TRANSPORT FOR LONDON

AGENDA

BOARD MEETING

TO BE HELD ON THURSDAY 22ND JULY 2004
IN THE CHAMBER, CITY HALL, THE QUEEN'S WALK, LONDON SE1 2AA
COMMENCING AT 11.00AM

A meeting of the Board will be held to deal with the following business. The public are welcome to attend this meeting, which has disabled access.

Procedural business

1.1 Apologies for absence
1.2 Minutes of the previous meeting held on 23rd June 2004
1.3 Matters arising, not covered elsewhere

Business Items

2. Commissioner's Report

3. Finance and Performance Report
   a) Revenue Trends
   b) PPP Performance Report

4. Approval of Statement of Accounts

5. Olympic & Paralympic Transport Strategy for London 2012

Procedural Items

6. Annual Report

7. Audit Committee Report

8. Finance Committee Report

9. Safety, Health and Environment Committee Report

Items for Noting

10. Documents Sealed on behalf of TfL

Other Items

11. Any Other Business

Date of next meeting: Wednesday 27 October 2004 at 1000 hours

Transport for London

Minutes of a meeting of the Board
held on Wednesday 23 June 2004, commencing at 10.00 a.m.
in the Chamber, City Hall, the Queen's Walk, London, SE1 2AA

Present:

Board Members:	Dave Wetzel (in the Chair)	David Begg
	Stephen Glaister	Sir Mike Hodgkinson
	Oli Jackson	Susan Kramer
	Paul Moore	Murziline Parchment
	Tony West	

In attendance:

Special Advisors:	Bryan Heiser	Lynn Sloman
TfL Officers:	Mike Austerbury	Maggie Bellis
	Ian Brown	Stephen Critchley
	Isabel Dedring	Mary Hardy
	Stuart Harvey	Peter Hendy
	Ellen Howard	Robert Kiley
	Locksley Ryan	Fiona Smith
	Valerie Todd	Tim O'Toole
	Jay Walder	
Secretary:	Louisa Sherry	

113/06/04 APOLOGIES FOR ABSENCE

Apologies for absence were received from Bob Crow, Kirsten Hearn, Ken Livingstone, Sir Gulam Noon and David Quarmby.

114/06/04 MINUTES OF THE PREVIOUS MEETING HELD ON 29 APRIL 2004

The minutes of the meeting held on 29 April 2004 were **agreed** and signed as an accurate record.

115/06/04 MATTERS ARISING

There were no matters arising.

The Chair reminded members to declare any interests in the papers presented. Mike Hodgkinson declared an interest in the Piccadilly Line Extension to Heathrow Terminal 5 item.

116/06/04 COMMISSIONER'S REPORT

The Board considered the Commissioner's report for June 2004. The key points arising from the discussion were:

- because of the road safety statistics, the use of the Thames Gateway Bridge and entry into the Congestion Charging Zone (both at no cost) by powered two-wheel vehicles should be kept under review;
- TfL have commissioned the Transport Research Laboratory to conduct an independent review into consultation and implementation of cycling schemes, following the cycle accident on Blackfriars Bridge. The findings will be made public and circulated to Board Members; and
- concern that the timescale for lodging a hybrid Bill in March 2005 for Crossrail may slip to November 2005, despite the best efforts of the Chair to secure an early response from Government.

The Board **noted** the Commissioner's report.

117/06/04 FINANCE AND PERFORMANCE REPORT

Jay Walder introduced this paper by highlighting the four key achievements for the 4th quarter:

a) a 10% increase in bus patronage the size of the bus network and the highest levels of customer satisfaction with London buses;
b) a continued reduction in traffic congestion of 30% within the congestion charging zone and evidence of a sustained modal shift from car to bus of 4%;
c) in the first year of operation over 2 million Oyster cards are in circulation. The challenge now is to solidify public trust and confidence in the system and market the Oyster card to expand its market share; and
d) operating efficiency savings in back-of-house services of £42 million have been achieved, against an estimate of £18m.

The impact on income of the shortfall in the number of passenger journeys on the Underground (versus the expectations in the financial plan adopted by Government at the time of the PPP) is being kept under review with a report being presented to the next meeting of the Finance Committee and an update to the Board on 22 July.

Jay Walder

In discussion, members raised the following points:

- over the next few years, the Board should consider how it can build and expand on the success of congestion charging; and

- that, based on the good working relationships which had been built between the Borough Partnerships Team and the Boroughs, it may be possible for TfL to become involved in the public spaces agenda.

The Board **noted** the report.

118/06/04 PPP CONTRACT PERFORMANCE

Tim O'Toole advised the Board of the lengthy negotiations that had taken place to try and avoid the strike action by the RMT the following week. He also advised that, although it is unclear at the moment what services will be operating, contingency planning is under way. Discussions are taking place with the Metropolitan Police about additional assistance and a communications strategy was being developed to ensure clear information is available to the public.

Peter Hendy said that, in the event of a dispute, London Buses would operate as full a service as possible and that the Metropolitan Police Service and British Transport Police would be involving in assisting crowd control and traffic flow.

Tim O'Toole reported briefly on PPP contractual performance and the Board **noted** the paper.

119/06/04 BEST VALUE PERFORMANCE PLAN

Stephen Critchley advised the Board that TfL is required to produce the Best Value Performance Plan on an annual basis and the Annex to the paper provides additional information required to comply with statute. Robert Kiley reminded members that almost every subject covered by the Performance Indicators are measured and monitored elsewhere in the organisation in a more relevant and meaningful way.

Bryan Heiser requested more information about the process for arriving at the equality performance indicator for access to buildings and it was **agreed** that he should meet Valerie Todd and Stephen Critchley.

Stephen Critchley

Following a short discussion, the Board **approved** the contents of the Annex and **agreed** to delegate authority to the Managing Director, Finance and Planning, to make changes to the Best Value Performance Plan, prior to its publication by the end of the month.

120/06/04 PICCADILLY LINE EXTENSION TO HEATHROW TERMINAL 5

Mike Hodgkinson declared an interest in this item and did not take part in the discussion.

Tim O'Toole introduced this paper by reminding the Board that the paper had been presented to the Finance Committee and been the subject of fairly in depth discussion already. Stuart Harvey summarised the key points.

One member raised an ongoing concern about the capacity of Piccadilly Line to deal with the increased number of passengers and their luggage.

The Board **approved** the resolution as follows:

1. **Approved** the contents of the Project Agreement, Parent Company Guarantee and the Agreement for Lease, subject to such additions, deletions or amendments as may be authorised by the Commissioner or the Managing Director Finance and Planning.

2 **Agreed**, subject to the consent of the Secretary of State having been obtained pursuant to Section 207 of the Greater London Authority Act 1999:

i) that the Commissioner or, in his absence, the Managing Director Finance and Planning, shall have delegated authority on behalf of TfL to permit execution by London Underground Limited via any one of its company directors, LUL company secretary or LUL Head of Legal Services, to sign and/or seal and deliver on behalf of London Underground Limited the Project Agreement, Parent Company Guarantee and the Agreement for Lease (including any additions, deletions or amendments as may have been authorised by the Commissioner or the Managing Director Finance and Planning in accordance with Resolution 1 above)

ii) that the Commissioner or the Managing Director Finance and Planning shall authorise London Underground Limited to do all such further things necessary in connection with completing the Project Agreement and authorise LUL to sign and/or seal such further documents including contracts as are required in connection with the documents referred to above.

3 Approved the release of funds from the Group Budget and Business Plan UIP 8791 to the value of £18.52 million across 2004/05 to 2008/09. Further release funds from UIP 8301 to a value of £59.08 million across 2004/05 to 2008/09, fully reimbursable by HAL.

121/06/04 AUDIT COMMITTEE REPORT

The Board **noted** the report on the proceedings of the Audit Committee meeting held on 25 May 2004.

122/06/04 FINANCE COMMITTEE REPORT

The Board **noted** the report on the matters discussed at the Finance Committee meeting held on 11 March 2004 and in particular, the Committee's concern about the level of fraudulent use of credit/debit cards at unattended ticket machines on the Underground. The Committee had requested an action plan to address this issue.

123/06/04 TfL HSE POLICY STATEMENT

The Board **approved** the new Health, Safety and Environment Policy Statement.

124/06/04 DOCUMENTS SEALED ON BEHALF OF TfL

The Board **noted** the documents sealed on behalf of TfL between 11 March and 9 June 2004.

125/06/04 ANY OTHER BUSINESS

There being no further business, the meeting closed at 11.17 hours

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CHAIR

AGENDA ITEM 2

TRANSPORT FOR LONDON

TfL BOARD

SUBJECT: COMMISSIONER'S REPORT FOR JULY 2004

MEETING DATE: 22 JULY 2004

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1. PURPOSE

This is the Commissioner's written report for July 2004. This report provides an overview of major issues and developments since the last Board meeting and updates the Board on significant projects and initiatives.

2. TFL BUDGET AND BUSINESS PLAN / SPENDING REVIEW 2004

2.1 Budget and Business Plan

The business planning process for 2005/06 has started, and the businesses are due to submit proposed plans in early September.

2.2 Spending Review 2004 (SR 2004)

The results of the spending review are expected to be announced on 12 July. I will update you on the outcome when we meet.

3. TfL OPERATIONS

There are some operational issues to draw to your attention.

3.1 Surface Transport

3.1.1 London Buses

Bus patronage continues to grow, with an increase of 6.3% year on year in Period 2 of 2004/05. There was again low staff lost mileage in this period, down to 0.16%. The service quality indicators for London Buses continue to exceed targets. Excess waiting time is down to 1.23 minutes from 1.44 minutes a year ago.

Following three substantial audits, from the end of July operators should no longer place vehicles in service at the start of the day without a working ramp. According to the latest survey, ramp availability is 100% at over half the garages in London. Substitution of inaccessible buses on accessible routes is also prohibited. This will require monitoring and will focus attention on driver training and behaviour.

A meeting to discuss a proposal for an international bus-benchmarking group to be run by Imperial College was held in London on 17-18 June 2004. Many of the world's major cities were represented including New York, Montreal, Hong Kong, London, Paris, Dublin, Berlin, Barcelona and Madrid (Rome, Los Angeles and Moscow are also possible members). This is the first step in establishing globally consistent measures of bus funding and performance for world cities.

3.1.2 Traffic Management

The Traffic Management Bill is still in the House of Lords and will have its third reading in the Lords on 8 July. The Commons are then set to consider Lords Amendments on 12 and 15 July.

TfL is working closely with the Department for Transport and Government, who are pressing to maintain the parliamentary timetable to enable Royal Assent this summer.

3.1.3 Public Space and Public Life in London

On 22 June, TfL and the Central London Partnership launched the study by Jan Gehl "Public Spaces and Public Life – Towards a Fine City for People". The study looks at the pedestrian environment and public space in central London. TfL is developing an action plan that will implement many of the findings of the report. TfL will also then publish draft streetscape design standards for London which will address some important issues raised in Gehl's report.

3.1.4 Congestion charging scheme

Consultation on the two variation orders to the congestion charging scheme has been completed. The two elements that generated the biggest response were the proposals to increase penalties and other enforcement charges and changes to the residents' discount eligibility. A report for the Mayor is being drafted on the outcome of the consultation.

3.2 London Underground

3.2.1 Customer service and performance

A few months into the new year, all the main metrics for Underground performance are on or slightly better than budget, including excess journey time, service volume, and percentage of schedule operated. Closures have been higher than last year; this will continue to be the case as it is largely due to planned work.

3.2.2 Industrial relations

On 22 June the RMT announced it would take strike action on the Underground on 29-30 June, for 24 hours from 18:30 on 29 June. The strike was unprovoked in that no substantive dispute had been raised with LUL. Discussions were ongoing with all the Underground trade unions (including RMT, ASLEF and TSSA) over the pay and conditions offer, and no real dispute had occurred within the context of those discussions.

The RMT strike saw over three million passengers that usually use the Tube taking to buses, bikes, walking or taking alternative rail services. TfL staff were involved in dealing with the substantial impact of the strike, including providing information to passengers at interchanges on travel alternatives.

Thanks to the efforts of many staff the Underground was able to run some limited services. In addition, about 60–70 extra buses were in operation as well as an additional river service. Support was provided by the Metropolitan Police Service, with both Traffic and Transport police officers and Transport Police Community Support Officers deployed for passenger assistance, traffic direction and crowd control.

3.2.3 Land value

TfL has published a report indicating that the uplift in land values attributable to the Jubilee Line Extension is in the region of £2 billion in the area of Canary Wharf Underground station and £800m in the Southwark Underground station region. The study was commissioned by TfL and conducted by the real estate services and money management firm Jones Lang LaSalle.

3.2.4 LUL report into the first year of the PPP

On June 17, the Underground published its review of Tube operations and performance under the first year of the Public Private Partnership (PPP). The full report, entitled "London Underground and the PPP - The first year", is available on the TfL website. It concludes that the ‘jury is still out’ on PPP, with some limited successes by the Infracos (such as cleaner stations and trains). However improvements in performance for key assets such as trains, track and signals have not materialised in the first year. LUL also continues to have serious concerns over the planning and project management of the Infracos. Over the next year we must see an improvement from the Infracos in both the quality of their maintenance work and in their major renewal projects.

The Underground’s report into the first year under the PPP coincided with the publication by the National Audit Office of two reports into the PPP, one looking at whether the deals were value for money and the other looking at performance so far under the PPP. The first concluded that it was not possible to determine whether the deals represented value for money, while the second concluded that performance so far was very mixed.

These reports were scrutinized by the House of Commons Public Accounts Committee (PAC) on 22 June, at which Tim O’Toole testified. The PAC was particularly interested in the value for money report and probed the conclusions of the report intensely. The PAC is deciding whether to call another session to further discuss the NAO’s conclusions.

3.2.5 Safety report

On 17 June, the Underground also published the conclusions from the first phase of an independent audit of Tube safety (including the PPP structure) conducted by Arthur D. Little. The first phase of the audit concluded that LU's overall safety management arrangements are robust but made 15 recommendations, all of which are being addressed by LU.

The second phase of the audit is now underway and is looking in more detail at the three recommendations for improvement that were considered most important. These three areas are: improving how the Infracos assure LUL about the safety of their activities, improving the clarity of managers' and staff roles and responsibilities and improving track access control arrangements. The report of the second phase is expected to be concluded later this year and will be published then.

4. MAJOR PROJECTS AND INITIATIVES

4.1 Rail

We continue to await the Government decision on rail projects such as Crossrail and East London Line. The outcome of the rail review is also pending.

4.2 Equality and inclusion (E&I)

TfL has revised its Race Equality Scheme (RES) in consultation with the CRE. TfL is now briefing MDs and their senior management teams on the revised RES and requirements from the business. The E&I team are also taking measures to achieve the local government standards for equality. The first stage requires TfL to develop, consult on, and implement a coimprehensive equality police. This policy is being drafted and TfL will consult on the draft.

The review of Door to Door services, which commenced in July 2003, will draw to a close in August. A review report and business case is being drafted as part of the review process.

I have also launched a review to establish whether TfL has the capacity to deliver its ambitious E&I agenda. The review team is due to report its findings and recommendations in August.

Since publishing its workforce targets earlier this year, TfL has revised these targets in light of feedback from the businesses. The E&I team and the HR community are working in concert to ensure the 2005/06 targets are realistic, evidenced based, achievable and part of a wider HR strategy that embraces retention, development and an agreed approach to fairness at work.

5. ORGANISATIONAL ISSUES

There are a number of changes to the Secretariat department which I should mention.

As many of you will know by now, Louisa Sherry has joined us recently as Assistant Company Secretary from the Big Lottery Fund. She will be responsible for managing the TfL Secretariat and TfL Boards, Panels and Committees as well as providing secretariat support across the TfL group. She will also lead on Standing Orders and Delegations, to ensure these are kept up to date and fit for purpose, and will deal with queries. Louisa and Jo Chance have also been appointed Joint Secretaries to the various Companies Act subsidiaries to TfL.

Jo Chance will be taking on a new role ensuring that pan-General Counsel issues are taken forward.

The Corporate Governance Adviser will continue to be Jeff Pipe. He will be responsible for TfL's Code of Corporate Governance, the governance framework including facilitating the development of the pan-TfL policy portfolio, and providing advice and guidance on ethical issues relating to how TfL's business is conducted.

Richard Bevins has joined us as Head of the Information Compliance Unit as of 1 July, responsible for Freedom of Information and Data Protection issues. He joins us from the Foreign & Commonwealth Office where he had responsibility for the same areas.

All four of these roles will report directly to Fiona Smith.

Robert R. Kiley
Commissioner for Transport
July 2004

AGENDA ITEM 3a

TRANSPORT FOR LONDON

STAFF SUMMARY

FINANCE COMMITTEE

SUBJECT: **CURRENT REVENUE TRENDS**

MEETING DATE: **22 July 2004**

1. PURPOSE

1.1 This note is intended to brief the Board on current trends in bus and Tube passenger traffic and fares revenue and the likely outcome for 2004/05.

2. BUS

Overall trends

2.1 Bus ridership is currently running at about 6% up year on year; revenue is about 13% up. Assuming an inflation-matching fare increase in January 2005, it is estimated that bus revenue in 2004/05 is likely to be around £840m, nearly 10% up on 2003/04 and £10m above budget.

2.2 Some bus traffic has been lost as a result of the higher fares introduced in January 2004. However, sales of Bus Passes, for example, are continuing to show volume growth of around 10% year on year. Overall, the January fare revision appears to have had only a very marginal net impact on the positive trend in bus ridership.

2.3 Fewer cash passengers than predicted have been lost or switched to other tickets. Cash customers now comprise around 13% of all bus users, compared with around 17% just before the revision.

2.4 The take-up by bus Pre Pay is starting to build up following the low-key launch in May.

Causes of the current trends in bus ridership

2.5 The continuing strong growth in bus ridership appears to reflect:

- the on-going programme of bus service enhancements and the improvement in bus service quality since the start of Congestion Charging (3.5%);

- the continuing underlying growth in off-bus ticket sales – primarily Bus Passes (1%); and

- the general buoyancy of the London economy (1.5%).

Transfers of traffic from the Tube are thought to account for around 1% of the current growth in ridership.

3. TUBE

Overview of the current position

3.1 Tube revenue in 2004/05 is now not expected to be above £1200m. This is about 3% up on 2003/04 and £30m below budget. There is a downside risk of around £10m, before allowing for the impact of the recent industrial action. The trend in Tube ridership is broadly flat when growth would be expected given the current economic situation.

Analysis of current trends

3.2 This shortfall of Undergound revenue to budget in 2004/05 appears to reflect primarily a shift of Tube traffic to bus over the last 12 to 18 months. Following the Central Line closure last year, a reduction in Tube use was evident. It was anticipated that in large part these losses would be recovered in 2004/05. However, much of the traffic lost appears to have transferred permanently to bus following the introduction of Congestion Charging.

3.3 The Central Line’s closure coincided almost exactly with the start of Congestion Charging in February 2003, making their relative impact hard to disentangle. The Congestion Charging “package” included a series of enhancements to the frequency and coverage of the bus network in and around Zone 1. Substantial improvements in bus service quality in and around central London have also taken place – affecting both reliability and journey times. Fears of a deterioration in bus service quality on the boundary of the Charging Zone have proved to be unfounded and indeed contrary to what has actually occurred.

3.4 This sustained programme of bus service improvements appears to have led to a significant transfer of Tube traffic to bus. Concerns over security and the fare differential with bus may both have played a part in determinimg the scale of transfer.

3.5 Tube revenue losses as a result of transfers to bus are now put at around £40m in 2003/04. with a further loss of £15m in 2004/05. This total loss of £55m over the two years is significantly more than previously estimated. These additional losses account for the bulk of this year’s Tube revenue shortfall against the 2004/05 budget.

The January fares revision and theTube

3.6 The yield from the January Tube fare changes has also proved to be marginally lower than anticipated. This reflects significantly higher than expected switching from single tickets into Travelcards: in particular, into the discounted tickets for students and 16/17 year olds; the Family Travelcard and the Zone 1 to 2 One Day ticket. Many of these tickets were made significantly more attractive at the revision.

3.7 The take-up of Tube Pre Pay is steadily building up. The new ticket currently appears to have captured around 15% of single ticket sales.

3.8 After allowing for all these effects, the yield of the revision is put at around 3.3% of Tube revenue, compared with a forecast of 3.7%.

4. CONCLUSIONS

4.1 Bus traffic and revenue continue to increase. The January fare changes have had little net impact on bus ridership, which is up 6% year-on-year. Revenue has increased by around 13%. Service volume and quality improvements continue to be major drivers of growth.

4.2 Transfers from Tube to bus are proving greater and more permanent than previously anticipated. This has led to a dilution of overall TfL revenue – and a significant revenue shortfall for the Tube. It is estimated that:

- in 2003/04, traffic transfers cost the Tube £40m but gained the buses only £25m;
- in 2004/05, transfers will cost the Tube a further £15m; with the buses gaining only £10m.

4.3 These differential gains and losses reflect the relative levels of the fares charged.

4.4 The yield of the Tube fares revision has also fallen marginally below that forecast. This reflects primarily higher than expected take-up of discounted Travelcards for 16/17 year olds, students and children and of certain One Day tickets.

