those making decisions are provided with information that is fit for purpose – relevant, timely and gives clear explanations of technical issues and their implications; and

- Conducting its business on an open basis, subject only to the requirements of appropriate levels of individual and commercial confidentiality and security

TfL measures the quality of services for users, ensures they are delivered in accordance with TfL's objectives and ensures that they represent the best use of resources by:

- Having in place sound systems for providing management information for performance measurement purposes
- Ensuring performance information is collected at appropriate intervals across all activities
- Having comprehensive and understandable performance plans in place
- Monitoring and reporting performance against agreed targets
- Maximising its resources and allocating them according to priorities
- Having in place effective arrangements to identify and deal with failure in service delivery; and
- Developing and maintaining an effective scrutiny function for its Investment Programme that encourages constructive challenge and enhances TfL's performance overall

TfL defines and documents the roles and responsibilities of the Board, Committees, Panels and staff with clear delegation arrangements and protocols by:

- Having a documented scheme of delegation that reserves appropriate responsibilities to the Board and provides staff with the authority to conduct routine business; and
- Having the roles and responsibilities of Board members and senior staff clearly documented

TfL has developed and communicates the requirements of the Code of Conduct, defining the standards of behaviour for Board members and staff by:

- Ensuring it is an organisation that has a climate of openness, support and respect
- Ensuring that standards of conduct and personal behaviour expected of Board members and staff, between Board members and staff and between TfL, its partners and the community are defined and communicated through codes of conduct and protocols
- Putting in place arrangements to ensure that Board members and staff of TfL are not influenced by prejudice, bias or conflicts of interest

- Ensuring that an effective process, which includes an effective Remuneration Committee, is in place to set the terms and conditions for remuneration of the Commissioner and Chief Officers
- Developing and maintaining shared values including leadership values for both the organisation and staff reflecting public expectations and communicating these to Board members, staff, the community and partners
- Putting in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice
- Setting targets for performance in the delivery of services to ensure equality for all; and
- Using its shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within TfL

TfL reviews and updates standing orders, standing financial instructions, its scheme of delegation and supporting procedures that clearly define how decisions are taken and the processes and controls required to manage risks by:

- Having a clear hierarchy of governance documentation whose components are regularly reviewed
- Maintaining robust systems for identifying and evaluating all significant risks
- Maintaining an effective risk management system; and
- Ensuring that risk management is embedded into its culture, with Board members and staff at all levels recognising that risk management is part of their jobs

TfL ensures that the core functions of the Audit and Assurance Committee are delivered by:

- Having an effective, independent Audit and Assurance Committee
- Having the Audit and Assurance Committee develop and maintain an effective standard of conduct overview
- Having an internal audit department which complies with relevant professional standards

- Having an Integrated Assurance Plan that is driven by an annual evidenced assessment of the key business risks facing TfL; and
- Substantially completing the Integrated Assurance Plan. Divergence from the plan is due to changes in business requirements

TfL ensures compliance with relevant laws, internal policies and procedures, and that expenditure is lawful by:

- Ensuring that all activities are legally correct, fully documented, appropriately authorised and carried on in a planned manner
- Making a senior member of staff responsible for ensuring that appropriate advice is given in all financial matters, for keeping proper financial records and accounts and for maintaining an effective system of internal financial control
- Maintaining proper records to ensure that the annual accounts show a true and fair view and that expenditure has been properly authorised and allocated in an appropriate manner
- Ensuring that a senior member of staff is responsible for all activities being legally correct, fully documented and appropriately authorised
- Developing and maintaining open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based

- Putting in place arrangements to safeguard against conflicts of interest
- Ensuring that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately
- Actively recognising the limits of lawful activity placed on it but also striving to utilise its powers to the full benefit of the public; and
- Observing all legal requirements placed upon it and integrating the key principles of good public law – rationality, legality and natural justice – into its procedures and decision-making processes

TfL has made arrangements for whistle-blowing and for receiving and investigating complaints from the public by:

- Ensuring that effective, transparent and accessible arrangements are in place for making, receiving and dealing with complaints; and
- Ensuring that arrangements are in place for whistle-blowing to which staff and all those contracting with TfL have access

TfL identifies the development needs of Board members and staff in relation to their strategic roles, supported by appropriate training by:

- Ensuring that its Board members and staff are provided with the necessary training to perform their roles
- Ensuring that its staff are competent to perform their roles
- Ensuring that the Chief Finance Officer has the skills, resources and support necessary to perform effectively in his role and that this role is properly understood throughout TfL
- Assessing the skills required by Board members and staff and committing to develop those skills to enable roles to be carried out effectively; and
- Developing skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed

TfL establishes clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation by:

- Having in place proper arrangements designed to encourage individuals and groups from all sections of the community to engage with, contribute to, and participate in the work of TfL
- Making clear to staff and the public what it is accountable for and to whom
- Publishing, publicising and making generally available an annual report as soon as practicable after the end of the financial year
- The annual report presenting an objective and understandable account of its activities and achievements and its financial position and performance
- Cooperating with appropriate organisations to ensure there is independent scrutiny of its financial and operational reporting processes; and
- Having a clear policy on the types of issues it will consult on or engage with the public and service users about, including a feedback mechanism for those consultees to demonstrate what has changed as a result

TfL incorporates good governance arrangements in respect of partnerships and other group working by:

- Fostering effective delivery relationships and partnerships with other public sector agencies, the private and voluntary sectors
- Establishing appropriate arrangements to engage with all sections of the public effectively; and
- Establishing appropriate arrangements to engage with interest groups such as financial institutions, businesses and voluntary groups to ensure they are able to interact with TfL on matters of mutual interest

Review of effectiveness

TfL has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior staff within TfL who have responsibility for the development and maintenance of the governance environment, the Director of Internal Audit's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

TfL's General Counsel has the responsibility for overseeing the implementation and monitoring the operation of the Code and reporting annually to the Audit and Assurance Committee on compliance with the Code and any changes that may be necessary to maintain it and ensure its effectiveness in practice.

In addition, the Director of Internal Audit annually comments on the adequacy and effectiveness of the Code and the extent of TfL's compliance with it.

TfL's Audit and Assurance Committee has considered the review of the effectiveness of the governance framework and a plan to ensure continuous improvement is in place.

In preparation for the new Mayoral term this year's review included:

- (a) A benchmarking review of TfL's corporate governance against the Financial Reporting Council's UK Corporate Governance Code 2010
- (b) A structured review of the effectiveness of the TfL Board's working practices; and
- (c) A review of TfL's Committee and Panel structure in the light of changes since the last review. The outcome of the review was implemented from 1 April 2012

Significant governance issues

Balancing the need to manage within the Government settlement and deliver the Mayor’s priorities is the most significant issue facing TfL and one that will continue to present a challenge to its management. Streamlined governance arrangements have been implemented and senior staff oversight will be maintained to ensure appropriate and timely responses to such issues that arise.

During the year 2011/12 TfL has approved an Integrated Assurance Framework and Integrated Assurance Plan.

TfL prepared well for the Mayoral and London Assembly elections and is now focusing on the 2012 Games.

Other issues to be addressed during the year relate to the implementation of structures to ensure compliance with the Localism Act 2011 and the Government’s transparency agenda, reviewing and implementing recommendations arising from the external review of Board effectiveness and the rollout of a TfL-wide management system.

TfL proposes to continue to improve and develop governance arrangements over the coming year.

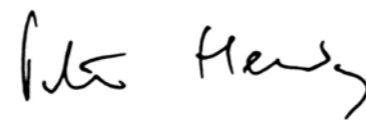
It is confident that the current governance processes and planned developments will enable it to meet the challenges identified.

Signed:



Chair of TfL Board

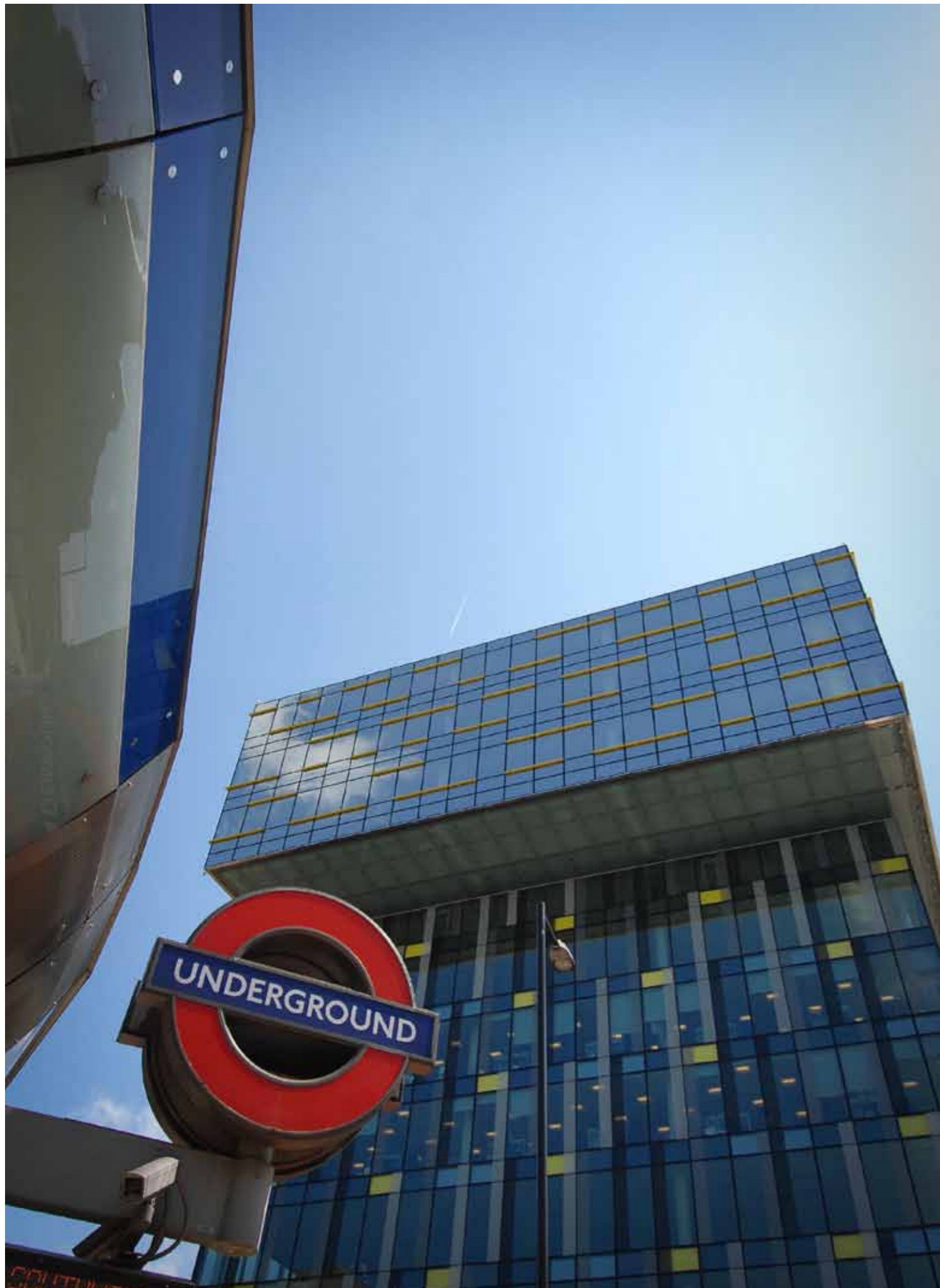
Signed:



Commissioner



Chief Officers



Peter Hendy CBE
Commissioner



Steve Allen
Managing Director Finance



Mike Brown MVO
Managing Director London
Underground and London Rail



Howard Carter
General Counsel



Leon Daniels
Managing Director
Surface Transport



Michèle Dix
Managing Director Planning



Vernon Everitt
Managing Director
Marketing and Communications

Members of TfL



Boris Johnson
Chairman



Isabel Dedring
Deputy Chair



Peter Anderson



Charles Belcher



Christopher Garnett



Baroness Grey-Thompson



Eva Lindholm



Daniel Moylan



Bob Oddy



Patrick O'Keefe



Keith Williams



Steve Wright MBE



Directors of Crossrail Ltd



Terry Morgan CBE
Chairman



David Allen



Ian Brown CBE
01/04/11



Michael Cassidy CBE



Sir Joe Dwyer



Philip Gafney
01/04/11



Terry Hill CBE
01/09/11



Sir Mike Hodgkinson



Robert Jennings CBE



Andy Mitchell



Heather Rabbatts CBE



Andrew Wolstenholme OBE
01/08/11

Membership of TfL panels and committees

(as at 31 March 2012)

On 2 February 2012 TfL agreed a new Committee and Panel structure to be effective from 1 April 2012.