London Underground

PPP Performance Report

To TfL Board
on 22nd July 2004

Period 2 2004/2005

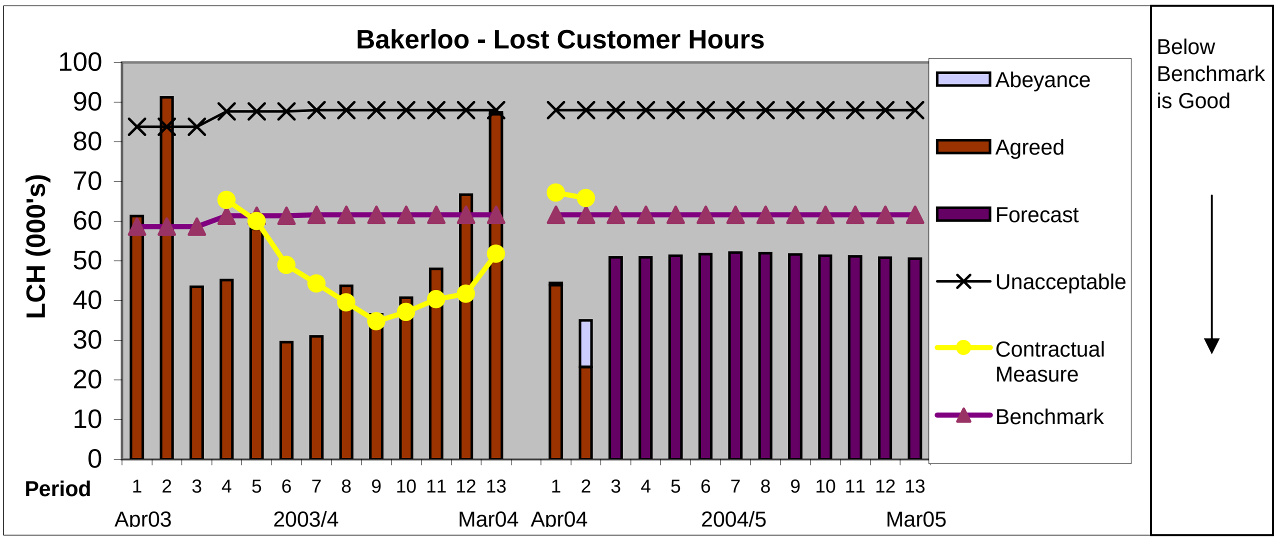
(02/05/04 to 29/05/04)

UNDERGROUND

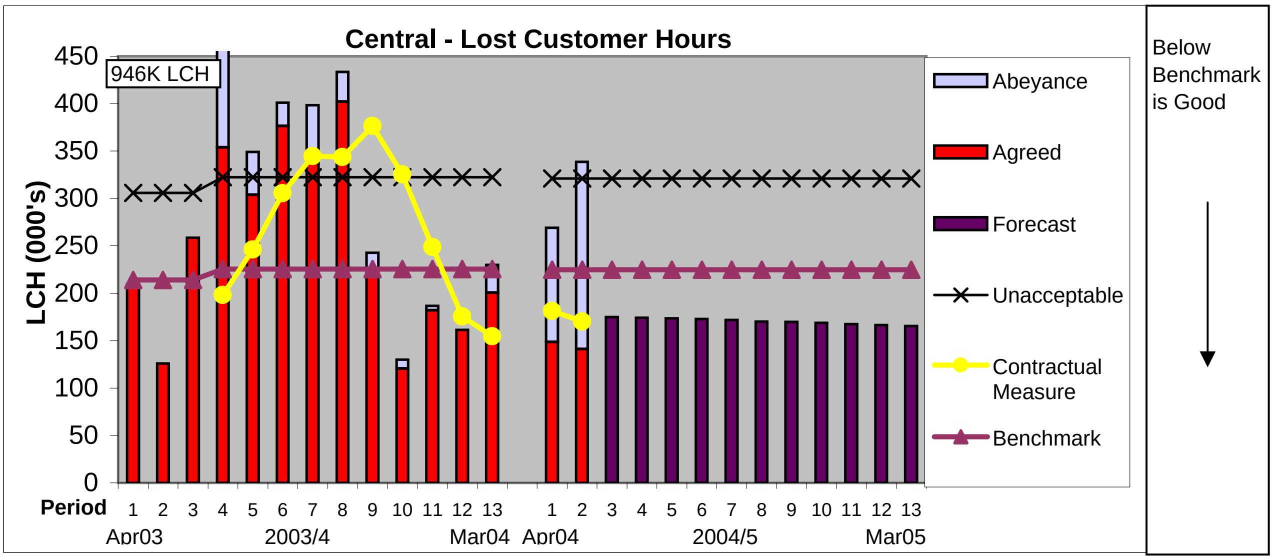
Performance figures are based on LU's reporting cycle of thirteen four week periods, starting on 1 April of each year and ending 31 March each year.

Forecasts are based on historical performance modified by known events or issues that may have a positive or negative effect. These performance forecasts are consistent with financial forecasts.

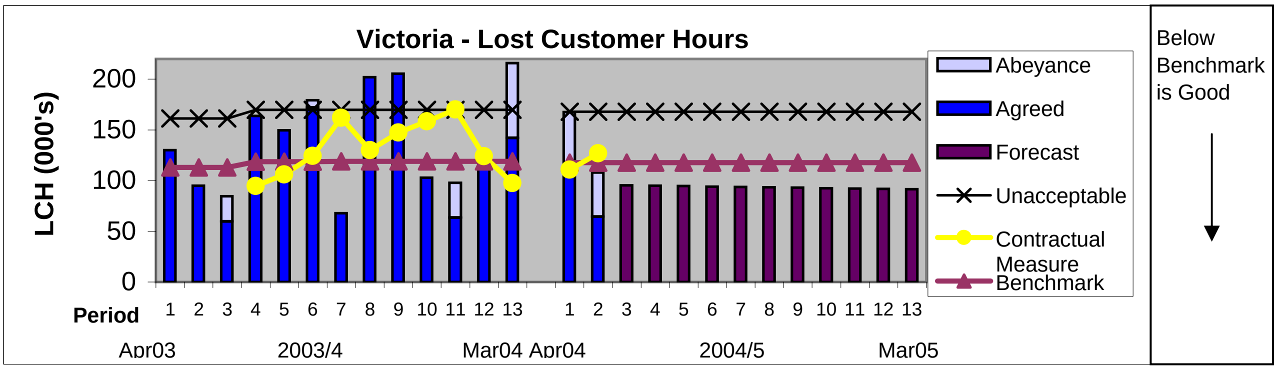
PPP Performance - Availability - Metronet BCV



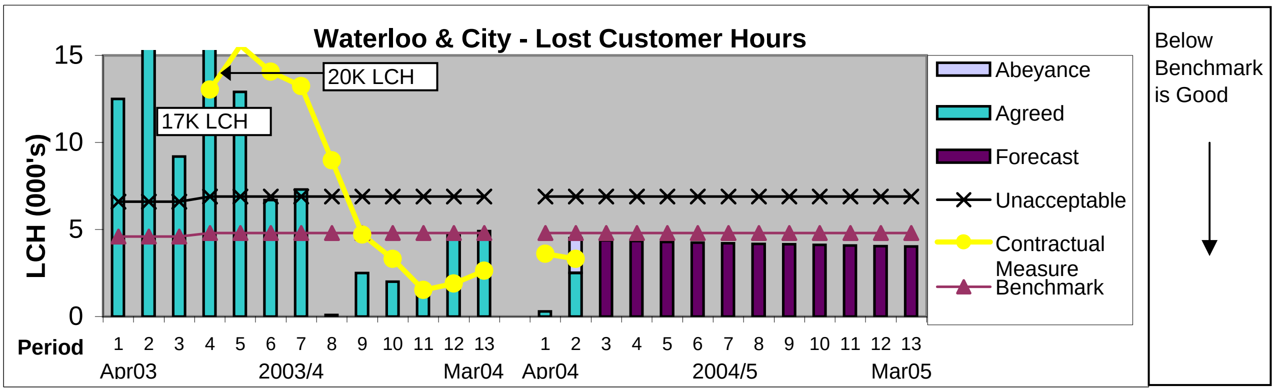
Agreed availability for 2003/04 was 25% better than benchmark and the peak in period 2 was largely due to reports of smoke in a tunnel and lost air pressure on a train, that in period 13 was largely due to 6 trackside fires, 2 faulty block joints and an escalator job overrun. In 2004/05 the improvement in period 2 is due to fewer track fires due to better cleaning regimes. The largest agreed item is a faulty block joint between Piccadilly Circus and Queens Park (£45k). The largest item in abeyance is a compressed air problem on a train between Elephant & Castle and Paddington (£28k).



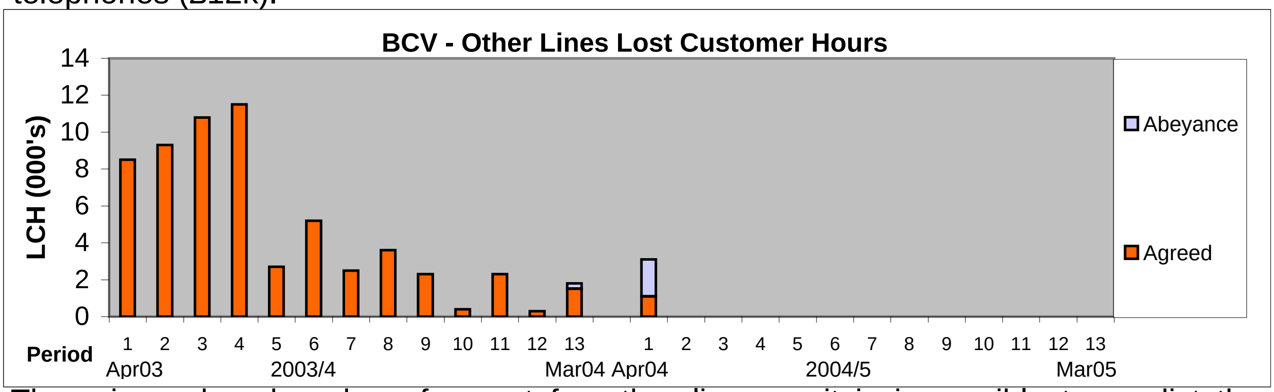
Agreed availability for 2003/04 was 11% worse than benchmark with 6 periods worse than benchmark due to train checks following Chancery Lane, the peak in period 4 was due to a delay in returning escalators to service at Bond Street. Performance improved as specialist technical resource from Bombardier was introduced. In 2004/05 period 1 the largest abeyance items are the loss of a train shoe at Marble Arch (£125k) and a report of smoke at Holborn (£78k). This period the two largest agreed items are a signal failure at Leyton (£36k) and a train door problem at Bethnal Green (£37k). 60% of the period 2 abeyance is due to the train derailment at White City.



Agreed availability for 2003/04 was 4% worse than benchmark, with 6 periods worse than benchmark. The abeyance in period 11 is due to a flooding incident between Finsbury Park and Seven Sisters and a train failure at Victoria, that for period 13 is an access booking issue for an escalator at Warren Street and traction shoes being knocked off by rails left overnight at Northumberland Park Depot. In period 1 of 2004/05 significant agreed items are a signal failure at Seven Sisters and a broken track wire at Finsbury Park (£100k each). The largest item in abeyance is a signal fault at Pimlico, it is expected to be attributed to Metronet BCV (£114k). For period 2 agreed availability is mainly due to signal failures at Finsbury Park and abeyance is largely due to signal faults at King's Cross.

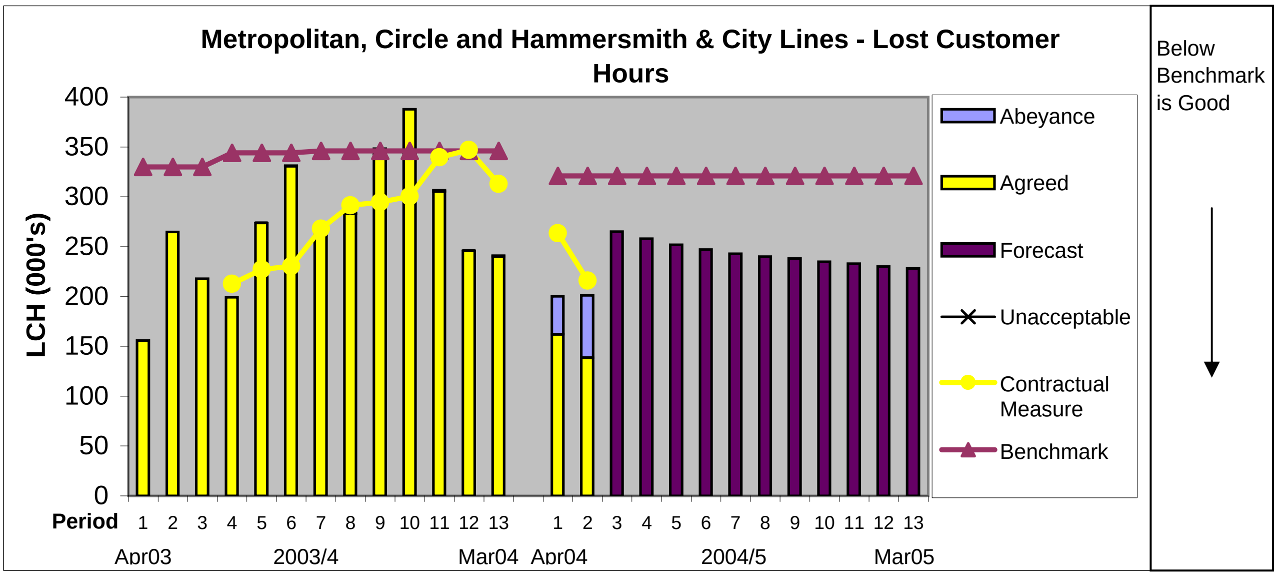


Waterloo & City is a small line with a low level of LCH, and therefore any incident tends to have a large impact on the graph above. The poor performance at the start of 2003/04 was due to track defects. In 2004/05 period 2 90% of the agreed availability was due to a track circuit failure and the abeyance is largely due to faulty tunnel telephones (£12k).

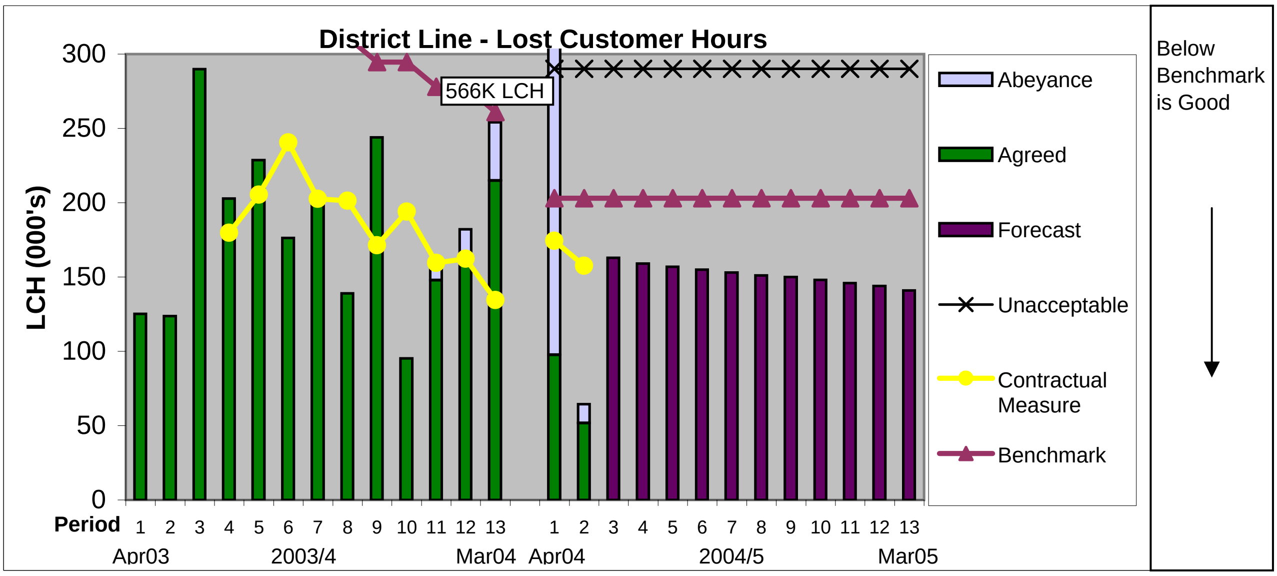


There is no benchmark or forecast for other lines as it is impossible to predict the effects on other lines of BCV incidents. Performance has seen a large improvement since period 5 (2003/04). In 2004/05 the improving trend continues. This period there were no incidents attributed to Metronet.

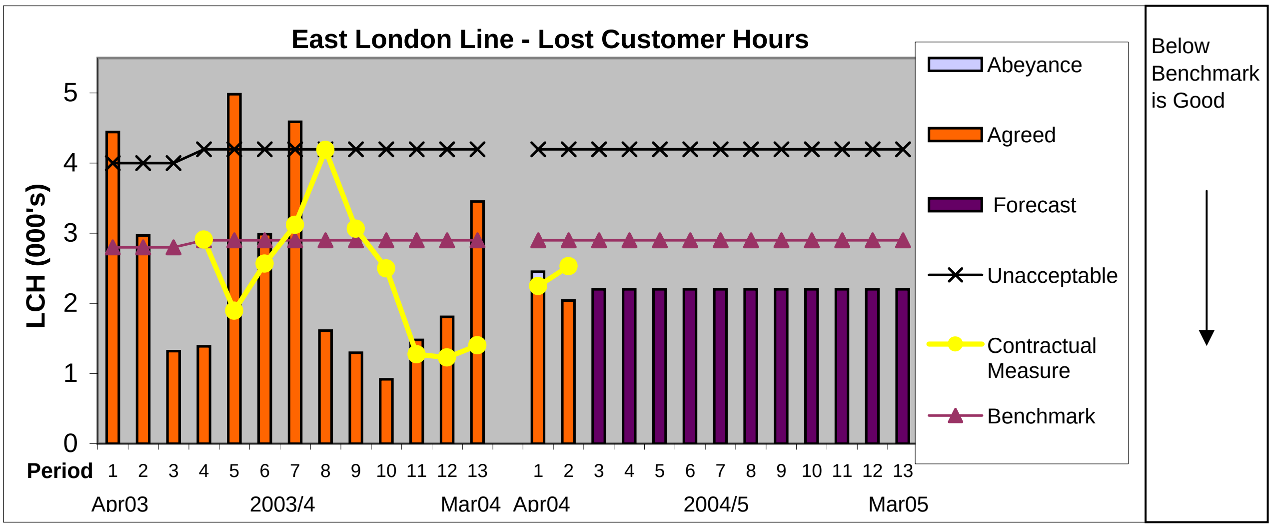
PPP PERFORMANCE - AVAILABILITY - SSL



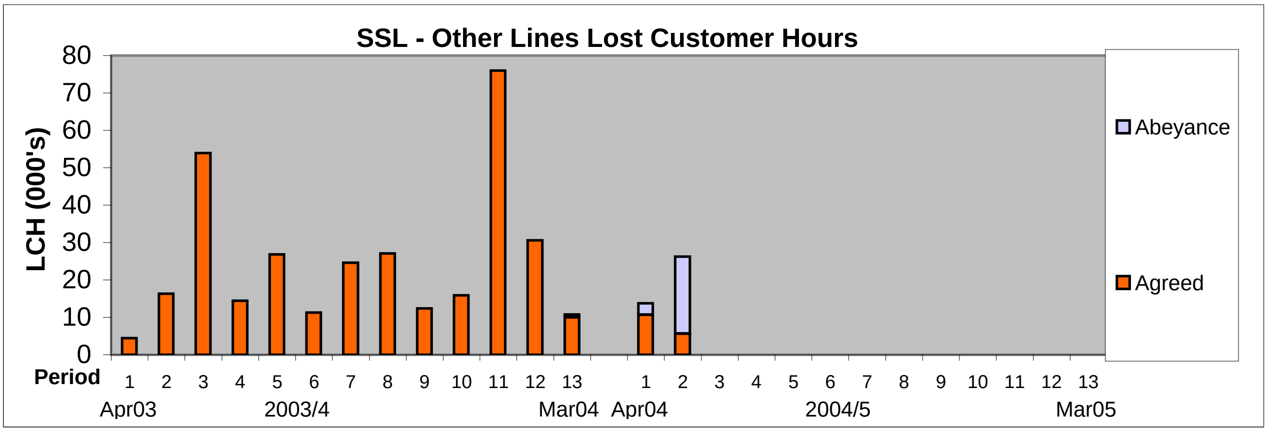
Except for period 10, performance in 2003/04 was better than benchmark due to improved asset reliability as a result of the implementation of track and signalling improvement programmes. Period 10 poor performance was due to a number of signal failures. In 2004/05 the largest items in abeyance are a track fire at Aldgate and a signal failure at King's Cross.



2003/04 performance was better than benchmark due to District Line train reliability improvements and removal of speed restrictions. The peak, in period 3 was due to an engineering overrun, in period 9 a signal failure at South Kensington and in period 13 a number of small signalling faults. Abeyance items in 2003/04 are due largely to speed restrictions and are expected to be agreed to Metronet SSL. In period 1 2004/05 the most significant item in abeyance is a speed restriction at Victoria due to a collapsed drain. This periods performance is due to general improvement in all asset areas.

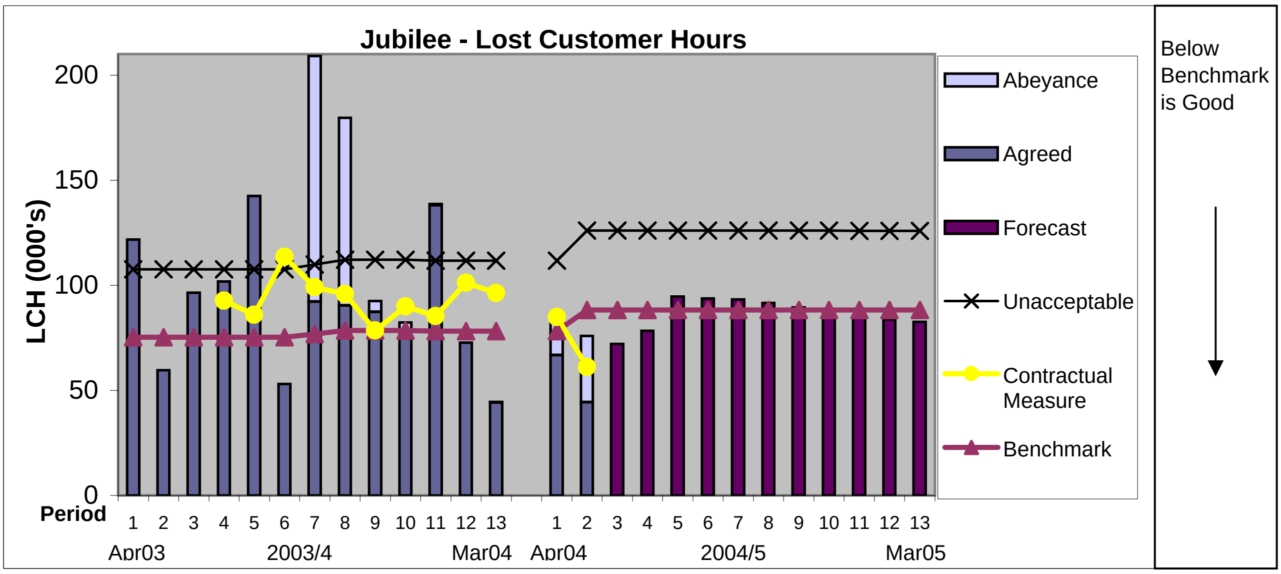


ELL is a small line with a low level of LCH, and therefore any incident tends to have a large impact on the graph above. Performance in 2003/04 was worse than benchmark for 5 periods. In period 2 there were no significant incidents.