Members of TfL

Boris Johnson – *Chairman*
 Daniel Moylan – *Deputy Chairman*
 Peter Anderson
 Claudia Arney
 Charles Belcher
 Isabel Dedring
 Christopher Garnett
 Baroness Grey-Thompson
 Sir Mike Hodgkinson
 Judith Hunt
 Eva Lindholm
 Steven Norris
 Bob Oddy
 Patrick O’Keeffe
 Tony West
 Keith Williams
 Steve Wright

Committees of TfL

Audit Committee

Keith Williams – *Chair*
 Patrick O’Keeffe – *Vice Chair*
 Charles Belcher
 Christopher Garnett
 Baroness Grey-Thompson
 Bob Oddy
 Steve Wright

Finance and Policy Committee

Peter Anderson – *Chair*
 Daniel Moylan – *Vice Chair*
 Claudia Arney
 Isabel Dedring
 Christopher Garnett
 Sir Mike Hodgkinson
 Judith Hunt
 Eva Lindholm
 Steven Norris
 Tony West

Remuneration Committee

Daniel Moylan – *Chair*
 Christopher Garnett
 Sir Mike Hodgkinson
 Judith Hunt
 Boris Johnson

Safety, Health and Environment Assurance Committee

Tony West – *Chair*
 Judith Hunt – *Vice Chair*
 Claudia Arney
 Charles Belcher
 Baroness Grey-Thompson
 Bob Oddy
 Patrick O’Keeffe

Panels

Environment, Corporate and Planning Panel

Baroness Grey-Thompson – *Chair*
 Sir Mike Hodgkinson – *Vice Chair*
 Peter Anderson
 Judith Hunt
 Eva Lindholm
 Steven Norris
 Patrick O’Keeffe
 Tony West

Rail and Underground Panel

Christopher Garnett – *Chair*
 Steve Wright – *Vice Chair*
 Peter Anderson
 Charles Belcher
 Isabel Dedring
 Sir Mike Hodgkinson
 Daniel Moylan
 Tony West

Surface Transport Panel

Steven Norris – *Chair*
 Charles Belcher – *Vice Chair*
 Baroness Grey-Thompson
 Daniel Moylan
 Bob Oddy
 Patrick O’Keeffe
 Keith Williams
 Steve Wright

TfL Members' meeting attendance 2011/12

| | Meetings of the Board attended | Meetings of the Audit Committee attended | Meetings of the Finance and Policy Committee (FPC) attended | Meetings of the Remuneration Committee attended | Meetings of the Safety, Health and Environment Assurance Committee attended | Meetings of the Environment, Corporate and Planning Panel attended | Meetings of the Rail and Underground Panel (RUP) attended | Meetings of the Surface Transport Panel attended |
|---|--------------------------------|--|---|---|---|--|---|--|
| Total number in the period: | 6 | 4 | 7 | 1 | 4 | 3 | 4 | 4 |
| Boris Johnson | 6 | - | - | 1 | - | - | - | - |
| Daniel Moylan | 6 | - | 7 | 1 | - | - | 3 | 2 |
| Peter Anderson | 5 | - | 6 | - | - | 1 | 0 | - |
| Claudia Arney | 5 | - | 6 | - | 3 | - | - | - |
| Charles Belcher | 6 | 3 | - | - | 4 | - | 4 | 4 |
| Isabel Dedring (see note 1) | 6 | - | 4/6 | - | - | - | 2/3 | - |
| Christopher Garnett | 4 | 3/3 | 5 | 1 | - | - | 4 | - |
| Baroness Grey-Thompson | 4 | 2/3 | - | - | 3 | 3 | - | 3 |
| Sir Mike Hodgkinson | 5 | - | 6 | 0 | - | 2 | 2/3 | - |
| Judith Hunt | 5 | 1/1 | 6 | 1 | 2 | 2 | - | - |
| Eva Lindholm | 6 | - | 5 | - | - | 0 | - | - |
| Steven Norris | 4 | - | 5 | - | - | 1 | - | 4 |
| Bob Oddy | 6 | 4 | - | - | 3 | - | - | 4 |
| Patrick O'Keeffe | 6 | 3 | - | - | 3 | 3 | - | 3 |
| Kulveer Ranger (1 April to 22 May 2011) | - | - | - | - | - | - | - | - |
| Tony West | 5 | - | 6 | - | 4 | 3 | 4 | - |
| Keith Williams | 4 | 3 | - | - | - | - | - | 0 |
| Steve Wright | 5 | 3 | - | - | - | - | 4 | 4 |

Notes:

For some Members and some meetings the attendance figure is shown as number of meetings attended/number of meetings eligible to attend. This differs from the total number of meetings held owing to changes in Committee and Panel memberships effective from 1 July 2011.

1. Appointed to the Board from 23 May 2011 and to Committees and Panels from 1 July 2011.

Remuneration

This report outlines TfL's policy regarding the remuneration of its Members and the Commissioner and Chief Officers, who are responsible for directing the affairs of the organisation.

Policy for Members

Members are appointed by the Mayor and are non-executive. Remuneration payable for 2011/12 for each Member (with the exception of the Deputy Chairman) related directly to the number of panels and committees on which each member served. Remuneration also took into account those members who served as Chair of the committees and panels, up to a capped maximum.

Remuneration levels are set for each Mayoral term, but are reviewed periodically to reflect the responsibilities and accountabilities of the role. With effect from 1 August 2004, the basic fee has been £18,000 per annum. Members who act as Chair, or as a member of a committee or panel, receive additional fees of £4,000 per annum (as a Chair) and £2,000 per annum (as a Member) for each appointment. The maximum payment in aggregate is set at £24,000 per annum, except for the position of Deputy Chairman. The amount paid to the Deputy Chairman was increased in April 2011 from £60,000 to £115,000 per annum reflecting an increase in his workload from two days to four days a week.

Most Members also received free travel for themselves and a nominee valid on TfL transport business areas. The remuneration for each Member for the year ending 31 March 2012 is shown on page 233.

No allowances are paid to Members, although expenses can be claimed.

Policy for Chief Officers Remuneration Committee

The Remuneration Committee currently consists of five Members of TfL. The terms of reference of the Remuneration Committee include reviewing the remuneration of the Commissioner and Chief Officers.

The remuneration of the Chief Executive of Crossrail is determined by the Crossrail Remuneration Committee. Crossrail is a wholly owned subsidiary of TfL with its own governance arrangements. These include a board comprising executive and independent non-executive directors as well as two non-executive directors appointed by TfL and DfT. The Crossrail Remuneration Committee operates to a set of contractually agreed Remuneration Principles and a Remuneration Framework.

Remuneration policy

The policy of TfL is to provide remuneration packages for Chief Officers which attract, retain and motivate individuals of the high calibre required to manage such a large, complex organisation.

Remuneration packages reflect their responsibilities, experience and performance and the market from which TfL recruits. The Remuneration Committee has established a reward structure commensurate with this policy, which includes a base salary and a performance award scheme against the achievement of a range of financial and operational service performance targets.

TfL has continued to work with Towers Watson, one of the leading remuneration consultancies, to benchmark the remuneration of its Chief Officers against a peer group of compatible companies from transport, infrastructure, and public services sectors with which TfL competes for senior staff. This research has shown that TfL executives are paid at the lower end of the remuneration paid in comparator organisations; the total compensation paid to TfL's Chief Officers is generally below the lower quartile of the market and significantly below the lower quartile for the Commissioner and the Managing Director, Finance. Towers Watson are retained under contract as remuneration consultants and provide no other services directly to TfL. A separate contract for investment and actuarial services is held with TfL Pension Trustee Company Ltd.

Remuneration of senior staff

In recognition of the continuing difficult economic climate and financial constraints on TfL, in 2011/12 the base pay of the Commissioner and Chief Officers was frozen for a third year. The Commissioner is eligible for consideration of a performance award up to a maximum of 50 per cent of base salary. The Chief Officers are eligible for consideration of a performance award up to a maximum of 30 per cent of base salary.