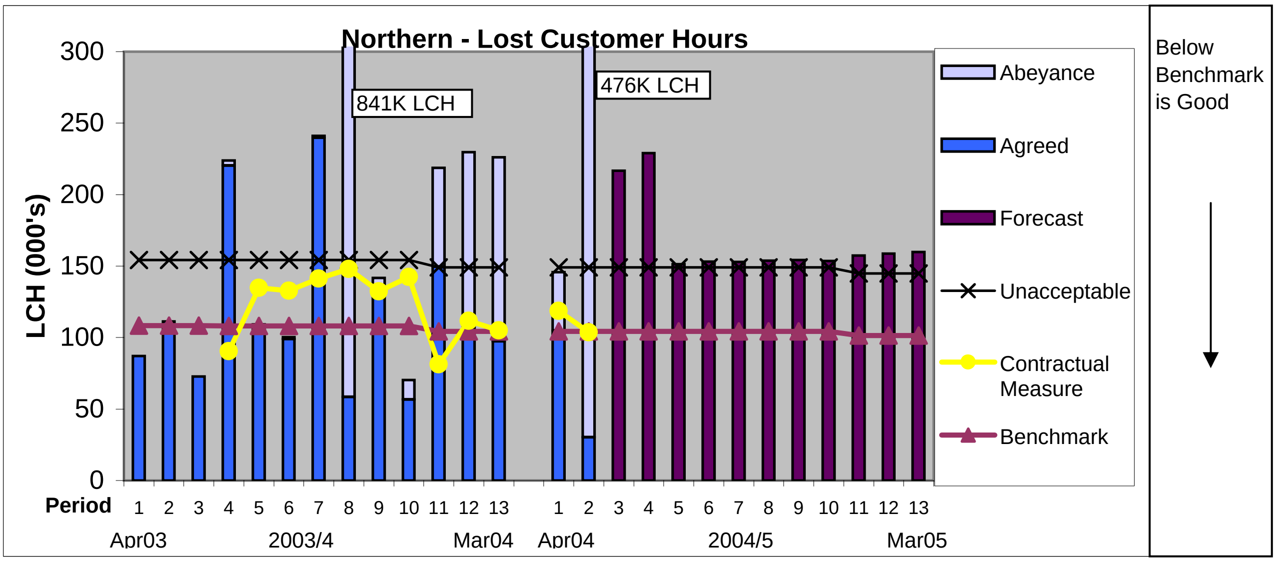


There is no benchmark or forecast for other lines as it is impossible to predict the effects on other lines of SSL incidents. The peak, in period 3 2003/04 was due to track fault that delayed a Piccadilly Line train and in period 11 to snow fall related issues. In 2004/05 abeyance, in period 1 was due to a signal failure at Acton Town, expected to be agreed to MRSSL and in period 2 due to a number of points failures at Ruislip, expected to be agreed to MRSSL.

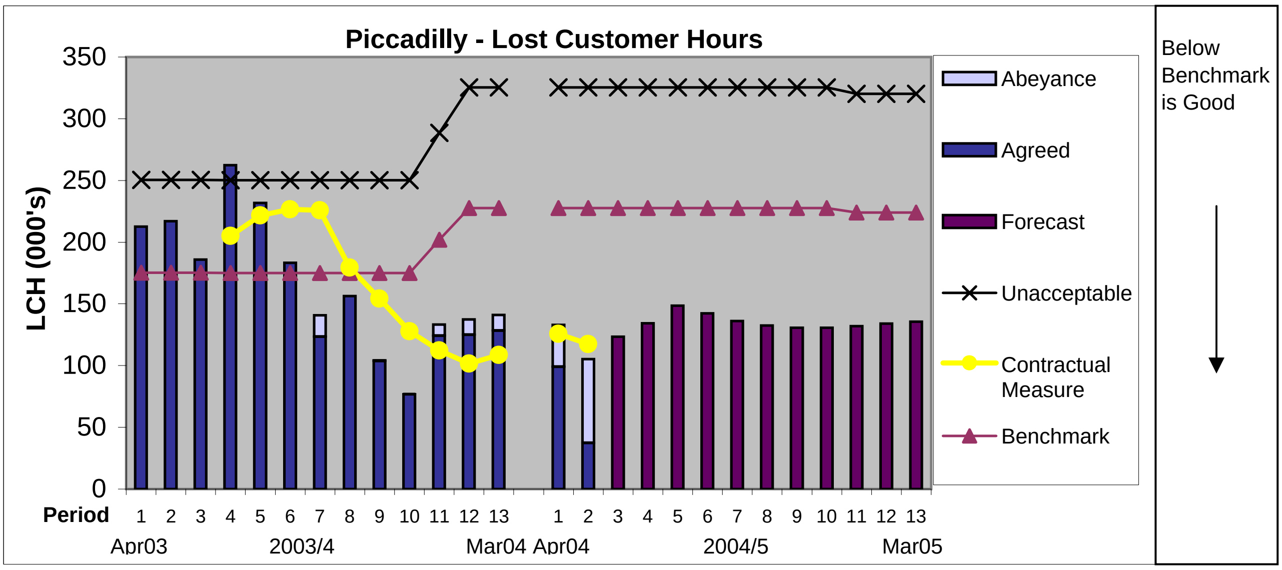
PPP PERFORMANCE - AVAILABILITY - JNP



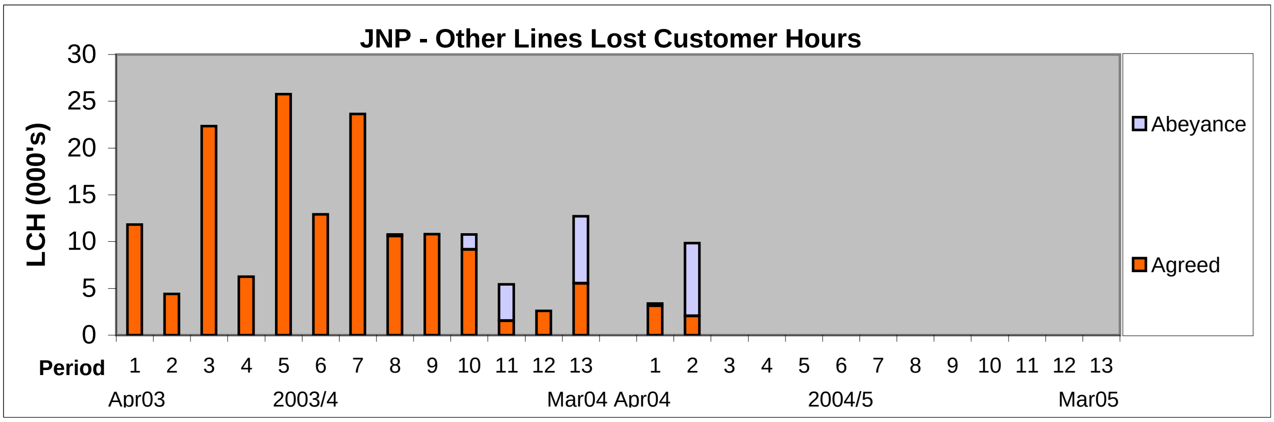
2003/04 Performance was variable, with 5 periods better than benchmark, 5 periods worse than benchmark and 3 periods (1, 5 and 11) worse than unacceptable due to signal and control system failures and winter weather disruptions. Performance in periods 7 and 8 would also be worse than unacceptable if the Green Park signalling failures (referred to Dispute Resolution) are accepted by Tube Lines. In 2004/05, period 1 the most significant incident was a signal failure at Southwark. Changes to benchmark and unacceptable reflect Wembley Park adjustments.



Performance in 2003/04 was variable, with 7 periods better than benchmark, 4 periods worse than benchmark and 2 periods (4 and 7) worse than unacceptable. Agreement of the incidents currently in abeyance, including the Camden derailment (period 8, referred to Dispute Resolution), the Angel compressor failure (period 11) and a signal failure at Finchley Central (period 13) would put performance in periods 8, 11 and 13 worse than unacceptable. In 2004/05 period 1 the largest incident in abeyance is a signal failure at Mornington Crescent/Camden (£34k). This period has 2 significant items in abeyance, signal/points failures and speed restrictions at Camden and Archway (£2,956k).

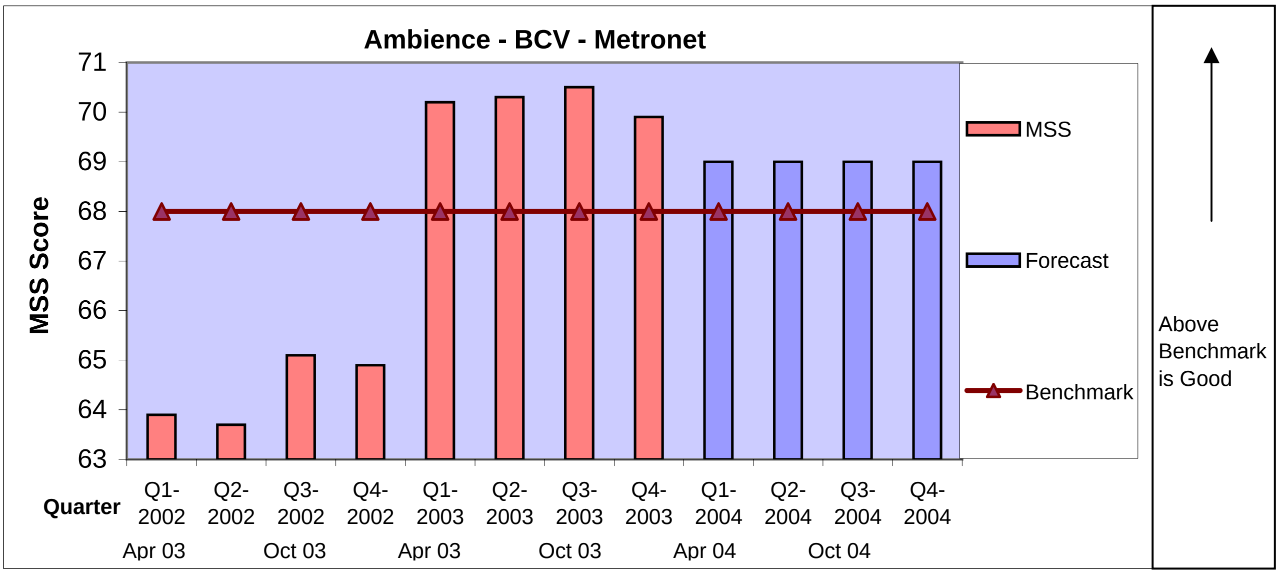


Performance for the first 6 periods of 2003/04 was worse than benchmark, with period 4 worse than unacceptable, however the last 7 periods were all better than benchmark. In 2004/05 the abeyance in period 1 is largely due to a train failure at Southgate (£165k). This period a number of incidents are still in abeyance, if agreed to Tube Lines their bonus would reduce by £204k. The largest incidents in abeyance were signal failures at Covent Garden, Acton Town and South Kensington.

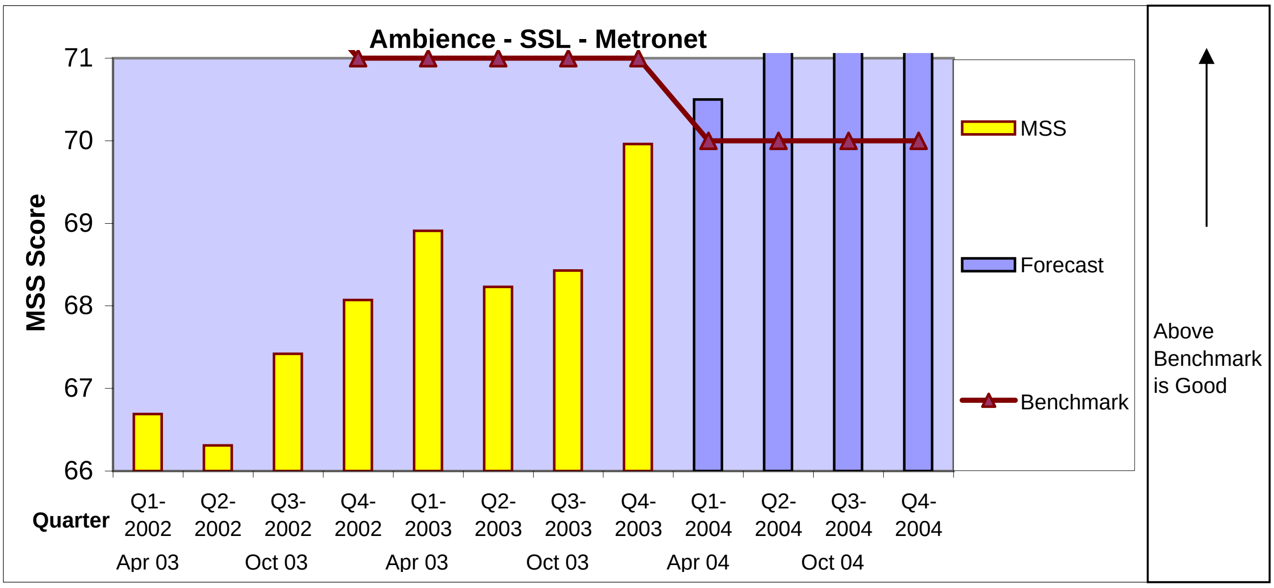


There is no benchmark or forecast for other lines as it is impossible to predict the effects on other lines of JNP incidents. The performance trend has generally improved since transfer. The largest item in abeyance is an engineering overrun at Ealing Common depot in period 13 (£43k), a further £22k in service points is also still in abeyance. This period a signal failure at Earls Court is still in abeyance (£43k).

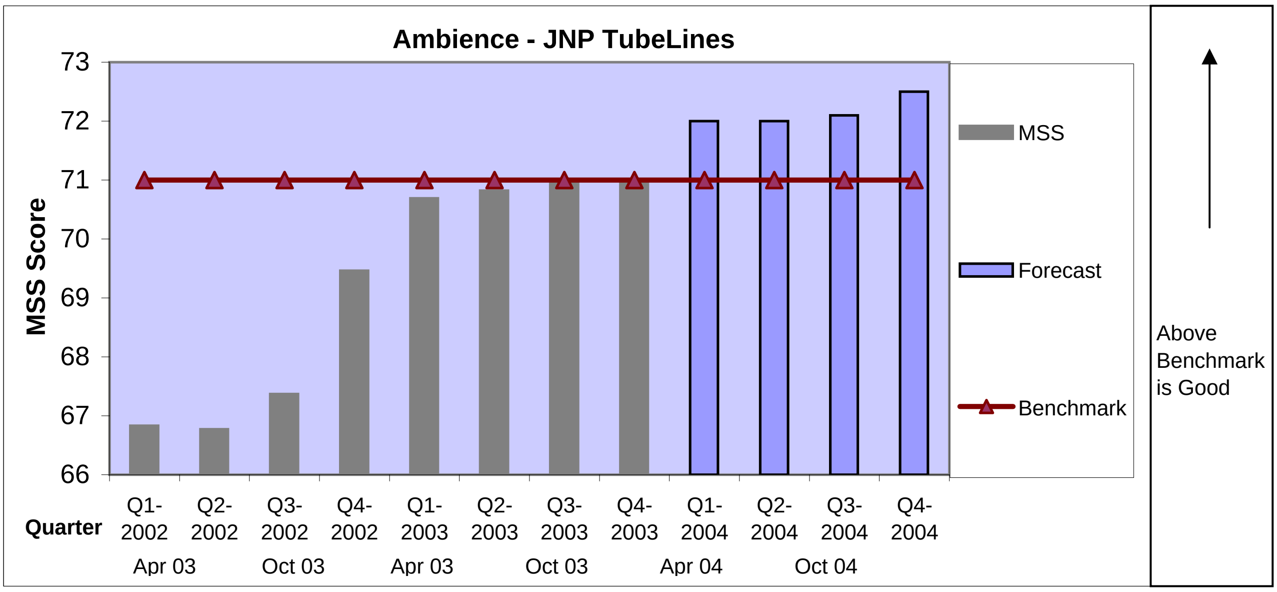
PPP PERFORMANCE - AMBIENCE



The published result for Q4 2003/04 continued the trend of better than benchmark performance, despite the slight fall on the Bakerloo Line due to cleanliness and on the Victoria Line due to signage. LU expect the score to fall slightly going forward as the major stations works begin.

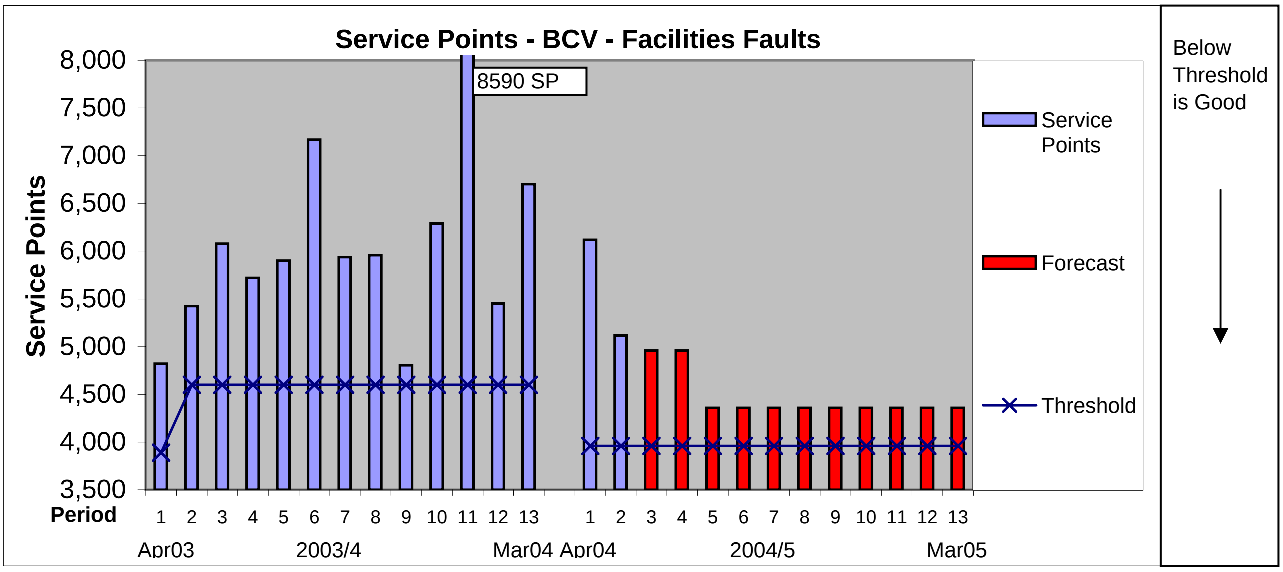


Performance for 2003/04 was worse than benchmark, largely due to graffiti on trains. The improved performance in quarters 3 and 4 is due to MRSSL's focus on trains, such as the anti-graffiti measures, which has brought the aggregate score to 69.96 just short of benchmark. The forecast for the year 2004/05 is based on initiatives in MRSSL's Annual Asset Management Plan.

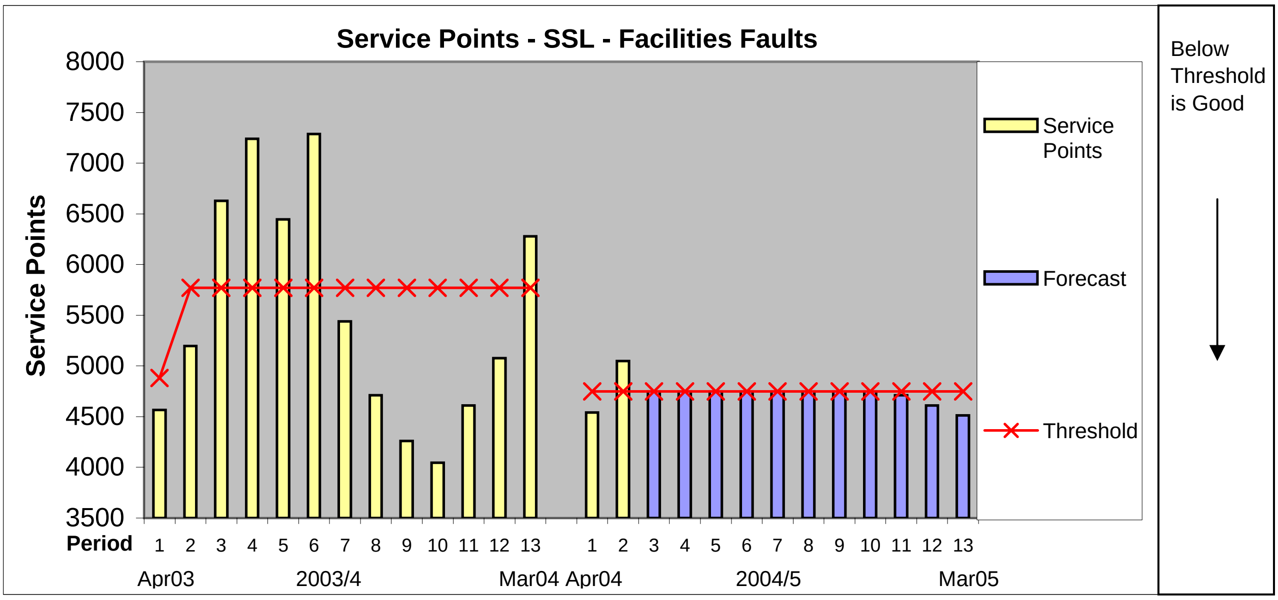


Ambience performance in 2003/04 has been just worse than benchmark for the whole year. Quarter 4's performance has seen continued good performance on the Piccadilly Line although there have been reductions in train cleanliness, graffiti and litter control on the Jubilee and Northern Lines. The score for quarter 4 is 70.98 which is marginally worse than the benchmark of 71.

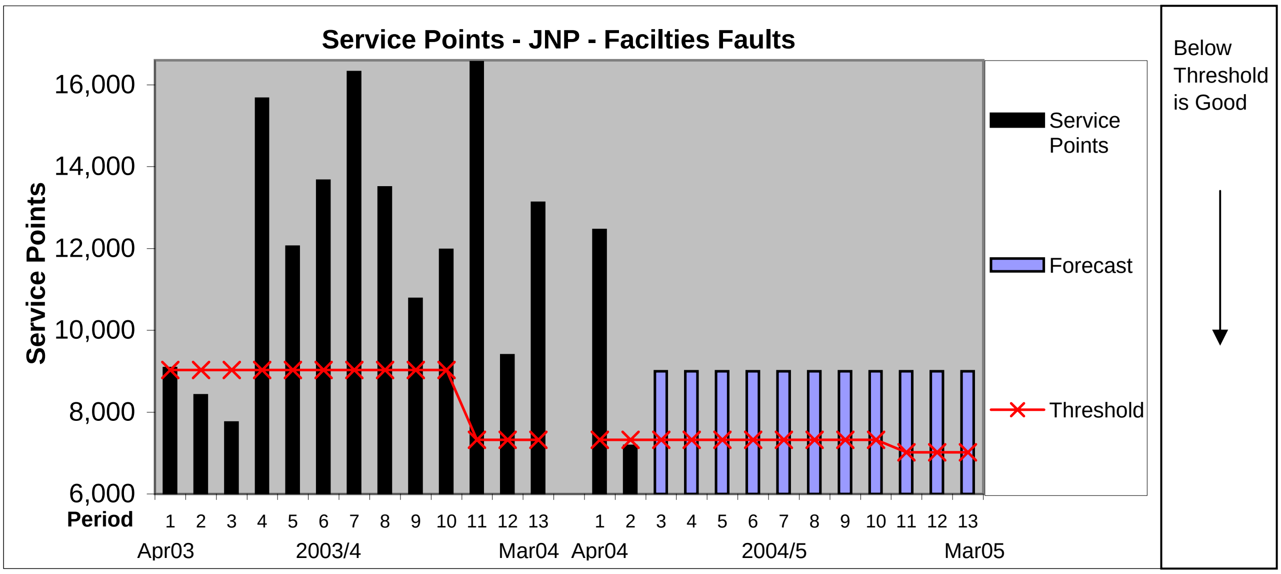
PPP PERFORMANCE - SERVICE POINTS ON FACILITIES



In 2003/04 performance was worse than benchmark, the peak in period 11 was due to CCTV and Public Address (PA) faults, which LU have been working with Metronet to improve. In 2004/05 the performance remains worse than theshold. The improvement this period is due to reductions in dot matrix faults together with improvements in CCTV and PA faults. Further improvement is forecast as Metronet's CCTV investments take effect.



In 2003/04 performance was variable, periods 3 to 6 were worse than threshold due to dot matrix indicator and public address system (PA) faults. In 2004/05 performance has improved but the theshold is much tougher. This period was worse than threshold due to the level of CCTV and PA faults.



In 2003/04 poor performance was due to toilet, dot matrix indicator, CCTV and public address faults. In 2004/05 performance in period 1 remained poor. This period performance has improved to better than threshold for the first time in almost a year with improvement noted in CCTV, Public Address and Help Point performance.

AGENDA ITEM 4

TRANSPORT for LONDON

TFL BOARD

SUBJECT:	**TFL GROUP STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2004**
MEETING DATE:	**22 JULY 3004**

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1. PURPOSE

1.1 To present the TfL Group Statement of Accounts for the year ended 31 March 2004 for approval.

2. BACKGROUND

1.2 The attached Statement of Accounts has been prepared in accordance with the provisions of the Audit Commission Act 1998 and the Accounts and Audit Regulations 2003 ("the Regulations"). The form, content and accounting policies followed in preparing the Statement are as prescribed in the Regulations and by the Code of Practice on Local Authority Accounting published by CIPFA ("the SORP").

1.3 As well as prescribing the format of the Statement of Accounts, the Regulations require that the income and expenditure account and balance sheet are approved by a resolution of a committee of the Board, or otherwise by a resolution of the members of TfL, meeting as a whole. Such approval is to take place as soon as practicable, and in any event by 31 August 2004.

1.4 Prior to the approval, the Regulations further require that the responsible financial officer (in the case of TfL, the Chief Finance Officer) shall sign and date the Statement of Accounts and certify that it presents fairly the financial position of TfL at the end of the year to which it relates, and its income and expenditure for the year.

1.5 In addition, the Statement of Accounts must be made available for public inspection for a period of four weeks following advertisement of the inspection period. This public inspection period commences on 19 July 2004 following consideration of the accounts by the Finance Committee on 13 July 2004. Following the public inspection, the auditors may receive questions of objections to the accounts from local government electors in London. Should any such questions or objections be raised, these will be reported to the Finance Committee at its next meeting.

3. KEY FEATURES OF THE ACCOUNTS

Basis of preparation

3.1 The principal difference between local authority accounting and that used in company accounts and elsewhere in the public sector is the treatment of capital expenditure. Instead of charging the cost of capital assets to revenue account by way of depreciation over their useful lives, the actual cost of those assets is charged in the year in which the asset is paid for, to the extent that this cost is not funded from other sources such as the proceeds of capital assets sold or contributions from third parties. This only applies to the capital assets of the authority itself (TfL Corporation) and thus not to TTL or its subsidiary companies. This accounting treatment results in the line "Capital expenditure financed from revenue" below Net operating expenditure in the Revenue Account.

Changes from last year's accounts

3.2 There are two significant changes to the presentation of the accounts compared with last year, the first concerning the transfer of London Underground Limited to Transport for London in July 2003, and the second being the full implementation of *Financial Reporting Standard 17 – Retirement Benefits*.

3.3 The transfer of London Underground to TfL has been accounted for as a merger under *Financial Reporting Standard 6 Acquisitions and Mergers*, on the basis that LUL remains dependent on Transport Grant receivable from the Department of Transport to fund its operations and capital programme, and because the Public Private Partnership contracts put in place prior to the transfer of LUL significantly restrict TfL's ability to vary the operating and financial policies of LUL. For accounting purposes, LUL is treated as if it had always been a member of the TfL group. The Revenue Account for the year ended 31 March 2004 therefore includes a full year's results for LUL, and the comparative amounts in the 2004 accounts have been restated to include LUL.

3.4 The actual mechanism of transfer was complex, and involved the dissolution of London Regional Transport by operation of law and the dividing up of its assets and liabilities between the Corporation and Transport Trading Limited. The use of merger accounting in these circumstances gives rise to various reserves. Overall, these reserves represents the difference between the consideration given by TfL for the transfer (nil) and the value of net assets transferred from LRT.

3.5 The other change is the full implementation of FRS 17. The SORP issued by CIPFA requires the full implementation of FRS 17 for the year ended 31 March 2004. As this is a change of accounting policy this is dealt with as a prior year adjustment and the comparatives in the accounts have been restated accordingly.

Disclosure of pension fund deficit

3.6 As stated above, the Statement of Accounts are required to comply with the provisions of FRS 17. Under FRS 17, the assets of the pension fund are valued at market value at 31 March 2004, and the liabilities are discounted at the AA corporate bond rate at that date. The surplus or deficit arising is shown in the balance sheet under "Pension and other post retirement liabilities", and is highly volatile due to the variation in the market value of the funds assets from year to year.

3.7 The group balance sheet includes both the deficit on the public sector section of the LRT Pension Fund, and also TfL's share of the deficit on the Local Government Pension Scheme, calculated on a FRS 17 basis. These amount to £880.0 million and £2.7 million respectively. The Corporation balance sheet includes only the deficit on the LGPS as it is not possible to identify the amount of deficit in the LRT Pension Fund that relates to the Corporation.

3.8 The SORP requires that the implementation of FRS 17 does not impact on Council Tax rates, and this means that where the pension costs under FRS 17 exceed the actual contributions paid, as they do in TfL's case, a notional credit is required to cancel out the shortfall. This results in the establishment of a Pensions Reserve, with a balance equal to the deficit on the Pension Fund. This Pensions Reserve is included in "Other reserves" on the face of the balance sheet.

3.9 The FRS 17 basis of valuation is different to that used by the Fund Actuary in the triennial valuations which determine the level of contributions that TfL group is required to make to the Fund. The last such valuation was at 31 March 2003 and revealed a deficit of £421 million. The rules of the LRT Pension Fund require that this deficit should be made good by additional employer contributions over a period not exceeding ten years. Contribution rates have been increased from 3.05 times employees contributions to 6.1 times employees contributions with effect from 1 April 2004.

4. RECOMMENDATIONS

4.1 The Board is asked to APPROVE the Statement of Accounts and to agree that the Chief Finance Officer will make any adjustments arising from the ongoing audit work prior to the auditors signing their opinion.

Transport for London

Statement of Accounts

for year ended 31 March 2004

MAYOR OF LONDON

Explanatory foreword

Activities

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

TfL's role is to implement the Mayor's Transport Strategy and manage the transport operations for which the Mayor is responsible. These include London Underground, London Rail and Surface Transport.

The Underground services are operated directly by London Underground Limited (LUL). On 4 April 2003 the final two of three Public Private Partnerships were signed, under which private sector consortia maintain and upgrade the railway infrastructure. Each weekday over 3 million passenger journeys are made over the network's 408km route, calling at 275 stations of which 253 are owned by LUL. Passenger journeys during the year increased by six million to 948 million. On 15 July 2003 London Underground became part of TfL having reached agreement on future funding and management of the network.

Surface Transport includes the following services:

- Street Management, which is responsible for operating and improving conditions for all road users on a 580km network of London's main roads. It is also responsible for congestion charging which was introduced in central London in 2003.
- Public Carriage Office, which is responsible for regulating the taxi and private hire trades, which range from minicabs to executive and chauffeur driven cars.
- London Buses, which manages bus services in London. It plans routes, specifies service levels and monitors service quality. The bus services are operated by private operators, which work under contract to TfL except for a small number of routes run by TfL's own operating company.
- Dial-a-Ride, which provides door-to-door transport for Londoners with disabilities.
- Croydon Tramlink, which is operated by a concessionaire, serves seven mainline stations and 55 bus routes in south London.
- Victoria Coach Station, which is the capital's coach travel 'hub', handling more than 90% of central London's long-distance coach travel.
- London River Services, which is responsible for the management and operation of eight piers on the Thames and the licensing of boat services using those piers.

London Rail includes Docklands Light Railway and Cross London Rail Links. The Docklands Light Railway, which is also operated by a concessionaire, provides a highly accessible and reliable service. It is playing a key role in the regeneration of Docklands and southeast London and is fully integrated with other public transport modes. Cross London Rail Links, a joint venture formed with the Strategic Rail Authority, is tasked with promoting and developing two new rail routes through London.

Other activities include London's Transport Museum, which provides an insight into the role of transport in the growth and prosperity of London through its outstanding heritage collections and accessible displays.

A full business review for the Group is included in the Annual Report which will be available on our website (www.tfl.gov.uk) in October.

Legal structure

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

- the Corporation which contains Street Management, the Public Carriage Office and the corporate centre and constitutes, for legal and accounting purposes, TfL;
- the Group which is made up of the Corporation and its subsidiaries as set out in Note 21.

Explanatory foreword

The subsidiaries are subject to the accounting requirements of the Companies Acts and are consolidated into this Statement of Accounts.

Accounting statements

Under the GLA Act, the Corporation is treated as a local authority for accounting purposes and thus the Statement of Accounts has been prepared accordingly as described in the Statement of accounting policies. The Statement of Accounts comprises the following:

- Corporation and Group revenue accounts which show the income and expenditure on the provision of transport services and how the resultant net expenditure has been financed by Government grants and Council Tax payers;
- the balance sheets which show the overall financial position of the Corporation and the Group as a whole at 31 March 2004;
- Corporation and Group Statement of movements in reserves which summarises the movements in the fixed asset restatement reserve, the capital financing reserve, earmarked and other reserves, and the general fund;
- Group cash flow statement summarising the inflows and outflows of cash for the Group;
- Statement of accounting policies. The Group has adopted FRS 17 and the comparatives have been restated to reflect this;
- Notes to the accounts.

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 consolidated transactions, assets and liabilities of TfL and its subsidiaries.

Financial position

Government and the GLA provided transport grant funding of £2,554 million (2002/03 £1,791 million) and total revenue from fares and other services increased to £2,321 million (2002/03 £1,941 million). This increase Included the effect of a full year of Congestion Charging income which contributed an additional £168 million, while income from bus fares has increased by £80 million. Analysis of change in Group net debt is set out in Note 23.

The Group's revenue expenditure increased to £3,937 million from £3,178 million in 2002/03. This increase is primarily due to rises in bus contract payments and increased spend on maintaining and renewing the London Underground network. Capital expenditure has increased to £863 million (2002/03 £681 million), largely due to amounts provided under the London Underground PPP contracts.

Responsibilities for the Statement of 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 the responsibility for the administration of those affairs;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

The Chief Finance Officer is responsible for the preparation of the Corporation's Statement of Accounts which, in the terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to present fairly the financial position of the Corporation at the accounting date and its income and expenditure for the year ended 31 March.

In preparing this Statement of Accounts he has:
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code;
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Statement of Corporate Governance Assurance

Scope of Responsibility

The Statement of Corporate Governance Assurance reports on the current standard of corporate governance, including internal control, within TfL. It identifies those areas where further work is to be undertaken and gives a brief description of the monitoring process to ensure the effectiveness of the Code of Corporate Governance.

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 accountability, board members and senior managers are responsible for putting in place proper arrangements for the governance of TfL's affairs and the stewardship of the resources at its disposal, including arrangements for the management of risk. To this end, TfL has approved and adopted a Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE framework and the requirements of the Accounts and Audit Regulations 2003. A copy of TfL's Code is on our website (www.tfl.gov.uk) or can be obtained from TfL Company Secretariat, Windsor House, 42-50 Victoria Street, London, SW1H 0TL.

Purpose of the system of Corporate Governance Assurance

TfL has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is both adequate and effective in practice. Specifically, it has an established system of internal control. This is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and 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.

Corporate governance in TfL

Corporate governance is the system used to direct, manage and monitor an organisation and enable it to relate to its external environment. The fundamental principles of corporate governance, to which TfL is fully committed, are openness, inclusivity, integrity and accountability.

Using the nationally recognised CIPFA/SOLACE framework, TfL developed and published a Code of Corporate Governance in 2002 tailored to its own circumstances which is designed to make its adopted practices in this area open and explicit. On an annual basis it agreed to undertake a wide-ranging review of its relevant activities involving all senior managers to determine the degree to which TfL's methodologies conform to the Code's requirements. Where they have been found wanting, action plans are being developed to identify and implement remedial action.

TfL's Governance Structure

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 four committees:

- Finance
- Audit
- Remuneration
- Safety, Health and Environment

The Audit Committee has been delegated the responsibility for overseeing corporate governance in TfL. It has received reports on the implementation of the Code of Corporate Governance, the Statement of Assurance contained in these accounts and the results of the compliance review. It receives regular update reports from the General Counsel and the Director of Internal Audit and is responsible for the annual assurance process.

To ensure that the Code is integral to the routine functioning of TfL, the General Counsel has the overall responsibility for its operation. In addition, the Director of Internal Audit has the responsibility for independently conducting an annual review of the adequacy and effectiveness of the Code and the extent of TfL's compliance with it.

The Commissioner of TfL, advised by his Chief Officers, is responsible and accountable for the delivery of the day to day operations of TfL.

There are three advisory panels, drawn from the Board members, who provide strategic advice to the Commissioner on the development and the carrying out of policy in TfL:

- Rail Transport
- Surface Transport
- London Underground

The London Underground and Surface Transport panels were established in 2003/04. The former in response to the integration of LUL into TfL, the latter reflecting the internal merger of the Surface Transport and Street Management operations.

The dimensions of corporate governance

There are five dimensions to the corporate governance activities of TfL:

- Public focus
- Structures and processes
- Risk management and internal control
- Service delivery arrangements
- Standards of conduct

In each area TfL is working to ensure that good corporate governance is fully incorporated into the culture of the organisation, is applied within the management processes and is transparent to all stakeholders.

Within the public focus dimension:

- ✓ the Mayor has published his transport strategy that clearly sets out where TfL wants to be;
- ✓ TfL regularly publishes public reports on its performance;
- ✓ TfL has developed and implemented numerous strategies to consult with all interested parties and has processes in place to ensure the results are given due weight in decision taking;
- ✓ the public has easy access to TfL board papers and meetings.

Within the structures and processes dimension:

- ✓ the roles and responsibilities of board members and staff managers are well defined;
- ✓ TfL has procedures to ensure its activities are properly planned, implemented, monitored and reviewed.

Within the risk management and internal control dimension:

- ✓ TfL has in place a system to identify and manage all significant risks;
- ✓ TfL has robust processes to ensure the maintenance of proper internal control.

Within the service delivery arrangements dimension:

- ✓ TfL has a management structure geared to the delivery of efficient, effective and economic services;
- ✓ TfL's budget process allocates resources according to the priorities in the Mayor's strategy;
- ✓ TfL has systems in place to set targets and monitor performance for service delivery on a sustainable basis and with reference to equality policies.

Within the standards of conduct dimension:

- ✓ TfL has formal codes of conduct for board members, staff and contractors;
- ✓ TfL has arrangements in place to ensure the actions of board members and employees are not influenced by prejudice, bias or conflicts of interest.

Responsibilities and review of effectiveness

TfL's General Counsel has the responsibility for:

- overseeing the implementation and monitoring the operation of the Code;
- reviewing the operation of the Code in practice;
- reporting annually to the Audit Committee on compliance with the Code and any changes that may be necessary to maintain it and ensure its effectiveness in practice.

In addition, TfL's Director of Internal Audit has been given the responsibility to independently review the adequacy and effectiveness of the Code and the extent of TfL's compliance with it. The Director of Internal Audit reports annually on these matters to the Audit Committee.

On the basis of reports of the General Counsel and the Director of Internal Audit, initially to the Commissioner and the Chief Officers and then to the Audit Committee, we are satisfied that TfL's corporate governance arrangements are adequate and are operating effectively.

The aspect of the Code of Corporate Governance where further work is needed to ensure satisfactory levels of compliance is:

- the development of pan-TfL Human Resources policies which is ongoing, but not yet complete. This work is linked to the development and implementation of a "shared service" approach to the delivery of HR which is currently well advanced. This approach is also being adopted for finance. Progress is going according to plan, but it should be noted that this will be a significant change during the coming year that has the potential to be disruptive within TfL, and that it will be monitored closely to ensure it does not impact on the operation of effective governance.

Signed on behalf of the Board members and the Chief Officers of TfL by

K. Livingstone: Chair of the TfL Board

R. Kiley: Commissioner of TfL

Auditor's report to Transport for London

The auditor's report will be signed upon completion of the audit.

Revenue accounts

	Note	Group 2003/04 £m	Group 2002/03 restated £m	Corporation 2003/04 £m	Corporation 2002/03 restated £m
Highways, roads and transport services					
Expenditure	*3*	**3,937.2**	3,178.1	**664.7**	450.5
Revenue	*1*	**(2,320.8)**	(1,941.0)	**(228.7)**	(50.2)
Depreciation net of release of deferred grants	*9d*	**240.0**	241.6	**115.1**	125.8
Capital financing charges		**82.2**	126.8	**82.2**	126.8
Net cost of services		**1,938.6**	1,605.5	**633.3**	652.9
Losses of joint venture company before grant	*1*	**15.6**	12.6	**-**	-
Depreciation net of release of deferred grants - reversal		**(115.1)**	(125.8)	**(115.1)**	(125.8)
Capital financing charges - reversal		**(82.2)**	(126.8)	**(82.2)**	(126.8)
Finance lease charges		**33.6**	23.3	**-**	-
Interest and investment income		**2.2**	(31.4)	**(15.1)**	(8.4)
Net operating expenditure	*1*	**1,792.7**	1,357.4	**420.9**	391.9
Transfer to/(from) earmarked reserves		**433.7**	(9.2)	**433.7**	(9.2)
Appropriations to/(from) pensions reserve		**(44.4)**	7.2	**0.1**	0.1
Other transfers to/(from) reserves		**(93.7)**	(123.0)	**0.1**	0.1
Capital expenditure financed from revenue	*7*	**430.8**	593.6	**260.9**	204.1
Grant funding of subsidiaries and joint venture		**-**	-	**1,396.2**	1,230.2
Total amount to be met from government grant and local taxation		**2,519.1**	1,826.0	**2,511.9**	1,817.2
Transport grant		**(2,553.9)**	(1,791.1)	**(2,553.9)**	(1,791.1)
Other revenue grant		**(5.7)**	(5.1)	**(5.7)**	(5.1)
Precept		**(57.8)**	(35.8)	**(57.8)**	(35.8)
Surplus in the year		**(98.3)**	(6.0)	**(105.5)**	(14.8)

Balance sheets

as at 31 March 2004

	Note	Group 2004 £m	Group 2003 restated £m	Corporation 2004 £m	Corporation 2003 restated £m
Tangible fixed assets					
Infrastructure and other property		**9,844.8**	9,777.1	**2,097.1**	2,160.9
Rolling stock		**1,230.2**	1,190.1	**-**	-
Plant and equipment		**472.1**	468.2	**92.0**	59.4
Non-operational assets		**619.2**	508.9	**74.0**	104.5
Total tangible fixed assets	*9*	**12,166.3**	11,944.3	**2,263.1**	2,324.8
Investment in subsidiaries and joint venture	*10*	**-**	-	**22.5**	22.5
Total fixed assets		**12,166.3**	11,944.3	**2,285.6**	2,347.3
Current assets					
Stocks	*11*	**5.7**	5.2	**3.7**	3.9
Debtors	*12*	**367.4**	409.2	**41.9**	44.0
Short-term investments		**852.6**	162.6	**832.2**	148.3
Cash at bank and in hand	*13*	**22.2**	17.2	**1.9**	-
Total current assets		**1,247.9**	594.2	**879.7**	196.2
Current liabilities					
Short-term borrowings		**-**	(20.0)	**-**	(20.0)
Creditors	*14a*	**(1,104.0)**	(871.2)	**(243.6)**	(166.2)
Bank overdrafts		**-**	(34.3)	**-**	(26.3)
Total current liabilities		**(1,104.0)**	(925.5)	**(243.6)**	(212.5)
Net current assets/(liabilities)		**143.9**	(331.3)	**636.1**	(16.3)
Total assets less current liabilities		**12,310.2**	11,613.0	**2,921.7**	2,331.0
Creditors: due after more than one year	*14b*	**(403.6)**	(231.4)	**(6.9)**	(6.4)
Provisions for liabilities and charges	*17*	**(136.5)**	(152.1)	**(86.3)**	(100.9)
Net assets excluding grants	*1*	**11,770.1**	11,229.5	**2,828.5**	2,223.7
Deferred grants	*16*	**(6,337.5)**	(6,309.4)	**(62.3)**	(61.5)
Net assets excluding pension and other post-retirement liabilities		**5,432.6**	4,920.1	**2,766.2**	2,162.2
Pension and other post-retirement liabilities	*5b&c*	**(882.7)**	(924.5)	**(2.7)**	(4.4)
Total net assets		**4,549.9**	3,995.6	**2,763.5**	2,157.8
Capital and reserves					
Capital financing reserve		**584.5**	345.5	**584.5**	345.5
Fixed asset restatement reserve		**3,740.2**	3,998.8	**1,648.8**	1,823.1
Other reserves		**99.8**	(375.8)	**404.2**	(31.3)
General fund		**125.4**	27.1	**126.0**	20.5
Total capital employed		**4,549.9**	3,995.6	**2,763.5**	2,157.8

These accounts were signed on 22 July 2004 by

Stephen Critchley
Chief Finance Officer

Statement of movements in reserves

Corporation

	Note	Capital financing reserve £m	Fixed asset restatement reserve £m	General fund £m	Other reserves £m	Total £m
Balance at 1 April 2003 as previously stated		345.5	1,823.1	18.1	-	2,186.7
Prior year adjustment for transfer of LRT net assets		-	-	2.0	(26.9)	(24.9)
Prior year adjustment for FRS 17		-	-	0.4	(4.4)	(4.0)
Balance at 1 April 2003 as restated		345.5	1,823.1	20.5	(31.3)	2,157.8
Adjustment to net assets acquired	*9c*	-	(50.2)	-	-	(50.2)
Transfers from/(to) revenue account		-	-	105.5	433.9	539.4
Capital expenditure financed from revenue		260.9	-	-	-	260.9
Actuarial gains/losses relating to pensions		-	-	-	1.6	1.6
Disposal of tangible fixed assets		13.5	(13.2)	-	-	0.3
Depreciation charge	*9b*	(36.7)	(80.8)	-	-	(117.5)
Release of deferred grants	*16*	1.3	1.1	-	-	2.4
Revaluation of tangible fixed assets	*9b*	-	(31.2)	-	-	(31.2)
Balance at 31 March 2004		**584.5**	**1,648.8**	**126.0**	**404.2**	**2,763.5**

Analysis of other reserves

	Earmarked reserve £m	Pensions reserve £m	Other reserves £m	Total £m
Balance at 1 April 2003 as previously stated	-	-	-	-
Prior year adjustment for transfer of LRT net assets	-	-	(26.9)	(26.9)
Prior year adjustment for FRS 17	-	(4.4)	-	(4.4)
Balance at 1 April 2003 as restated	-	(4.4)	(26.9)	(31.3)
Transfers from/(to) revenue account	433.7	0.1	0.1	433.9
Actuarial gains/losses relating to pensions	-	1.6	-	1.6
Balance at 31 March 2004	**433.7**	**(2.7)**	**(26.8)**	**404.2**

Earmarked reserves represent resources available to finance future capital and revenue expenditure.