To ensure that greater emphasis is placed on key medium term objectives and deliverables and to recognise the importance of motivating its leadership team and encouraging them to work collectively to deliver its key priorities

TfL currently operates a deferred incentive arrangement for the Commissioner, Chief Officers and Directors. Under the arrangement for the Commissioner and Chief Officers, annual performance awards for 2010/11 and for 2011/12 have been deferred in full. Payment of the deferred performance award is contingent upon TfL's collective achievement against specific targets for the performance periods from 1 April 2010 until 31 March 2012, plus the successful delivery of the Olympic and Paralympic transport services. The level of deferred performance award achieved will not be enhanced by the deferral arrangement but will be reduced if the targets set under the arrangement are not achieved in full.

The combined sum in performance awards deferred in respect of the Commissioner and Chief Officers amounted to around £560,000 for the period 1 April 2010 to 31 March 2011. The Commissioner's salary was £348,444.

In relation to the Directors, a deferred incentive plan was previously introduced during 2010 to incentivise the delivery of key medium term objectives and the successful delivery of the transport improvements for the 2012 Games. Therefore 25 per cent of the performance award opportunity previously available to Directors has been deferred until 2012.

The total number of TfL staff receiving total remuneration of over £50,000 is on page 138 and the remuneration of senior employees with a base salary of over £150,000 is on page 140.

The underlying number of TfL staff (excluding Crossrail) earning total remuneration of more than £100,000 was 223 (231 last year). There has been a decrease in the number of staff at Crossrail earning total remuneration of more than £100,000 (from 31 to 30).

Other benefits

Senior officers are eligible to receive the following:

- Private medical insurance
- Annual health check-ups
- Subscriptions to professional organisations
- Pension
- Where appropriate, recompense for loss of benefits from previous employers and/or to comply with TfL’s policies
- As with all TfL employees, the Commissioner and Chief Officers are provided with a free travel pass for themselves and a nominee valid on TfL transport modes. Chief Officers who joined after 1 April 1996 are eligible to receive reimbursement of 75 per cent of the cost of an annual season ticket on National Rail. Chief Officers employed by predecessor organisations prior to April 1996 receive National Rail facilities in line with the policy of the predecessor organisation

Pension arrangements

Chief Officers are eligible for the following pension benefits:

- Membership of the TfL Pension Fund, a ‘defined benefit’ scheme which provides for a pension payable from age 65, based on 1/60th of pensionable salary for each year of service
- Pensionable salary is capped for joiners from 1 June 1989. For 2011/12, the cap was £129,600
- Up to 25 per cent of the value of the pension can be taken as a cash sum (under current legislation)
- Lump sum death benefit of four times salary on death in service
- Dependant’s pension and children’s pensions are paid on death in service and after retirement
- Member contributions payable at the rate of five per cent of pensionable salary
- Pension payable in the event of retirement due to ill-health
- An employer contribution of up to 10 per cent of salary to either the TfL Supplementary Pension Scheme, a ‘defined contribution’ scheme which provides additional benefits for those earning above the cap or paid as a supplement to base salary less an adjustment for employer national insurance contributions. The Commissioner is entitled to a pension based on TfL service equal to what would be due under the TfL Pension Fund if the cap did not apply

| Members’ remuneration | For the year ended 31/03/12 £ |
|------------------------|----------------------------------|
| Boris Johnson | Not remunerated by TfL |
| Daniel Moylan | 112,599 |
| Peter Anderson | 24,000 |
| Claudia Arney | 22,000 |
| Charles Belcher | 24,000 |
| Isabel Deding* | Not remunerated by TfL |
| Christopher Garnett | 24,000 |
| Baroness Grey-Thompson | 24,000 |
| Sir Mike Hodgkinson | 24,000 |
| Judith Hunt | 24,000 |
| Eva Lindholm | 22,000 |
| Steven Norris | Not remunerated by TfL |
| Bob Oddy | 24,000 |
| Patrick O’Keeffe | 24,000 |
| Kulveer Ranger** | Not remunerated by TfL |
| Tony West | 24,000 |
| Keith Williams | 23,500 |
| Steve Wright | 24,000 |

Members receive reimbursement of travel and subsistence expenses. The expenses claimed for all Members in 2011/12 was less than £500 in total.

* Appointed 23 May 2011. Isabel Deding is remunerated as a TfL employee on secondment to the GLA as Deputy Mayor for Transport

** Stood down on 22 May 2011

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June 2012

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