The pensions reserve represents the FRS 17 pension fund deficit, as set out further in note 5 to these accounts.

The other reserves arise as a result of the transfer of LRT and LUL to TfL Group in 2003. These represent those net assets of LRT which were transferred to the Corporation.

Statement of movements in reserves

Group

	Note	Capital financing reserve £m	Fixed asset restatement reserve £m	General fund £m	Other reserves £m	Total £m
Balance at 1 April 2003 as previously stated		345.5	1,851.2	20.9	-	2,217.6
Prior year adjustment for transfer of LRT net assets		-	2,147.6	5.4	548.7	2,701.7
Prior year adjustment for FRS 17		-	-	0.8	(924.5)	(923.7)
Balance at 1 April 2003 as restated		345.5	3,998.8	27.1	(375.8)	3,995.6
Adjustment to net assets acquired		-	(50.2)	-	-	(50.2)
Transfers from/(to) revenue account			(93.8)	98.3	389.4	393.9
Capital expenditure financed from revenue		260.9				260.9
Actuarial gains/losses relating to pensions		-	-	-	86.2	86.2
Disposal of tangible fixed assets		13.5	(13.2)	-	-	0.3
Depreciation charge		(36.7)	(80.8)	-	-	(117.5)
Release of deferred grants		1.3	1.1	-	-	2.4
Revaluation of tangible fixed assets		-	(21.7)	-	-	(21.7)
Balance at 31 March 2004		**584.5**	**3,740.2**	**125.4**	**99.8**	**4,549.9**

Analysis of other reserves

	Earmarked reserve £m	Pensions reserve £m	Merger reserve £m	Other reserves £m	Total £m
Balance at 1 April 2003 as previously stated	-	-	-	-	-
Prior year adjustment for transfer of LRT net assets	-	-	466.1	82.6	548.7
Prior year adjustment for FRS 17	-	(924.5)	-	-	(924.5)
Balance at 1 April 2003 as restated	-	(924.5)	466.1	82.6	(375.8)
Transfers from/(to) revenue account	433.7	(44.4)	-	0.1	389.4
Actuarial gains and losses relating to pensions	-	86.2	-	-	86.2
Balance at 31 March 2004	**433.7**	**(882.7)**	**466.1**	**82.7**	**99.8**

The pensions reserve represents the FRS 17 pension fund deficits, as set out further in note 5 to these accounts.

The merger reserve arises as a result of the transfer of the net assets of London Regional Transport, including the share capital of London Underground Limited, to TfL in 2003. It represents the share capital of London Underground Limited and is taken as a credit to reserves as no consideration was given by TfL in respect of the transfer.

The other reserves also arise as a result of the transfer of LRT and LUL to TfL in 2003. These represent the remaining net assets of LRT.

Group cash flow statement

Reconciliation of net operating expenditure to net cash outflow from operating activities

	Note	2003/04 £m	2002/03 restated £m
Net cost of services		(1,938.6)	(1,605.5)
Losses of joint venture company before grant		(15.6)	(12.6)
Depreciation net of release of deferred grants	*9d*	240.0	241.6
Capital financing charges		82.2	126.8
Increase/(decrease) in stocks		(0.5)	2.2
Increase in debtors		(27.8)	(150.6)
Increase in creditors due within one year		87.7	130.5
Increase in creditors due after more than one year		15.4	0.2
Decrease in provisions for liabilities and charges		(4.4)	(77.9)
Increase in pension and other post-retirement liabilities		23.9	16.2
Third-party contributions transferred from provisions		-	84.0
Net cash outflow from operating activities		(1,537.7)	(1,245.1)

Group cash flow statement

	Note	2003/04 £m	2002/03 £m
Net cash outflow from operating activities		(1,537.7)	(1,245.1)
Net interest and investment income			
Finance lease charges		(33.6)	(23.3)
Interest and investment income		18.3	8.1
		(15.3)	(15.2)
Capital expenditure and disposals			
Capital expenditure	*22a*	(374.3)	(705.7)
Receipts from sale of fixed assets		45.4	28.2
		(328.9)	(677.5)
Net cash outflow		(1,881.9)	(1,937.8)
Financing and management of liquid resources			
Transport grant		2,553.9	1,791.1
Other revenue grant		5.7	5.1
Precept		57.8	35.8
Third-party contributions and other grant funding	*22b*	157.9	147.3
Finance lease obligations	*23*	(144.1)	(19.2)
Investments	*23*	(690.0)	(54.0)
Short-term borrowings	*23*	(20.0)	20.0
Net cash inflow		1,921.2	1,926.1
Increase/(decrease) in cash	*23*	39.3	(11.7)

Statement of accounting policies

a) Code of practice

The accounts have been prepared in accordance with the 2003 Code of Practice on Local Authority Accounting in Great Britain, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and approved by the Accounting Standards Board.

b) Changes in accounting policies

The accounts now fully conform with Financial Reporting Standard No.17 (FRS17), relating to pension fund liabilities. The Revenue Accounts and the Balance Sheets for the Corporation and Group reflect the effects of the new requirements. Prior year comparatives have been restated to reflect the effects of fully implementing FRS17.

c) Basis of accounting

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. Accordingly, no costs have been attributed to the corporate and democratic core.

d) Basis of consolidation and presentation of group financial information

The Group financial statements include the financial statements of Transport for London (TfL) and its subsidiary undertakings and incorporate the results of its share of its joint venture, made up to 31 March.

A joint venture is an entity in which the Group has a long term interest and shares control with one or more co-venturers. The joint venture is included in the Group's balance sheet using the gross equity method, which records the Group's share of gross assets and gross liabilities.

Merger accounting principles are applied where transfers into the Group of subsidiary undertakings, including statutory transfers, have the characteristics of group reconstructions in accordance with *Financial Reporting Standard 6 – Acquisitions and Mergers*. With merger accounting, the carrying values of the assets and liabilities of the parties to the combination are not required to be adjusted to fair value on consolidation, although appropriate adjustments are made to achieve uniformity of accounting policies where necessary.

In other cases the acquisition method of accounting is adopted. Under this method, the identifiable assets and liabilities of an acquired entity are recorded at their fair values at the date of acquisition. The results of subsidiary undertakings acquired or disposed of are included in the consolidated revenue account from the date of acquisition until the date of disposal.

e) Revenue and expenditure

The accounts reflect the accruals concept whereby debtors and creditors are included in the balance sheet for goods and services supplied but not paid for at 31 March. Sales revenue on trading activities comprises the value of sales of services or goods in the normal course of business, exclusive of Value Added Tax. Revenue earned by franchises, or contractors, providing transport services on behalf of the Group is only taken into account to the extent that the Group shares the risk of changes in the level of income earned by them.

f) Grants and other funding

The main source of grant is in the form of Transport grant, which is non-specific in that it is applied to both maintaining services and to fund capital expenditure. Once grant has been fully applied to meet the revenue and capital requirements of the Corporation the remainder is transferred to the subsidiaries. Capital grants transferred to the subsidiaries are taken to the deferred grants account in the Group balance sheet and are amortised to match the depreciation charge. Third party contributions

Statement of accounting policies

f) Grants and other funding cont.

towards capital expenditure are similarly treated. The Corporation has no long term borrowing and thus does not have a credit ceiling or a minimum revenue provision for the repayment of outstanding debt.

g) Capital financing charges

This interest charge recognises the cost of acquiring and holding assets (an opportunity cost) and is charged at a rate set annually by CIPFA (currently 3.5% on assets held at current cost and 4.625% on assets held at historic cost). Capital financing charges are not levied on assets under construction. In order to nullify the impact on local taxpayers, these charges are reversed by crediting the revenue account below the net cost of services. Subsidiaries do not levy capital financing charges. Given that the Corporation is a single service authority, which is debt free, the Corporation does not have an asset management revenue account.

h) Tangible fixed assets

All expenditure (excluding routine repairs and maintenance) on the acquisition of capital assets, or expenditure which significantly adds to the value, capacity in use, or useful economic life of existing assets, is capitalised as a fixed asset on an accruals basis. Fixed assets are classified as operational assets (those presently used for the delivery of public services or for support tasks) and non-operational assets (surplus property awaiting sale and assets under construction).

The accounting policy for assets held under the London Underground Public Private Partnership is described in paragraph (q) below.

i) Stocks

Stocks consist primarily of fuel, uniforms, and materials required for the operation and maintenance of infrastructure. Stocks are included in the balance sheet at cost less provision for obsolescence. Equipment and materials held for use in a capital programme are accounted for as stock until they are issued to the project, at which stage they become part of assets under construction.

j) Debts outstanding

Provision is made for bad and doubtful debts, and uncollectable debts are written-off to the cost of services.

k) Provisions

Provisions represent liabilities, where the amount or date of payment is uncertain. They are charged to services in the year that they are recognised.

l) Reserves

Appropriations to reserves, if any, are shown in the revenue account. Expenditure on items for which the reserves were originally created is shown as service expenditure, whilst the corresponding contribution from the reserves is shown separately in the revenue account.

The system of capital accounting used by local authorities requires the establishment of two accounting reserves, namely the fixed asset restatement reserve and the capital financing reserve. They do not represent sums available to fund future expenditure.

Statement of accounting policies

l) Reserves cont.

Receipts over £6,000 from sale of property, plant and equipment are defined by law as capital receipts. Capital receipts are used to fund new capital expenditure in the year in which they are received. Capital receipts of the Corporation (not subsidiaries) are only recorded in the capital financing reserve when cash is received rather than when they are contractually committed. The remaining net book value (net of any unamortised grant) is charged to the fixed asset restatement reserve. Subsidiaries recognise capital receipts on exchange of contracts and the profit or loss after charging any remaining net book value (net of any unamortised grant) is taken to their profit and loss account.

The Corporation transfers the depreciation charge on assets acquired from predecessor bodies, net of amortised grant, to its fixed asset restatement reserve. The remaining depreciation charge is transferred to the capital financing reserve. The revaluation of property is credited to the fixed asset restatement reserve.

m) Insurance

The Group maintains certain insurance policies for damage to and loss of owned/third party property and for its potential liabilities to employees and third parties. In addition, the Group selectively self-insures its exposures under the above policies and to other risks. Provision is made for the estimated value of the Group's liability in respect of self-insured claims.

n) Pensions

The Group's employees are members of a number of defined benefit schemes. In accordance with FRS 17, the regular service cost of pension provision relating to the period, together with the cost of any benefits relating to past service, is charged to the revenue account. A charge equal to the increase in the present value of the scheme liabilities (because the benefits are closer to settlement) and a credit equivalent to the Group's long-term expected return on assets (based on the market value of the scheme assets at the start of the period), is included in the revenue account under "Interest and investment income".

The difference between the market value of the assets of the scheme and the present value of accrued pension liabilities is shown as an asset or liability, net of deferred tax. Any difference between the expected return on assets and that actually achieved is recognised in the statement of movements in reserves along with differences which arise from experience or assumption changes.

For certain defined benefit schemes, the Corporation and/or the Group is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. Under FRS 17 these schemes are accounted for as defined contribution schemes.

o) Deferred taxation

Provision is made for deferred taxation arising from timing differences between profits or losses as computed for taxation purposes and profits or losses as stated in the accounts.

Statement of accounting policies

p) Leases

Assets held under a finance lease are included in tangible fixed assets and are depreciated on a straight-line basis over their estimated useful lives. Rentals payable are apportioned between the finance charge and a reduction of the outstanding obligation for future amounts payable; the finance charge being allocated to accounting periods over the lease term so as to produce a constant rate of charge on the remaining balance of the obligation.

Rentals payable under operating leases (including PFI agreements) have been accounted for in the period to which they relate.

q) London Underground Public Private Partnership (PPP)

During the year, London Underground reached financial close on the remaining two of the three Public Private Partnership (PPP) contracts. Under these contracts, existing LUL property is allocated to the PPP Contractors for a 30 year period during which the PPP Contractors maintain, enhance and replace the aforementioned property. LUL pays a service charge to the PPP Contractors.

LUL retains the risks and rewards of ownership of the property allocated to the PPP Contractors during the contract term. This property continues to be recorded as fixed assets in the Group accounts. Similarly, new property acquired or constructed by the PPP Contractors for LUL is recorded as fixed asset additions in the Group accounts and a corresponding liability is recorded within creditors in the Group accounts. An imputed finance charge on this liability is included in interest payable in the Group revenue account.

Service charges paid by LUL to the PPP Contractors are applied to amortise this liability over the contract term and the balance of the service charge is recorded as an operating cost in the Group revenue account. Performance adjustments to the service charge are also recorded within operating costs.

Notes to the accounts

1 Segmental analysis

	Sales revenue 2003/04 £m	Sales revenue 2002/03 restated £m	Net operating expenditure 2003/04 £m	Net operating expenditure 2002/03 restated £m	Net assets excluding grants 2003/04 £m	Net assets excluding grants 2002/03 restated £m
Corporation						
Streets and enforcement	220.5	37.6	(289.9)	(293.2)	1,963.1	2,076.0
Borough partnerships	-	-	(76.8)	(24.3)	-	-
Public Carriage Office	2.6	4.4	(6.9)	(2.8)	0.3	6.0
Planning & corporate management	5.6	8.2	(47.3)	(71.6)	842.6	119.2
	228.7	50.2	(420.9)	(391.9)	2,806.0	2,201.2
Subsidiary operations						
Bus operations	786.2	643.1	(499.8)	(359.8)	124.2	134.0
London Underground	1,276.6	1,221.3	(768.4)	(556.8)	8,214.7	8,247.2
Docklands Light Railway	11.8	11.1	(31.5)	(32.7)	445.1	465.7
Victoria Coach Station	6.9	6.8	0.3	0.8	7.8	7.8
Museum	2.5	2.4	(3.7)	(3.8)	9.9	9.9
River services	1.5	1.6	(0.3)	0.3	20.9	20.6
Group services	6.6	4.5	(52.8)	(0.9)	141.5	143.1
Joint venture						
Cross London Rail Links	-	-	(15.6)	(12.6)	-	-
Group	2,320.8	1,941.0	(1,792.7)	(1,357.4)	11,770.1	11,229.5

2 Group sales revenue

	Note	2003/04 £m	% of total	2002/03 restated £m	% of total
Fares		1,776.8	76.6	1,637.3	84.3
Revenue in respect of free travel for older and disabled people		165.2	7.1	137.0	7.1
Congestion charging	*24*	186.7	8.0	18.5	1.0
Charges to London Boroughs		12.7	0.5	10.3	0.5
Charges to transport operators		8.3	0.4	12.0	0.6
Bus enforcement		15.4	0.7	8.8	0.5
Commercial advertising receipts		44.6	1.9	40.0	2.1
Rents receivable		43.1	1.9	39.5	2.0
Taxi licensing		2.1	0.1	4.4	0.2
Museum income		2.5	0.1	2.4	0.1
Other		63.4	2.7	30.8	1.6
Total sales revenue		2,320.8	100.0	1,941.0	100.0

Notes to the accounts

3 Expenditure

	Note	Group 2003/04 £m	Group 2002/03 restated £m	Corporation 2003/04 £m	Corporation 2002/03 restated £m
Staff costs:					
Wages and salaries		535.4	470.5	66.7	37.9
Social security costs		44.5	34.5	5.9	3.0
Pension costs	5	88.6	75.4	9.6	8.1
		668.5	580.4	82.2	49.0
Operating leases and PFI charges	19a	263.4	263.5	15.0	13.4
Deferred charges	25	133.4	91.1	133.4	91.1
Other financial assistance		77.6	46.4	77.6	46.4
Materials and services		3,657.4	2,877.9	506.0	462.9
		4,800.3	3,859.3	814.2	662.8
Capital expenditure	9a & b	(863.1)	(681.2)	(149.5)	(212.3)
Expenditure charged to revenue		3,937.2	3,178.1	664.7	450.5

	Group 2003/04 £m	Group 2002/03 restated £m	Corporation 2003/04 £m	Corporation 2002/03 restated £m
The cost of operations include the following amounts:				
Auditor's remuneration for statutory audit services	0.8	0.8	0.4	0.4
Auditor's remuneration for non-statutory audit services	0.1	-	-	-
Auditor's remuneration for non-audit services	0.1	0.1	-	-
	1.0	0.9	0.4	0.4
Auditor's remuneration for work awarded by LUL prior to transfer of LUL to TfL	0.5	0.6	-	-
	1.5	1.5	0.4	0.4

Notes to the accounts

4 Employees' remuneration

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

£	**Corporation 2003/04 Number**	Corporation 2002/03 Number
50,000 - 59,999	**59**	35
60,000 - 69,999	**38**	15
70,000 - 79,999	**16**	9
80,000 - 89,999	**11**	5
90,000 - 99,999	**8**	2
100,000 - 109,999	**5**	4
110,000 - 119,999	**4**	2
120,000 - 129,999	**3**	-
130,000 - 139,999	**1**	1
140,000 - 149,999	**2**	-
150,000 - 159,999	**1**	-
160,000 - 169,999	**1**	1
170,000 - 179,999	**1**	-
180,000 - 189,999	**1**	-
190,000 - 199,999	**-**	-
240,000 - 249,999	**-**	2
250,000 - 259,999	**-**	-
260,000 - 269,999	**1**	-
270,000 - 279,999	**-**	1
280,000 - 289,999	**1**	-
360,000 - 369,999	**-**	1
700,000 - 709,999	**1**	-
Total	**154**	78

Notes to the accounts

5 Pensions

a) Total pension service cost for the year

	Note	Group 2003/04 £m	Group 2002/03 restated £m	Corporation 2003/04 £m	Corporation 2002/03 restated £m
LRT Pension Fund	5b	**82.0**	67.4	**5.2**	1.9
Local Government Pension Scheme	5c	**1.6**	1.5	**1.6**	1.5
Principal Civil Service Pension Scheme		**1.2**	0.8	**1.2**	0.8
Other schemes and unfunded pensions		**3.8**	5.7	**1.6**	3.9
Amount included in net cost of services	3	**88.6**	**75.4**	**9.6**	8.1

The Group has fully implemented FRS 17 'Retirement benefits' for the year ended 31 March 2004, representing a change in accounting policy from prior years. The comparative amounts shown in these accounts for the year ended 31 March 2003 have been restated as a prior year adjustment.

The majority of the Group's staff are members of the Public Sector Section of the LRT Pension Fund. The majority of the Group's remaining staff belong to the Local Government Pension Scheme and the Principal Civil Service Pension Scheme.

b) LRT Pension Fund

The LRT Pension Fund, to which the Group contributes, is a final salary scheme established under trust. Its finances are, therefore, quite separate from those of the Group. The Fund's Trustee is the LRT Pension Fund 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. TfL's subsidiaries also participate in the Fund and it is not possible to identify the Corporation's share of the underlying assets and liabilities.

Every 3 years, the LRT 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 2003 by the Actuary, a partner of consulting actuaries Watson Wyatt, using the projected unit method.

A separate valuation has been prepared for accounting purposes on a FRS 17 basis as at 31 March 2004. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions whilst the present value of the scheme's liabilities are 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 Corporation and the Group both account for pension costs in accordance with FRS 17. However, in accordance with the standard, the Corporation treats contributions to the LRT Pension Fund as if they were contributions to a defined contribution plan. This is because the underlying assets and liabilities of the LRT scheme cover a number of Group entities and cannot be readily split between each undertaking on a consistent and reliable basis. The pension cost recognised in the Corporation's accounts for the LRT Pension Fund is the amount of contributions payable to the scheme during the year.

Notes to the accounts

5 Pensions continued

The main actuarial assumptions used for the Public Sector Section of the LRT Pension Fund were:

	FRS 17 valuation at 31 Mar 2004 %	FRS 17 valuation at 31 Mar 2003 %	FRS 17 valuation at 31 Mar 2002 %
Inflation	**2.9**	2.5	2.5
Rate of increase in salaries	**4.4**	4.0	4.0
Rate of increase of pensions in payment and deferred pensions	**2.9**	2.5	2.5
Discount rate	**5.7**	5.6	5.8
Investment return	**7.0**	7.0	7.1

The assets in the Section and the expected rate of return were:

	Expected return %	**Value at 31 Mar 2004 £m**	Expected return %	Value at 31 Mar 2003 £m	Expected return %	Value at 31 Mar 2002 £m
Equities	**8.2**	**1,700**	8.6	1,306	8.2	1,823
Bonds	**5.0**	**988**	4.9	976	5.1	950
Cash, property and other assets	**4.1**	**37**	4.2	38	4.9	48
Total market value of assets		**2,725**		2,320		2,821
Actuarial valuation of Section liabilities		**(3,605)**		(3,240)		(3,048)
Deficit in the scheme recognised as a liability in the balance sheet		**(880)**		(920)		(227)

Notes to the accounts

5 Pensions continued

Analysis of amounts charged to cost of services:	Group 2003/04 £m	Group 2002/03 restated £m
Current service cost	82.0	67.4
Past service cost	-	-
Total charged to cost of services	82.0	67.4
Analysis of the amount charged to interest and investment income:		
Interest on Section liabilities	180.3	175.4
Expected return on Section assets	(159.9)	(198.9)
Net charge/(credit) to interest and investment income	20.4	(23.5)
Total amount included in net operating expenditure in Revenue Account	102.4	43.9
Movement on pensions reserve	(44.5)	7.1
Amount to be met from government grant and local taxation	57.9	51.0

Analysis of the movement in surplus/(deficit) in the Section during the year:	Group 2003/04 £m	Group 2002/03 restated £m
Surplus/(deficit) in the Section at start of year	(920.1)	(227.1)
Contributions paid	57.9	51.0
Current service cost	(82.0)	(67.4)
Interest and investment income/(charge)	(20.4)	23.5
Actuarial gain/(loss)	84.6	(700.1)
Surplus/(deficit) in the Section at end of year	(880.0)	(920.1)

The present value of scheme liabilities have been discounted using the return on high quality corporate bonds of 5.7% (2002/03 5.6%) in accordance with FRS 17 – 'Retirement Benefits'. However, the Code of Practice on Local Authority Accounting uses the return on index-linked gilts of 6.5% (2002/03 6.1%) to discount the liabilities, which currently being slightly higher than the return on corporate bonds reduces the deficit in the scheme to £496 million (2002/03 £704 million). Following the recent actuarial valuation for funding purposes, it has been decided to increase the rate of contributions paid by the employers from 1 April 2004 to from 15.25% to 30.5% of pensionable pay.

Notes to the accounts

5 Pensions continued

c) Local Government Pension Scheme

The Local Government Pension Scheme is a funded multi-employer defined benefit scheme. The Corporation is, however, able to identify its share of the assets and liabilities of the scheme and this scheme has therefore been accounted for as a defined benefit scheme under FRS 17. Employers' contributions were payable at the rate of 13.2% (2002/03 13.2%) of pensionable pay. The Corporation's share of the underlying assets and liabilities resulted in a deficit of £2.7 million (2002/03 £4.4 million). The annual report and accounts for the whole scheme can be found on the London Pensions Fund Authority website (www.lpfa.org.uk).

The main actuarial assumptions used for the Local Government Pension Scheme were:

	FRS 17 valuation at 31 Mar 2004 %	FRS 17 valuation at 31 Mar 2003 %	FRS 17 valuation at 31 Mar 2002 %
Inflation	**2.9**	2.5	2.8
Rate of increase in salaries	**4.4**	4.0	4.3
Rate of increase of pensions in payment and deferred pensions	**2.9**	2.5	2.8
Discount rate	**6.5**	6.1	6.4
Investment return	**7.3**	7.4	7.2

The assets in the scheme attributable to TfL and the expected rate of return were:

	Expected return %	**Value at 31 Mar 2004 £000**	Expected return %	Value at 31 Mar 2003 £000	Expected return %	Value at 31 Mar 2002 £000
Equities	**7.7**	**11.5**	8.0	7.5	7.5	8.1
Bonds	**5.1**	**1.8**	4.8	1.3	5.5	1.2
Cash, property and other assets	**5.8**	**0.7**	4.0	0.3	4.0	0.3
Total market value of assets		**14.0**		9.1		9.6
Actuarial valuation of liabilities		**(16.7)**		(13.5)		(10.9)
Deficit in the scheme recognised as a liability in the balance sheet		**(2.7)**		(4.4)		(1.3)

Notes to the accounts

5 Pensions continued

	Corporation and Group 2003/04 £m	Corporation and Group 2002/03 restated £m
Analysis of amounts charged to cost of services:		
Current service cost	**1.6**	1.5
Past service cost	**-**	-
Total charged to cost of services	**1.6**	1.5
Analysis of the amount charged to interest and investment income:		
Interest on Section liabilities	**0.9**	0.7
Expected return on Section assets	**(0.8)**	(0.6)
Net charge/(credit) to interest and investment income	**0.1**	0.1
Total amount included in net operating expenditure in Revenue Account	**1.7**	1.6
Movement on pensions reserve	**0.1**	0.1
Amount to be met from government grant and local taxation	**1.8**	1.7

	Corporation and Group 2003/04 £m	Corporation and Group restated 2002/03 £m
Analysis of the movement in surplus/(deficit) during the year:		
Surplus/(deficit) in the Section at start of year	**(4.4)**	(1.3)
Contributions paid	**1.8**	1.7
Current service cost	**(1.6)**	(1.5)
Interest and investment income/(charge)	**(0.1)**	(0.1)
Actuarial gain/(loss)	**1.6**	(3.2)
Surplus/(deficit) in the Section at end of year	**(2.7)**	(4.4)

Notes to the accounts

5 Pensions continued

d) 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 liabilities on a consistent and reasonable basis, and in accordance with FRS 17 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 1999. Details can be found in the Civil Superannuation resource accounts (www.civilservice-pensions.gov.uk).

Employers' contributions were payable to the PCSPS at one of four rates in the range 12% to 18.5% of pensionable pay, based on salary bands. Rates will remain the same for next year, subject to salary band changes. Employer contributions are to be reviewed every four 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.

e) analysis of movements in pensions reserve

The actuarial gains and losses identified as movements on the pensions reserve in 2003/04 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilites at 31 March 2004:

	Group only LRT Pension Fund		**Corporation and Group** Local Government Pension Scheme	
	£m	%	£m	%
Difference between the expected and actual return on assets	**(304.1)**	**11.16%**	**(1.6)**	**11.80%**
Differences between actuarial assumptions about liabilities and actual experience	**8.9**	**0.25%**	**-**	**0.10%**
Changes in the demographic and financial assumptions used to estimate liabilities	**210.6**	**5.84%**	**-**	**0.00%**
Actuarial (gain)/loss recognised in reserves	**(84.6)**		**(1.6)**	
Comparative totals for 2002/03	700.1		3.2	

Notes to the accounts

5 Pensions continued

f) 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 who retired more than ten years ago 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 more than ten years ago and prior to index linking of pensions;
- pensions of LUL and LRT former board members who retired more than five years ago and who did not qualify to join the LRT Pension Fund.

The Director of Pensions carried out a valuation as at 1 April 2003 of the above unfunded pension liabilities, using a basis consistent with that adopted by the Actuary to the LRT Pension Fund in his last valuation. Full provision of £37.7 million (2003 £36.5 million) for unfunded pension liabilities is made in these accounts.

6 Publicity

	Group 2003/04 £m	Group 2002/03 restated £m	**Corporation 2003/04 £m**	Corporation 2002/03 restated £m
Staff advertisements	**0.9**	2.5	**0.7**	1.9
Other publications	**1.6**	0.2	**0.8**	0.2
Other publicity	**3.2**	1.0	**1.8**	0.7
Total cost included within materials and services	**5.7**	3.7	**3.3**	2.8

Notes to the accounts

7 Capital financing

	Note	**Group 2003/04 £m**	Group 2002/03 restated £m	**Corporation 2003/04 £m**	Corporation 2002/03 restated £m
Additions to fixed assets	*9a & b*	**863.1**	681.2	**149.5**	212.3
Provision for credit liabilities		**127.0**	0.4	**127.0**	0.4
Settlement of prior years' liabilities		**14.3**	31.4	**14.3**	31.4
Funded by:					
Creditors & other working capital movements		**(382.3)**	17.2	**(14.2)**	(27.6)
Third-party contributions & other grant funding	*22 & 16*	**(157.9)**	(147.3)	**(2.2)**	(8.2)
Disposal of tangible fixed assets		**(33.4)**	10.7	**(13.5)**	(4.2)
Capital expenditure financed from revenue		**430.8**	593.6	**260.9**	204.1

8 Taxation

The Corporation is exempt from corporation tax but the subsidiaries are assessable individually to taxation in accordance with the Income and Corporation Taxes Act 1988. No liability for corporation tax arises in respect of the current year.

At 31 March 2004 the Group had a deferred tax asset in respect of capital allowances of £31.3 million (2002/03 £30.8 million). No deferred tax asset is accounted for, as it is not believed that such an asset would be recoverable in the foreseeable future The full potential liability for deferred taxation in respect of potential capital gains on revalued fixed assets has not been quantified as no tax liability is expected to arise due to the availability of rollover relief.

Notes to the accounts

9 Tangible fixed assets

a) Group

	Note	Infrastructure and other property £m	Rolling stock £m	Plant and equipment £m	Non-operational assets £m	Total £m
Gross valuation						
Balance at 1 April 2003 (restated)		16,752.4	2,883.9	843.7	509.1	20,989.1
Additions to fixed assets		523.9	106.7	82.7	149.8	863.1
Disposals		(126.8)	(18.2)	(34.4)	(9.2)	(188.6)
Transfers & adjustments	*9c*	(100.7)	-	0.6	(8.7)	(108.8)
Revaluation		(0.1)	-	-	(21.6)	(21.7)
Gross valuation at 31 March 2004		**17,048.7**	**2,972.4**	**892.6**	**619.4**	**21,533.1**
Depreciation						
Balance at 1 April 2003 (restated)		6,975.3	1,693.8	375.5	0.2	9,044.8
Disposals		(74.8)	(18.2)	(28.3)	-	(121.3)
Depreciation charge	*9d*	362.0	66.6	73.3	-	501.9
Transfers & adjustments	*9c*	(58.6)	-	-	-	(58.6)
Balance at 31 March 2004		**7,203.9**	**1,742.2**	**420.5**	**0.2**	**9,366.8**
Net book value at 31 March 2004		**9,844.8**	**1,230.2**	**472.1**	**619.2**	**12,166.3**
Net book value at 31 March 2003 (restated)		9,777.1	1,190.1	468.2	508.9	11,944.3

PPP assets and leased assets

The net book value above includes the following amounts in respect of leased assets and assets allocated to PPP contractors

PPP assets	6,310.5	1,152.3	168.6	378.5	8,009.9
Leased assets	199.5	35.6	-	-	235.1
Net book value at 31 March 2004	**6,510.0**	**1,187.9**	**168.6**	**378.5**	**8,245.0**

Notes to the accounts

9 Tangible fixed assets continued

b) Corporation	Note	Infrastructure and other property £m	Rolling stock £m	Plant and equipment £m	Non-operational assets £m	Total £m
Gross valuation						
Balance at 1 April 2003 (restated)		3,613.5	-	83.9	104.7	3,802.1
Additions to fixed assets		95.7	-	45.0	8.8	149.5
Disposals		(16.4)	-	-	(8.6)	(25.0)
Transfers & adjustments		(107.6)	-	-	-	(107.6)
Revaluation		(0.5)	-	-	(30.7)	(31.2)
Gross valuation at 31 March 2004		**3,584.7**	**-**	**128.9**	**74.2**	**3,787.8**
Depreciation						
Balance at 1 April 2003 (restated)		1,452.6	-	24.5	0.2	1,477.3
Disposals		(11.7)	-	-	-	(11.7)
Depreciation charge	*9d*	105.1	-	12.4	-	117.5
Transfers & adjustments		(58.4)	-	-	-	(58.4)
Balance at 31 March 2004		**1,487.6**	**-**	**36.9**	**0.2**	**1,524.7**
Net book value at 31 March 2004		**2,097.1**	**-**	**92.0**	**74.0**	**2,263.1**
Net book value at 31 March 2003 (restated)		2,160.9	-	59.4	104.5	2,324.8

Notes to the accounts

9 Tangible fixed assets continued

c) Tangible fixed assets - valuation and depreciation

Operational assets

Infrastructure consists of roads, tunnels, viaducts, bridges, stations, track, signalling and bus stations and stands. Infrastructure, rolling stock and equipment are carried at their fair value when transferred to the Group, together with the cost of subsequent additions. The fair values have been calculated on the basis of depreciated replacement cost. LUL assets are carried at the estimated cost of modern equivalent assets as at 31 March 1998, together with the cost of subsequent additions, written down to reflect their remaining estimated useful lives. Bored tunnels, excavations for stations, and embankments entering service in London Underground prior to 1 April 1992 are carried at nil value as there are no records of their historical cost and it is impractical to provide a reliable valuation.

A condition survey supported the fair value of assets transferred to the Corporation by the Highways Agency, but the records provided in respect of the assets transferred from the London Borough Councils were incomplete. Their fair values were thus initially estimated, but were amended last year following the completion of a condition survey. Further work during the current year has resulted in a reduction in gross book value and accumulated depreciation of £108.8 million and £58.6 million respectively, giving a reduction in net book value of £50.2 million. This adjustment has been charged to the fixed asset restatement reserve.

Other property consists of business properties, used by the Group for its own purposes, which are not limited in their future use by operational constraints or requirements and which are not integral to the infrastructure (e.g. offices). These properties were valued at open market value at 31 March 2004 (on an existing use basis) by the Director of TfL's Group Property and Facilities function and by suitably qualified TfL staff. The revaluation is charged to the fixed asset restatement reserve.

Non-operational assets

These include property awaiting disposal and assets under construction. The properties are valued like other property but with additional consideration of alternative uses. Assets under construction are carried at historic cost and are not depreciated until they come into use.

Depreciation

Assets are depreciated on a straight-line basis over their estimated useful lives, which are reviewed regularly, and which for the major categories fall in the following ranges:

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

Leasehold properties are amortised over shorter of the lease term and 40 years. Property awaiting disposal is not depreciated.

Notes to the accounts

9 Tangible fixed assets continued

d) Depreciation charge

	Note	Group 2003/04 £m	Group 2002/03 restated £m	Corporation 2003/04 £m	Corporation 2002/03 restated £m
Depreciation for the period:					
- on the historical cost of depreciated fixed assets		**102.4**	427.1	**117.5**	127.7
- on the revalued element of depreciated fixed assets		**93.8**	70.1	**-**	-
- on assets allocated to PPP contractors		**298.9**			
- on assets held under finance leases		**6.8**	6.8	**-**	-
Total depreciation charge	*9a & b*	**501.9**	504.0	**117.5**	127.7
Less: release of deferred grants	*16*	**(261.9)**	(262.4)	**(2.4)**	(1.9)
Depreciation net of release of deferred grants		**240.0**	241.6	**115.1**	125.8

e) Historical cost of assets

The historical cost of assets is the original cost to the subsidiary that acquired the assets, together with the fair value of the assets transferred to the Corporation on 3 July 2000 and the cost of subsequent additions. For LUL assets, the historic cost comprises all investment expenditure since 1970 and the book value transferred when the predecessor to London Regional Transport was formed.

	Group 2004 £m	Group 2003 restated £m	Corporation 2004 £m	Corporation 2003 restated £m
Infrastructure and other property	**12,175.2**	11,842.0	**3,587.2**	3,615.5
Rolling stock	**1,761.6**	1,660.5	**-**	-
Plant and equipment	**796.8**	745.9	**129.0**	83.9
Non-operational assets	**457.3**	325.1	**44.0**	43.9
Gross cost	**15,190.9**	14,573.5	**3,760.2**	3,743.3
Less accumulated depreciation	**(4,306.9)**	(4,000.4)	**(1,524.7)**	(1,477.3)
Net written down cost	**10,884.0**	10,573.1	**2,235.5**	2,266.0

Notes to the accounts

9 Tangible fixed assets continued

f) Group assets

	Group 2004 Number	Group 2003 restated Number
Railway carriages	**4,077**	4,077
Track route length (kilometres)	**434**	434
Railway stations	**287**	287
Bridges and viaducts	**1,991**	1,991
Roads (kilometres)	**580**	580
Car ferries	**3**	3
Buses	**524**	483
Bus stations and stands	**98**	92
Bus shelters	**8,475**	8,174
Offices	**124**	128
Piers	**8**	8

10 Investment in subsidiaries and joint venture

	Group 2004 £m	Group 2003 £m	Corporation 2004 £m	Corporation 2003 £m
Balance at 1 April 2003	**-**	-	**22.5**	22.5
Share of gross assets of joint venture	**4.5**	2.4	**-**	-
Share of gross liabilities of joint venture	**(4.5)**	(2.4)	**-**	-
Balance at 31 March 2004	**-**	-	**22.5**	22.5

In common with other local authorities, the Corporation does not account for the profits or losses of subsidiary companies in its own books.

Notes to the accounts

11 Stocks

	Group 2004 £m	Group 2003 restated £m	Corporation 2004 £m	Corporation 2003 restated £m
Maintenance stores	**5.2**	4.7	**3.7**	3.9
Goods purchased for resale	**0.5**	0.5	**-**	-
	5.7	5.2	**3.7**	3.9

12 Debtors

	Group 2004 £m	Group 2003 restated £m	Corporation 2004 £m	Corporation 2003 restated £m
Trade debtors	**230.5**	227.5	**32.8**	33.4
Amounts due from group companies	**-**	-	**8.4**	7.3
Prepayments and accrued income	**136.9**	181.7	**0.7**	3.3
	367.4	409.2	**41.9**	44.0

13 Cash at bank and in hand

	Note	Group 2004 £m	Group 2003 restated £m	Corporation 2004 £m	Corporation 2003 restated £m
Cash at bank		**9.5**	6.6	**1.8**	-
Cash in hand and in transit		**12.7**	10.6	**0.1**	-
	23	**22.2**	17.2	**1.9**	-

14 Creditors

a) amounts falling due within one year

	Note	Group 2004 £m	Group 2003 restated £m	Corporation 2004 £m	Corporation 2003 restated £m
Trade creditors		**694.3**	590.7	**164.8**	101.3
Capital works		**147.1**	174.5	**77.5**	64.3
Finance lease obligations repayable within one year	*15*	**173.5**	1.0	**-**	-
Salaries and wages		**7.8**	25.4	**1.3**	0.6
Receipts in advance for travelcards and bus passes		**81.3**	79.6	**-**	-
Total creditors falling due within one year		**1,104.0**	871.2	**243.6**	166.2

Notes to the accounts

14 Creditors continued

b) amounts falling due after more than one year

	Group 2004 £m	Group 2003 restated £m	Corporation 2004 £m	Corporation 2003 restated £m
Retentions on capital contracts	4.1	6.2	4.0	5.5
Accruals and deferred income	18.8	3.5	2.9	0.9
Finance lease obligations	380.7	221.7	-	-
	403.6	231.4	6.9	6.4

15 Finance leases

Obligations repayable:	Note	Group 2004 £m	Group 2003 restated £m	Corporation 2004 £m	Corporation 2003 restated £m
Within one year	*14a*	173.5	1.0	-	-
Between one and five years	*14b*	174.4	10.9	-	-
Thereafter	*14b*	206.3	210.8	-	-
	23	554.2	222.7	-	-

16 Deferred grants

	Note	Group 2004 £m	Group 2003 restated £m	Corporation 2004 £m	Corporation 2003 restated £m
Balance at 1 April 2003		6,309.4	5,980.6	61.5	55.2
Transport grant		189.8	374.6	-	-
Third-party contributions and other grant funding		135.1	152.3	2.2	8.2
Third-party contributions transferred from provisions		-	84.0	-	-
Transfer from subsidiary		-	-	1.0	-
Release of deferred grant:					
- to meet the depreciation charge	*9d*	(261.9)	(262.4)	(2.4)	(1.9)
- on disposal of tangible fixed assets		(34.9)	(19.7)	-	-
Balance at 31 March 2004		6,337.5	6,309.4	62.3	61.5

Notes to the accounts

17 Provisions for liabilities and charges

	Note	At 1 April 2003 restated £m	Unused amounts reversed £m	Payments in year £m	Increase in provision £m	At 31 Mar 2004 £m
Group						
Claims for compensation	*19b*	22.7	(6.5)	(4.9)	11.6	22.9
Capital investment activities		76.4	(0.3)	(14.0)	3.0	65.1
Unfunded pension liabilities		36.5	-	(2.5)	3.7	37.7
Other		16.5	(2.3)	(7.8)	4.4	10.8
		152.1	(9.1)	(29.2)	22.7	136.5
Corporation						
Capital investment activities		71.6	(0.3)	(14.0)	-	57.3
Unfunded pension liabilities		25.0	-	(1.6)	1.6	25.0
Other		4.3	(0.1)	(1.6)	1.4	4.0
		100.9	(0.4)	(17.2)	3.0	86.3

Claims for compensation includes compulsory purchases, claims in respect of structural damage or diminution in value of properties affected by transport schemes, and other third party claims.
Details of unfunded pension liabilities are given in note 5. Other provisions include the long term charges to Train Operating Companies and dilapidations on full repairing leases.

18 Capital commitments

	Group 2004 £m	Group 2003 restated £m	**Corporation 2004 £m**	Corporation 2003 restated £m
In respect of contracts placed for:				
Road projects	**81.3**	45.3	**81.3**	45.3
London Underground projects	**51.7**	60.8	**-**	-
Docklands Light Railway projects	**158.2**	157.2	**-**	-
Other projects	**37.7**	12.3	**6.3**	-
	328.9	275.6	**87.6**	45.3

Notes to the accounts

19 Financial commitments

a) Operating leases

As at 31 March 2004, the Group and the Corporation were committed to making the following payments during the next year in respect of operating leases:

	Group 2004 £m	Group 2003 restated £m	**Corporation 2004 £m**	Corporation 2003 restated £m
Property leases which expire :				
Within one year	**2.3**	10.6	**0.3**	0.5
Between one and five years	**0.5**	0.6	**-**	-
Thereafter	**29.8**	15.4	**1.2**	5.1
	32.6	26.6	**1.5**	5.6
PFI agreements and other leases which expire:				
Within one year	**2.6**	1.8	**-**	-
Between one and five years	**0.5**	0.8	**-**	-
Thereafter	**205.8**	149.8	**21.8**	13.9
	208.9	152.4	**21.8**	13.9

The Group leases certain properties on short-term and long-term leases. The rents payable on these leases were £33.7 million (2002/03 £26.2 million). The rents payable under these leases are subject to re-negotiation at various intervals specified in the leases. The Group pays all insurance, maintenance and repairs of these properties.

Under the Government's PFI initiative, agreements have been entered into by London Underground Limited for the provision by the private sector of a new communications network, a new gating and ticketing system, new facilities for the British Transport Police and upgraded high-voltage power generation and distribution systems. Given the substantial risks retained by the private sector, these transactions are accounted for as operating leases and the assets provided are, therefore, not included in the Balance Sheet.

The Group also has PFI agreements and leases in respect of road schemes (including congestion charging), the DLR Lewisham extension, Croydon Tramlink, ticketing equipment and motor vehicles. Given the substantial risks retained by the private sector, these transactions, other than the DLR Lewisham extension, are also accounted for as operating leases and the assets provided are, therefore, not included in the Balance Sheet.

Total operating lease rentals for the Group included in the Revenue account were £229.7 million (2002/03 £237.3 million). Payments under these lease agreements, which include the cost of routine maintenance and repairs, are charged to revenue over the period of the leases from the time the assets become operational.

Notes to the accounts

19 Financial commitments continued

b) PPP

LUL has entered into three PPP contracts for the maintenance, enhancement and replacement of LUL's operational assets. The contracts are for 30 years and are re-negotiable after 7.5 years. The amount payable to the PPP contractors is dependent upon their performance. The capital element of the contracts over the 30 year period is estimated to be between £15 billion and £20 billion.

c) Contingencies

There are a number of uncertainties surrounding projects, including claims in the course of negotiations, which may affect the financial outcome. The financial statements include management's best estimate of the outcome of these uncertainties (see Note 17).

20 Related parties

The Transport for London Board members are appointed by the Mayor of London.

The Corporation had no material transactions during the year with related parties other than with group companies. The Corporation is exempt from disclosing transactions with other group companies.

21 Principal subsidiaries and joint ventures

Subsidiaries	**Activity**
Transport Trading Limited	Holding company
London Underground Limited	Passenger transport by underground train
London Bus Services Limited	Passenger transport by bus
Docklands Light Railway Limited	Passenger transport by rail
Victoria Coach Station Limited	Coach station
London River Services Limited	Pier operator
London Buses Limited	Bus operator and Dial-a-Ride
London Transport Insurance (Guernsey) Limited	Insurance
Joint venture	
Cross London Rail Links Limited	Passenger transport by rail

The Corporation owns all the ordinary share capital of its subsidiaries and 50% of the share capital of the joint venture. The accounts of these companies are lodged at Companies House. TfL has given assurances of financial support to the boards of all the subsidiary companies listed above.

On 15 July 2003, London Regional Transport transferred the entire share capital of London Underground to Transport Trading Limited. This transfer has been accounted for as a merger under FRS 6 (see note 26).

Notes to the accounts

22 Group cash flow statement: reconciliation with the accounts

a) Capital expenditure

	2004	2003 restated
	£m	£m
Amounts included in the accounts	(863.1)	(681.2)
(Increase)/decrease in debtors	35.2	(42.3)
Increase/(decrease) in creditors due within one year	(8.6)	44.7
Increase/(decrease) in creditors due after one year	(2.2)	(20.2)
PPP assets	475.6	20.1
Decrease in provisions	(11.2)	(26.8)
Group cash flow statement	**(374.3)**	(705.7)

b) Contributions from third parties for capital expenditure

	2004	2003 restated
	£m	£m
Amounts included in the accounts	135.1	152.3
(Increase)/decrease in debtors	22.8	(5.0)
Group cash flow statement	**157.9**	147.3

23 Analysis of change in group net debt

	Note	At 1 April 2003 restated £m	Movement £m	At 31 Mar 2004 £m
Cash at bank and in hand	*13*	17.2	5.0	22.2
Bank overdrafts		(34.3)	34.3	-
Total cash		(17.1)	39.3	22.2
Investments		162.6	690.0	852.6
Short-term borrowings		(20.0)	20.0	-
Finance lease obligations	*15*	(222.7)	(331.5)	(554.2)
Total of net debt		**(97.2)**	**417.8**	**320.6**

Notes to the accounts

24 Congestion charging

Congestion charging was introduced on 17 February 2003 in central London at a daily rate of £5 per car or goods vehicle. 2003/04 represents a full year's operating revenue and expenditure reflecting the net proceeds from charges.

	Note	Group and Corporation 2003/04 £m	Group and Corporation 2002/03 £m
Revenue	*2*	**186.7**	18.5
Expenditure - toll facilities		**(105.3)**	(58.2)
- traffic management		**(2.0)**	(4.2)
Deferred charges	*25*	**(15.6)**	-
Depreciation		**(17.2)**	(14.0)
Capital financing charges		**(1.1)**	(0.3)
Interest		**-**	-
Net income/(expenditure)		**45.5**	(58.2)

25 Deferred charges

Contributions towards the following projects undertaken by the London Boroughs or assets constructed on their land, have been treated as deferred charges. These contributions have been charged to revenue expenditure.

	Note	**Group and Corporation 2004 £m**	Group and Corporation 2003 £m
Balance at 1 April 2003		**-**	-
Bus priority		**21.8**	20.5
Safety schemes		**22.5**	19.5
Cycle network		**10.3**	5.9
Congestion charging	*24*	**17.2**	14.0
Trafalgar Square		**6.3**	9.7
Bridge strengthening		**15.9**	13.3
Local traffic and pedestrian improvements		**5.9**	5.1
Parking control and enforcement		**1.1**	1.7
Other Borough projects		**32.4**	1.4
Charged to expenditure	*3*	**(133.4)**	(91.1)
Balance at 31 March 2004		**-**	-

Notes to the accounts

26 Transfers from predecessor bodies

On 15 July 2003, as the final stage in a statutory Transfer Scheme, the entire share capital of London Underground Limited (LUL) was transferred to Transport Trading Limited, a wholly-owned subsidiary of TfL, from London Regional Transport, a statutory corporation controlled by the Secretary of State for Transport. There was no consideration payable for this transfer.

Although TfL now directs the day to day operations of LUL, the latter remains dependent on transport grant receivable from the Department for Transport to fund its operations and capital programmes, to the extent that the required funding cannot be generated from net ticket revenues. In addition, the Public Private Partnership contracts put in place prior to the transfer of LUL significantly restrict TfL's ability to vary the operating and financial policies of LUL.

The Board considers that the extent of influence retained by the Secretary of State for Transport over the operating and financial policies of LUL is such that the group reorganisation provisions of *Financial Reporting Standard 6 – Acquisitions and mergers* apply to the transfer. TfL has therefore applied merger accounting to the transfer.

In accordance with FRS 6 the financial information for the current period has been presented, and that for prior periods restated, as if LUL had been owned by Transport Trading Limited throughout the current and prior accounting periods.

27 Sale of Infracos by London Underground Limited

At 31 March 2003 London Underground Limited (LUL) owned 100% of the issued shared capital of £10 of Infraco BCV Limited and Infraco Sub-Surface Limited. On 4 April 2003 LUL disposed of £9 of the share capital of both these companies. The net assets of the two companies at 31 March 2003 and 4 April 2003 were £nil. The companies were sold for net asset value and no profit or loss arose in the books of London Underground Limited on the disposals.

LUL retains a non-voting special share of £1 in Tube Lines Limited (formerly Infraco JNP Ltd), Metronet Rail BCV Limited (formerly Infraco BCV Limited) and Metronet Rail SSL Limited (formerly Infraco Sub-Surface Limited).

AGENDA ITEM 5

TRANSPORT FOR LONDON

STAFF SUMMARY

TFL BOARD

SUBJECT: **THE OLYMPIC & PARALYMPIC TRANSPORT STRATEGY FOR LONDON 2012**

MEETING DATE: **22 JULY 2004**

1. PURPOSE

The Mayor and the Government are committed to hosting the 2012 Olympic and Paralympic Games. A bid company (London2012) has been formed to co-ordinate the bid preparation. In support of London2012, TfL, with the help of other transport agencies, has created an Olympic Transport Strategy team to develop plans, programmes and budgets to plan the transport of both Olympic Family and spectator transport by all modes across the UK.

On May 18th London was selected as one of the five host candidate cities. The full and final bid is to be submitted to the IOC on 15th November.

The purpose of this paper is to seek approval for the transport strategy and the associated IOC bid guarantee on transport.

2. BACKGROUND

For two weeks in the summer of 2012 London will host the 30th Olympic Games. 16000 athletes from 200 countries will compete at the ultimate level. Some 10 million spectators will travel to sports venues in London; centred on the Lower Lea Valley and Stratford. Whilst the games and the Olympic Village, are centred on the Lea Valley Olympic Park many competitions will take place elsewhere - e.g. the Dome, Excel, Regents and Hyde Parks, and other venues across the UK.

3. THE OLYMPIC TRANSPORT CHALLENGE

The transport challenges are:

- To move up to 500,000 spectators and 55,000 Olympic family members, as well as all workforce and volunteers, each day, for 16 days, in total safety and with maximum reliability.

- To keep London and its businesses functioning during the games period

- To leave a positive legacy by way of improved sustainable transport services and usage

4. THE TRANSPORT TASK

4.1 Spectator Demand

The transport task of moving 10 million spectators has required the understanding and modelling of normal summer commuting levels in 2012 and the additional transport demand from spectator travel to venues.

The predicted peak spectator days for the Olympic Park, including Excel, Dome and Greenwich are:

- The morning of day 7 (Friday) – 181,000 ticketed spectators, with another 110,000 at other London and national venues.

- The afternoon of day 10 (Monday) – 175,000 ticketed spectators, with another 100,000 at other London and national venues.

4.2 Spectator distribution

Ticket sales by purchasing origin were distributed to three trip origins and result in 50% of spectators travelling from London homes, 25% from London accommodation and 25% from day trippers of whom about 1% are from Northern Europe. Each class of travel origin was assigned to various modes. Mode share for the Olympic Park is 80% rail, 15% park and ride/rail and direct coach and 5% bus, cycle, walk and river.

4.3 Olympic Family Demand

The Olympic Family comprises a total of around 55,000 people including 16000 athletes, 17000 media and 10000 sponsors and guests. The travel needs, rights and privileges of each of these groups varies and ranges from a dedicated car + 2 drivers through to a shared coach. These criteria are laid down by the IOC.

The Olympic Family will be transported using a fleet of around 1,700 cars and 1,600 coaches. Venue Transport Plans have been prepared for each event venue across the UK.

5. THE TRANSPORT STRATEGY

5.1 The Transport Objective

The mission of the Olympic Transport strategy is:

to deliver safe and reliable transport for the Olympic Games and support the regeneration of East London.

Flowing from this mission are five strategic objectives to be met:

- To provide safe, secure and reliable transport for all participants and the Olympic Family.
- To provide fast, frequent, reliable, friendly, safe and simple transport for spectators.
- To facilitate the regeneration of East London and leave a positive legacy.
- To keep London running and thus make it a positive experience to host a sustainable, inclusive and environmentally friendly games:.
- To achieve maximum value for money for every pound spent on transport.

For each of these five objectives, strategies have been developed as described below.

5.2 Olympic Family: routes

A dedicated Olympic Route Network, using "Olympic lanes", is planned to transport the Olympic Family quickly, reliably and securely. The Olympic Routes will be required for different periods depending on their purpose, ranging from one to sixty days.

These routes will have highly enforced Olympic Lanes, clearly designated and signed, with junctions controlled to achieve the fastest possible journey times.

5.3 Spectator Transport: Rail services

The three principal high-capacity rail modes that will be utilised as part of the Olympic Transport Strategy are London Underground, National Rail and Docklands Light Railway. The aim of the strategy is to get the maximum service possible from existing lines. Additional upgrades are planned only on those routes that are both vital to serve the games and have long term legacy value.

There are three key rail feeder routes that will keep spectators out of the central congested area of London - the extended East London Line, the North London Line and the Stratford - Canning Town link. These local routes are supplemented by three high capacity mainline express routes for long haul usage: the Great Eastern Lines to Stratford, the Channel Tunnel Rail Link (both international and domestic), and the London-Tilbury-Southend services via West Ham. This basic service package is then supported by mainline trains from the provinces direct to Stratford and the high capacity Jubilee, Central, Metropolitan and District Lines.

5.3.1 London Underground

The Olympic Zone and its surrounding venues are well served by existing Underground Lines - Central, Jubilee, District, Hammersmith and City and East London Lines. The key objective for London Underground within the strategy is to ensure that maximum benefit is drawn out of the existing infrastructure through sophisticated operational and systems management. Capacity enhancement, in the order of 45%, is already underway on the Jubilee Line.

5.3.2 National Rail

The proposed Olympic Zone has a comprehensive National Rail infrastructure, including the Channel Tunnel Rail Link which is on schedule to be completed between Stratford and St Pancras by 2007.

All lines will operate at maximum capacity for the duration of the games including a temporary high capacity Olympic shuttle service on the CTRL, increased stopping on Stratford rail services (e.g. the Great Eastern Line) and C2C services, together with the upgrading of the North London Line. In addition, regional and Lea Valley Line services direct to Stratford will be operated.

5.3.3 Docklands Light Railway

Docklands Light Railway (DLR) currently serves some parts of the Olympic Zone and much of the local area to the south and west of the Zone. Key venues served include those within the main Olympic Park, ExCeL and venues south of the river such as Greenwich.

A number of DLR schemes, all at different stages, are scheduled to be implemented in advance of 2012. These include an extension of the DLR to London City Airport, take-over and enhanced operation of the Stratford to Canning Town national rail route, a further extension to Woolwich Arsenal and a three car upgrade for most of the system.

5.4 Spectator Transport: Coach and Bus

Chartered (direct) coach services carrying spectators from all over the UK will play an important role within the overall Olympic Transport Strategy for spectator travel.

There is an extensive bus network that serves Stratford, Hackney Wick and the Olympic Park. This will be further developed over the coming years, with some additional local services needed for the period of the games.

5.5 Spectator Transport: Park and Ride

Two park and ride sites will be established around the M25. Their purpose is to transfer people from their car and deliver them direct by coach to venue hubs.

5.6 Spectator Transport: Cycling and Pedestrian

Walking is an important mode of transport for the Games, and work is in progress to provide attractive traffic free routes along the river and canals and feed routes from the local communities.

The 30-minute cycle catchment from the Olympic Zone covers a population of 1.2 million. There is significant potential to encourage cycling by spectators and the workforce from within and beyond this area. Facilities will be provided on-site and the cycle network enhanced to address current gaps.

5.7 Spectator Transport: River

London's waterways provide a range of environmentally sustainable transport opportunities that can enhance London's Bid for the 2012 Olympic Games. The Thames can play a role in transporting small numbers of Olympic Spectators on ferry style services during the Games period and the canals will be used for spectators and freight.

5.8 Transport Security

Prior to and during the Olympic Games there is a significant need to ramp up the security measures. This covers several discrete areas – in the Olympic Park, across the network, incident management, workforce & volunteers and contractor operations. Detailed plans, supported by the security forces, are being developed to address these issues.

5.9 Transport Safety

Safety of spectators and family is a key objective. To this end a Transport Safety Strategy, a hazard analysis and associated modal safety plans have been prepared.

5.10 Paralympics transportation

The Paralympic Games extend over a 12 day period and represent the worlds 2nd largest sporting event. The Games provide an arena for competition between the world's 4,000 top athletes with a disability, representing 130 countries in 19 sports. During the Games period, more than 1.5m ticketed spectators will travel to sports venues to watch the events.

The majority of these venues will remain the same as those used for Olympic competition, as they are designed with the necessary facilities to cater for athletes in both events. Furthermore, the transport infrastructure developed to reach the venues for the Olympic Games provides the necessary requirements that ensures maximum accessibility.

5.11 Travel Demand Management

Normal background demand drops significantly in the summer - 30% down on the Tube and 17% down on roads compared to peak. There will still be a need to manage the demand on certain corridors (eg Jubilee Line) during the games. Research is therefore being undertaken to understand the London employers' view of the impact the Olympics would have on their workforce, and what steps they would be prepared to take to reduce commuting demands on the network at key times.

5.12 Opening and Closing ceremonies

The Olympic Games Opening and Closing Ceremonies will be held at the main Olympic Stadium. The scheduling of the ceremonies in the evening (Friday opening and Sunday Closing) outside peak hour travel times will significantly ease spectator travel.

5.13 Ticketing and information

A mixture of incentives will facilitate the use of public transport by spectators. It is anticipated that integrated ticketing will support a comprehensive package of travel information. Work is underway with Transys and London 2012 to progress integrated ticketing.

Information will be made available through the Internet, on radio and on television. Tickets will include details on the best way to travel to venues and further information will advise of modes, routes, and locations to avoid. Intelligent travel systems will be used to direct spectators to park and ride sites.

6. KEY TRANSPORT CHALLENGES

6.1 Rail and Surface Transport

Close co-operation and working with London 2012 and government agencies is continuing to effectively implement the transport strategy outlined above, and meet a number of key challenges.

The key challenges are:

- To ensure the delivery of the planned upgrades of the Northern, Jubilee and Central Lines
- To ensure delivery of the East London Line extensions
- To make available the necessary rolling stock for enhanced rail services (including the provision of sufficient trains for the CTRL Olympic shuttles).
- To divert freight from the North London Line for the Olympics
- To relocate existing railway infrastructure as a result of the Olympic Park plans
- To ensure the timely delivery of planned DLR upgrades e.g. Woolwich Arsenal extension, Stratford – Canning Town take-over, and 3 car operation of key routes, including Bank-Lewisham.
- To establish and operate the Olympic Route Network
- To effectively develop the LTCC to form the basis of an all modes Olympic Transport Operations Centre

6.2 Stratford Station

Stratford Regional Station has extensive infrastructure across all modes and is already facing demand pressures from growth in the area. The planned Stratford City and Stratford town centre developments together with the regeneration of the Lower Lee Valley will create additional demands, even before Olympic Spectator demand is included.

Stratford Regional Station is a Network Rail facility and not owned by TfL. However, to address the above challenge, TfL is leading a feasibility study to identify a long term solution for the station's infrastructure needs. This solution will involve capital works that will require the necessary funding. TfL has not included these capital works in its budget. Government will give the IOC guarantee for this work, and funding will come from developer contributions and Olympic funds. TfL will not fund Stratford Regional Station upgrade.

6.3 Stratford – Canning Town

A joint TfL Rail and SRA study has been completed into the future of the North London Line between Stratford and Canning Town. Two options were considered – either conversion to DLR or retention as a national rail service. The decision has now been made by the Secretary of State to support the conversion to DLR operation. Subject to TfL acquiring powers and agreement from Network Rail and the Office of the Rail Regulator, this will provide a frequent reliable service for the new communities.

6.4 East London Line Extensions

The East London Line Extensions are vital to the future of London and will play a significant supporting role during the Olympics. Government approval has now been given for the scheme to progress under the Mayor's leadership.

6.5 Funding Arrangements

The Department of Culture Media and Sports (DCMS) holds funds to support transport for the games and London 2012, on behalf of the future Organising Committee. These secure funding for additional infrastructure and operational costs necessary to support both Spectator and Olympic family transport.

These "Olympic" funds are not however designed to cover the cost of already planned backdrop schemes:

- East London Line extension
- DLR upgrades
- Busways in east London (Greenwich and East London Transits)
- The full cost of conversion of North London Line to DLR operation between Stratford and Canning Town.

Rather TfL's commitment to these schemes and funding is secured by the SR2004 agreement reached between TfL and DfT, together with pre-existing agreements relating to the London Underground PPP.

6.6 IOC Guarantees & supporting MOUs

In support of the final bid around 200 guarantees must be submitted to the IOC. Two key transport guarantees are to be submitted - one from the Commissioner relating to TfL matters and one from the Secretary of State for Transport on wider transport issues.

Guarantees will also be submitted by both BAA and London and Continental Railways. Taken together these four guarantees cover all the transport necessary for the games.

Supporting MOUs will provide the detailed background information relating to the proposed transport schemes along with a description of the financial obligations affecting the relevant stakeholders. To ensure TfL has all necessary powers to facilitate the transport elements of the bid a delegation of the Mayor's general powers to TfL is in hand.

The IOC also require a guarantee from London 2012 to provide for the option to acquire advertising space during the summer of 2012. London 2012 is therefore entering into agreements with advertising companies to provide options for advertising space and TfL is inserting suitable options into its advertising contracts.

7. DECISION SOUGHT

The Transport for London Board is asked to:

a) ENDORSE the Olympic Transport Strategy as outlined; and

b) APPROVE the signing of the IOC transport guarantee, associated Memoranda of Understanding and the carrying out of the terms of the delegation by the Commissioner (and in his absence the Managing Director Finance and Planning).

AGENDA ITEM 6

TRANSPORT FOR LONDON

STAFF SUMMARY

TFL BOARD

SUBJECT: **2003/04 TfL ANNUAL REPORT**

MEETING DATE: **22 JULY 2004**

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1. PURPOSE

1.1 The purpose of this paper is to ask Board members to agree the proposed approach to the publication of the 2003/04 TfL Annual Report.

2. BACKGROUND

2.1 TfL is legally bound under section 161 of the GLA Act 1999 to produce a report on its achievements and the performance of its functions during the year.

2.2 A copy of the draft 2003/04 TfL Annual Report is currently with Chief Officers for comment. A draft will be sent to Board members for comment shortly. Their comments will be incorporated as appropriate and a virtually final version sent for information.

3. RECOMMENDATIONS

3.1 Board members are asked to AGREE the proposed process for finalising the 2003/04 Annual Report.

3.2 Board members are also asked to DELEGATE authority to Jay Walder, Managing Director, Finance and Planning for final approval of the Annual Report following the submission of comments from Board members.

For queries contact:
Alicia Griffiths
Group New Media & Publishing
020 7941 4378

AGENDA ITEM 7

TRANSPORT FOR LONDON

STAFF SUMMARY

TFL BOARD

SUBJECT: **AUDIT COMMITTEE REPORT**

MEETING DATE: **22 JULY 2004**

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1. PURPOSE

1.1 To report to the Board on the Audit Committee meeting held on 13 July 2004.

2. BACKGROUND

2.1 The Audit Committee considered its normal standing items and, in particular, reviewed the statement of accounts and discussed with the external auditors the accounting policies applied and the judgements exercised by management in arriving at the balances in the accounts. There were no major issues and no significant unadjusted audit errors to report.

2.2 The Audit Committee also considered a review of the effectiveness of Internal Audit which had been carried out by KPMG and which indicated that the function generally is performing well and has achieved significant progress over the past 3 years, but that there is a danger that the function is under-resourced in order to give management the assurance needed over the increasingly complex transactions that are being undertaken. A review of finance, line management and internal audit capacity has been requested for the next Audit Committee meeting.

2.3 The Committee also considered the results from the internal “Speaking Out” line and were informed of the establishment of the external “Speaking Out” line for use by staff throughout the organisation.

2.4 A presentation was received on the Finance Shared Service Centre which is due to be established later this year.

3. RECOMMENDATIONS

3.1 The Board is asked to NOTE the content of this report.

AGENDA ITEM 8

TRANSPORT *for* LONDON

TfL BOARD

SUBJECT: **FINANCE COMMITTEE REPORT**

MEETING DATE: **22 July 2004**

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1. PURPOSE

1.1 To report to the Board on matters discussed at the Finance Committee on 13 July 2004.

2. BACKGROUND

2.1 The Committee received an update on the work that has been undertaken on developing TfL's Prudential Borrowing plans since the Board approved the borrowing strategy in April. The full borrowing plan for 2004/5, and the borrowing plan for later years, will be finalised and presented as part of the Business Plan for approval by the Board in the autumn. Additional work will be carried out over the summer to consider the final sizing of the initial borrowing before reverting to the Finance Committee and Board.

2.2 The Committee was also updated on the potential financing approaches that are open to TfL. The most likely sources are a bond issue or loans from the Public Works Loans Board. A bond issue (although it is slightly more expensive) is currently favoured, principally as it will establish a track record in the market and will expose TfL to the rigours of market scrutiny.

2.3 The first quarterly Treasury Management for 2004/5 was considered. As has been reported before, the TfL Group has substantial amounts of cash available for investment in the immediate future. These are currently invested in money market deposits in accordance with the Investment Strategy approved by the Board in March and are earning good yields consistent with this strategy. An outline future investment strategy was presented to the Committee which would include the investment of a substantial proportion of available cash in investments with a somewhat higher risk profile than money market deposits, in order to increase the level of return. This will require the appointment of external fund managers. The Committee endorsed this approach and the further work proposed that will lead to firm proposals for a revised Investment Strategy being brought forward in the autumn.

2.4 The Committee was updated on the status of TfL's Efficiencies activities. The efficiencies initiative is broadly on track to deliver the overall 2004/5 savings target, and several additional areas for significant savings have been identified.

2.5 A paper was presented updating the Committee with the progress of TfL's bid in the Government's current Comprehensive Spending Review (SR2004) and the 2005/6 Business Planning process. This was principally of historic interest in the light of the Chancellor's announcement on 12 July. Jay Walder will update the Board on the status of SR2004 at the meeting.

2.6 The draft statutory Statement of Accounts for 2003/4 was presented for the Finance Committee's consideration. The approval of the Statement of Accounts is included as an item earlier in the Agenda so the matters reported to the Committee are not repeated her.

2.7 A paper was also presented on Revenue Trends on Buses and the Tube. This paper, amended in the light of the Committee's discussion, is also considered earlier in the agenda.

2.8 Finally, the Finance Committee noted a report which is submitted to each of its meetings informing it of any project approvals given since its last meeting by the Commissioner (or in his absence, the Managing Director, Finance and Planning) for projects budgeted to cost between £25m and £100m. No new project approvals were reported but an updated list of approvals excepted to be requested later in 2004/5 was included

2.9 The next meeting of the Finance Committee is likely to take place in September at a date to be agreed.

3. RECOMMENDATION

3.1 The Board is asked to NOTE the contents of this report.

AGENDA ITEM 9

TRANSPORT FOR LONDON

TfL BOARD

SUBJECT: TFL ANNUAL HSE REPORT (APRIL 2003 TO MARCH 2004)

MEETING DATE: 22 JULY 2004

1. Introduction

1.1 This paper provides a summary of the Safety Health and Environment Committee (SHEC) meeting of 1st July 2004.

2. Outline to Paper

2.1 The paper addresses the principal matters arising from the SHEC meeting and provides an executive summary of the TfL Annual HSE Report for 2003/04 as submitted to SHEC at the meeting.

3. Recommendations

3.1 The Board is asked to NOTE the content of this report.

Submitted by: David Quarmby, Chair of SHEC
For enquiries on the content of the report, please contact:
Richard Stephenson - Telephone 020 7941 4905

REPORT FROM SAFETY, HEALTH AND ENVIRONMENT COMMITTEE MEETING
1st July 2004

TfL Annual HSE Report

This was the principal agenda item at the meeting and a copy of the Executive Summary of the Report is attached at annex 1.

The Report provides a summary of Health, Safety and Environmental (HSE) performance across all TfL companies.

- Safety and environmental data are provided for April 2003 to March 2004.
- Health data are provided for April 2002 to March 2003 as 2003/04 data are not yet available and the combined LUL/TfL data for 2002/03 have not been previously published. Once available the report will be updated with the 2003/04 data.
- Road safety data have been provided for the calendar year January to December 2003 as per government reporting requirements.
  The report does not address enforcement actions against TfL or the businesses. These will be reported separately because of timing of data collection.

The information provided in the report is structured to provide an overview of all elements of HSE management through the following sections:

- Progress against HSE plans/objectives
- Health of the HSE management system (HSE MS)
  - Status of HSE MS
  - Plans for reviewing HSE MS
  - Review of progress against audit plan
- Safety performance statistics
  - Employee, customer and contractor safety
  - Business specific indicators
- Overview of major incidents
- Health data
- Environmental performance
- Road safety

The Director Group HSE introduced the report with the following comments.
- He recognised the contributions of the businesses to the report, Jane Haile (seconded to Group HSE from LUL) for her work on producing the report and the SHEC Advisors for their comments.
- He noted that the report had formed the basis of a 11/2 hour discussion of HSE matters with the Commissioner on 30 June.

With regard to the content of the report the Director Group HSE made the following comments.

- Despite it having been a year of great change, in general HSE performance across the businesses had held up. And there had been significant improvement to HSE processes during the year, particularly the updating, extension and alignment of HSE management systems.
- Continued improvement in aspects of safety performance were to be seen but for customer injuries, whilst rates were low, absolute numbers were still significant.
- With regard to environment the move from a project based approach to one based on objectives, set on the basis of the Mayoral strategies and TfL's impact and ability to influence improvement, were welcomed.
- Three areas for increased future focus were identified:
    - Sickness absence – this is significant across all of the businesses, other than Rail, with mental illness/mental stress being the principal cause.
    - Road traffic accidents killed and seriously injured (KSIs) – for metrics with London level targets the pattern of improvement that has been seen since 1998 has continued and, other than for powered two wheelers, all targets are being met. Non-the-less, there were still 5,164 KSIs in Greater London, of which 1,418 were on the Transport for London Road Network.
    - Improvement to HSE process continue to be needed, particularly outside of LUL and DLR. Where newly developed HSE MSs have been introduced they need to be fully implemented and in the area of audit there is scope for improvement and alignment.

The meeting then discussed the report. Principal areas discussed were:

- Customer assaults – in particular the relatively high rate on DLR. It was noted that the rate was improving, probably as a result of a significant increase in policing levels. It was agreed that customer assaults would be put on the list of 'special topic agenda items' for future SHEC meetings.
- There was considerable discussion of the levels and causes of sickness absence. It was agreed that a full analysis of the 2003/04 data would be made as soon as they became available and a report prepared for SHEC with recommendations for possible action plans to address concerns.
- Discussion of road safety welcomed the continued improvements in KSI that are seen but raised the question as the extent to which we understand the drivers for the improvements. It was agreed to seek further information on this in a meeting between SHEC members and relevant staff from Surface Transport.

The Chair commended those responsible for the report for its content and clarity.

It is intended to make the full report available on the Intranet.

<u>Other matters of note at the meeting</u>

Surface Transport Road Safety Report and Updated Road Safety Plan 2003/04
In the light of the interest in road safety matters (raised in relation to the TfL Annual HSE Report, the Surface Transport Road Safety Report and Updated Road Safety Plan 2003/04, and papers submitted to the meeting by Surface Transport on 20mph

zones and powered two wheelers) and the absence of Peter Hendy, it was agreed that a specific meeting to discuss road safety matters would be arranged.

A D Little Independent Safety Audit of LUL Phase 1 Report

Tim O'Toole indicated that the report had found LUL to have robust safety management but that areas for improvement had been identified.

In response to questions on the depth of the audit in the Infracos Tim indicated that whilst this was not as deep as in LUL it was sufficient to satisfy LUL of the robustness of systems in the Infracos. Tim also noted that Phase 2 of the audit, based on the findings of Phase 1, was now well underway.

Group HSE Management System

The meeting was informed that, with the approval of the new HSE Policy Statement by the TfL Board on the 23rd of June, it was now considered that both the Group and the Corporate Directorates HSE MSs were 'live'. Wider communication of these HSE MSs will take place in the coming weeks.

Richard Booth (Advisor to SHEC) and the Chair reminded those present of the importance and value of 'HSE climate surveys' as a basis for improving HSE performance.

Environmental Risks

The meeting was informed that work had commenced to collate environmental risks across the businesses and that in general, as expected, environmental risks were not as great as health and safety risks.

In closing the meeting the Chair noted that SHEC was now functioning in a much more satisfactory manner than before.

Comment was also made on the contribution the Chair had made to the effective functioning of SHEC.

ANNEX 1

TFL ANNUAL HEALTH SAFETY AND ENVIRONMENT REPORT

(APRIL 2003 TO MARCH 2004)

EXECUTIVE SUMMMARY

Background

The period covered by the majority of data in this report has been one of significant change in TfL. London Underground Ltd was incorporated into TfL in July 2003 and with this change the PPP moved from 'shadow' working. Also, there was significant restructuring within Surface Transport and the Corporate Directorates of TfL. The period covered also saw the establishment of a Group HSE function.

Introduction

This report is the first attempt to provide a pan Transport for London (TfL) overview of Health, Safety and Environmental (HSE) performance. It is recognised that data are incomplete in some areas and that more needs to be done to standardise on reporting parameters and their definition. Nonetheless, significant progress in alignment with regards to systems, processes and reporting standards have been made during the year.

This report provides a summary across TfL companies for the following:
- Safety and environmental data for April 2003 to March 2004.
- Health data for April 2002 to March 2003 as 2003/04 data are not yet available and the combined LUL/TfL data for 2002/03 have not been previously published. Once available the report will be updated with the 2003/04 data.
- Road safety data for the calendar year January to December 2003 as per government reporting requirements.

The report does not address enforcement actions against TfL or the businesses. These will, at least for the current year, be the subject of a separate report, because of timing of data collection.

Progress Against HSE Plans

All areas of the business had improvement plans in place and systems to monitor progress against plans.
In general, performance against plans was good.

HSE Management Systems

2003/04 was a year of intensive effort in relation to the development and review of HSE Management Systems (HSE MSs) across TfL.

A TfL Group HSE MS, based on the London Underground Ltd (LUL) model, was developed during the year. This Group HSE MS provides overarching TfL HSE policy, ensures common high level processes across the Group, guides the content of businesses HSE MSs and provides for common standards where appropriate.

In July 2003 LUL completed an intensive review of its HSE MS and reissued it with a new suite of standards. The implementation of the new HSE MS was accompanied by a comprehensive communications programme that involved internal publications, one-to-one briefings for operational and other managers, and meetings with front-line staff.

In Surface Transport a programme of work was begun, and good progress made, to ensure all aspects of the new business structure are covered by HSE MSs which are aligned with the requirements of the Group HSE MS. It is anticipated that this work will be completed during 2004/05.

Docklands Light Railway Ltd (DLR) fully reviewed their HSE MS during 2003/04 and it has now been communicated and implemented.

A TfL Corporate directorates HSE MS has been developed, addressing both the Occupational Health and Safety of staff in the directorates and HSE services provided to the Group by the directorates.

All businesses have plans to review their HSE MSs.

Audits

Subject to managed variations the LUL audit plan, including stations, train operations, signal control, HSE MSs and audits of Infracos was completed. There is a system in place to ensure follow-up on significant findings. LUL's HSE MS is currently subject to an independent audit by a 3rd party (Arthur D Little), Phase 1 of which has been completed and Phase 2 begun. Phase 1 concluded that LUL's safety management arrangements are robust and identified areas for investigation in Phase 2.

In Surface Transport a more comprehensive audit plan than previous years was carried out in the modes, addressing bus stations, bus operators, river piers and trams.

No audit programme was agreed for street management but a programme covering compliance with Construction, Design and Management regulations was put in place during the year and implementation has begun.

DLR, Serco Docklands Ltd (SDL) and City Greenwich Lewisham Rail (CGLR) had independent audits of their HSE MSs; commissioned by DLR. The DLR report is finalised but not yet reviewed. SDL and CGLR had maximum International Safety Rating System (ISRS) scores with no significant findings.

TfL corporate directorates were subject to an internal audit of HSE in 2002. All agreed actions, bar one outstanding, have been formally closed out.

Safety performance

Employees

There were no employee fatalities during the year, or in the preceding 2 years.
For the third year all businesses (Surface Transport data only for last year) had major injury rates of less than 150 per 100,000 employees, better than the UK average for the transport sector over this time period. Where data are meaningful performance trends in the businesses have been downward or stable.

Rates for assaults on employees are highest in LUL, not surprisingly as this business has the higher number of customer facing staff, but the rate was higher in 2003/04 than the previous 3 years.

Customers

For the current year there were 7 customer fatalities, 2 in Surface Transport and 5 in LUL.

With regard to customer major injuries, most notable is the increase in reported major injuries in Surface Transport, with the rate rising from <0.1 per million customers to around 0.4 per million customers in both 2002/03 and 2003/04. This increase is thought to be the result of improved reporting but nonetheless, the injury rates are some 3-4 times those for LUL and DLR.

Assault rates on customers (assaults per million customer journeys) were highest in DLR, though with a significant fall from the levels of the previous 2 years. LUL showed a steady improvement over the previous 3 years that was reversed this year. Lowest assault rates were in Surface Transport.

Other mode specific safety parameters

In LUL, platform train interface and confirmed fires showed a consistent downward trend over the last 4 years, however, Signals Passed at Danger (SPADs) have shown a consistent increase over the same period. New approaches to address the SPAD issue are being developed as part of the revised safety improvement programme for 2004.

Surface Transport contracted bus driver quality monitoring data have indicated falling standards over the last 2 years, steps have been taken to better understand and address this through action plans with individual operators.

Procedural irregularities, vandalism and confirmed fires in DLR have all shown improvement over the last 3 years.

Major incidents

Using the criteria from the Group definition of a major incident, LUL had 5 customer accidental fatalities and 5 other major incidents, 2 derailments, the difficulties encountered following a national grid failure, a detraining event without injury and damage to trains following maintenance work in a tunnel. Surface Transport had 2 customer fatalities, and fires involving 3 Mercedes articulated buses. DLR and TfL corporate directorates had no major incidents.

Health

As sickness absence data for 2003/04 are not yet available and combined TfL and LUL data for 2002/03 have not yet been reported previously these are presented. The report will be updated with the 2003/04 data once available.

Data were not available for East Thames Buses, Dial-A-Ride, Victoria Coach Station and London Transport Museum.

The average days of absence per employee vary across TfL. It was highest in TfL Corporate (12.2 days a year) and lowest in Rail and DLR (4 days a year). The overall average for TfL (11.8 days a year) was higher than the benchmark for public sector workers provided by the Confederation of British Industry for 2002 (10.1 days a year). If LU is excluded then the TfL average (10.0 days a year) is a little lower than that benchmark.

Mental ill health causes the largest proportion of sickness absence for all parts of TfL except for London Rail and DLR. As London Rail and DLR has comparatively very low staff numbers, the findings can be skewed by one or two peoples' illnesses and the results should be treated with caution. The other common causes for sickness absence are musculoskeletal, colds and flu and gastrointestinal illnesses. Mental ill health is the most common reported reason for absence reported by the Health and Safety Executive in their regular survey.

As mental ill health causes proportionately the highest sickness absence across nearly all areas of TfL a corporate programme to address this would be appropriate. Each area of TfL may also wish to develop local programmes to address their other areas of highest risk for absence. Possible interventions are briefly outlined in the report.

Environment

During 2003/04 TfL has reviewed its approach to setting environmental objectives, defining (key) performance indicators and setting targets for improvement. Previously environmental planning and performance reporting had been largely project based. Following the review TfL has established ten environmental objectives:

- Reduce emissions to air
- Reduce energy consumption, increase use of renewables
- Reduce noise and vibration
- Reduce resource consumption
- Maintain/enhance quality of built environment
- Reduce impact of waste
- Promote sustainable transport of waste
- Maintain/enhance the natural environment
- Reduce emissions to water and land
- Reduce consumption of water

These objectives are based on the Mayor's five Environmental Strategies (Air Quality, Energy, Ambient Noise, Biodiversity and Waste) and takes into account TfL's impact on resource use, the built environment, and water and land quality.
TfL prepared an Environmental Report for the London Assembly Environment Committee in April 2004. The report recorded TfL's progress against the 30 actions set out in TfL's 2002 Environmental Action Plan; 17 of which were completed, the remainder are ongoing. The report set out 45 (both new and ongoing) TfL environmental actions to 2006.

Air emissions

TfL contributed to reducing emissions of Nitrogen Oxide (NO_x), Nitrogen Dioxide (NO_2) and small particles (PM_{10}) through a number of measures but principally through reducing emissions from buses. To date some 94% of London buses meet Euro II standard or better, an improvement from 84% last year and some 75% have particulate traps, an improvement from 56% last year (note 2003/04 figures require final confirmation), and we remain on target to have all buses Euro II or better by 2005. Also, all Surface Transport's (Streets) contractors' vehicles now meet Euro III.

Energy

TfL is a major consumer of energy in London, accounting for 3.5% of London's total consumption. As part of its forward planning for energy TfL has undertaken a strategic review of its energy procurement and demand management processes. TfL now sources 21% of its electricity from renewable resources, this compares well with the UK's plan to produce 10% of its supply from renewables by 2010. LUL has also achieved a 17.5% saving in electricity at stations in 2003/04. Other parts of the business have a variety of initiatives contributing to energy saving and the move to renewable resources.

Other areas

Noise reduction efforts have taken place in various parts of TfL. LUL has carried out rail grinding, installed more continuously welded tracks, lubricated key areas of known ‘wheel squeal’ and taken part in an international project on noise reduction technology. DLR has specific targets for noise and vibration and carries out noise monitoring and maintenance procedures for the railway. Surface Transport established a noise-monitoring programme on parts of the Transport for London Road Network (TLRN).

As a signatory of the Mayor’s Green Procurement Code TfL is purchasing a variety of recycled products and Surface Transport is piloting the use of recycled materials in footpaths. LUL now purchases 50% of its timber from sustainable managed forests and has introduced water saving features during the refurbishment of train washing facilities.

Road safety 2003

In March 2000, the Government announced a new national road safety strategy and casualty reduction targets for 2010 in *Tomorrow’s roads – safer for everyone*. By 2010, the casualty reduction targets to be achieved, compared with the 1994-98 average are:

- A 40% reduction in the number of people killed or seriously injured (KSI)
- A 50% reduction in the number of children killed or seriously injured
- A 10% reduction in the slight casualty rate, expressed as the number of people slightly injured per 100 million vehicle kilometers

In addition, in accordance with the *Mayor’s Transport Strategy* a *Road Safety Plan for London* was produced by TfL. This plan supported the national targets and recommended further targets for reducing the numbers of pedestrians, pedal cyclists and powered two-wheeler (P2W) riders who are killed or seriously injured by 40% by 2010.

In line with the pattern of improvement seen since 1998 the performance data for Greater London roads indicate that if current trends are maintained all targets, except that for P2Ws’ KSI, will be met. And whilst the P2W target seems unlikely to be met the previous worsening trend in performance has been reversed over the past 2 years.

It is also noted that the trend in KSI on the TFL road network (TLRN) closely follows that for Greater London as a whole.

The introduction of the Congestion Charge zone in February 2003 was a major event for TfL. The results published by the Congestion Charging Team - 1 year on - show overall reductions in casualties within the zone. Small reductions were found even for road user groups that have increased in the zone, i.e. cyclists and motorcycles. These small changes have no significant impact on the Greater London and TLRN data as presented here and so are not discussed in this report.

Conclusion

It is worthy of note that despite the many significant structural changes over the recent past; the incorporation of LUL into TfL, the commencement of PPP, the restructuring of Surface Transport and the Corporate Directorates, the HSE performance of TfL and its component parts has, in general, continued to improve. The development of a more systematic and aligned approach to HSE management across TfL continued during the period of the report and will do so into the coming year.

It is also apparent that there are areas where further improvements can be made, particularly in the areas of Health, reduction in sickness absence; and Environment, moving from a project based approach to one based on improvement objectives. A more structured and rigorous approach to audit would also be likely to contribute to performance improvement across Health, Safety and Environment.

AGENDA ITEM 10

DOCUMENTS SEALED ON BEHALF OF TRANSPORT FOR LONDON FROM 10th June 04 – 7th July 04

Property Transactions

9 Leases

3 Land Registry Form TR1

1 DSI Land Registry Form – Cancellation if entries

1 Consent for Retention of Land

1 Construction Agreement

Highway Agreements

1 Licence, Section 177 Highways Act 1980

2 Deed of Agreements

Bus Lane Enforcement

2 Joint Agreement in connection with the enforcement of bus lane contraventions

Rail Services

1 Agreement relating to Financial Assistance

The TfL Seal Register will be available for inspection by Board Members at the meeting.