TRANSPORT FOR LONDON

BOARD MEETING – OPEN SESSION
TO BE HELD ON WEDNESDAY 13 JULY 2005
IN THE CHAMBER, CITY HALL, THE QUEEN'S WALK, LONDON SE1 2AA
COMMENCING AT 10AM

AGENDA

A Meeting of the Board will be held to deal with the following business:

Procedural Matters

1 Apologies for Absence

2 Approval of the Minutes of the Previous Meeting held on 18 May 2005

3 Any Matters Arising from the Minutes

4 Events of Thursday 7^{th} July 2005 - Presentation

Business Items		**Sponsor**
5	Audit Committee Report – meetings of 18 May and 23 June 2005	John Ormerod, Chair of Audit Committee
6	Statement of Accounts for year ended 31 March 2005 - Memorandum - Accounts **to follow**	Jay Walder, Managing Director Finance & Planning Stephen Critchley, Chief Finance Officer
7	A406 Hanger Lane Bridges Replacement Scheme – Compulsory Purchase	Peter Hendy, Managing Director, Surface Transport

8 Any Other Business

TRANSPORT FOR LONDON

Minutes 01/05/05 – 15/05/05

MEETING OF MEMBERS OF THE BOARD – OPEN SESSION

MINUTES of the Board Meeting held in The Chamber, City Hall, The Queen's Walk, London, SE1 2AA at 10.45am on Wednesday 18 May 2005

Present:	Ken Livingstone	Chair of the Board of Members
	Dave Wetzel	Vice Chair
	Paul Moore	
	Kirsten Hearn	
	Sir Mike Hodgkinson	
	Stephen Glaister	
	John Ormerod	
	Honor Chapman	
	Gulam Noon	
	Patrick O'Keefe	
Apologies for Absence:	David Begg	
	Tony West	
In Attendance:	Bryan Heiser	Special Adviser to the Board
	Murziline Parchment	Special Adviser to the Board
	Lord Toby Harris	Special Adviser to the Board
	Bob Kiley	The Commissioner of TfL
	Fiona Smith	General Counsel
	Jay Walder	Managing Director, Finance and Planning
	Barry Broe	Director of Group Transport Planning & Policy
	Stephen Critchley	Chief Finance Officer
	Betty Morgan	Head of TfL Legal Services
	Mary Hardy	Director of Internal Audit
	Maggie Bellis	Managing Director, Group Services
	Ben Plowden	Managing Director, Group Communications
	Tim O'Toole	Managing Director, London Underground Ltd
	Peter Hendy	Managing Director, Surface Transport
	Ian Brown	Managing Director, London Rail
	Howard Smith	Chief Operating Officer, London Rail
	Sandra Millar	for TfL Company Secretariat

The Chair welcomed everyone to the meeting.

01/05/05 Apologies for Absence

Apologies for absence were received from Board Members David Begg and Tony West, Special Adviser Lynn Sloman and Valerie Todd.

02/05/05 Declaration of Interests

There were no interests declared in the items under discussion.

03/05/05 Minutes of the Last Meeting

The minutes of the meeting held on 23 March 2005 were **agreed** as being a true record of the business of that meeting and the Chair of the meeting was authorised to sign the minutes on behalf of the Board.

04/05/05 Matters Arising

It was reported that the Annual Workforce Composition Report that was scheduled to be considered was delayed due to the illness of Valerie Todd.

05/05/05 The Commissioner's Report for May 2005

Before commencing his introduction to the report the Commissioner thanked Betty Morgan, Head of Legal Services for her contribution to TfL over the past 5 years and wished her luck in her future career.

The Commissioner gave some updated information on matters outlined in his report:

- With regard to customer service and performance the detailed report by London Underground on the second year of the PPP was expected to be published during June 2005.

In response to questions from members, the Commissioner stated that:

- A large amount of work had been done in respect of advertising in connection with the Olympic bid and it was difficult to see what more could have been done to promote it.
- With regard to extended opening hours on the Underground alternative options were being considered
- With regard to Thames Gateway Bridge, the impact on the Woolwich Ferry had been taken into account.
- In response to concerns from members regarding the development of the Oyster Card for low value payments at retail outlets, Jay Walder explained that the technology was developed to ensure the security of individual cards and to maintain the ability to cancel lost or stolen cards.
- With regard to the financing of Cross Rail alternative funding mechanisms were being considered.

The Commissioner's report was **noted**.

06/05/05 Year End Finance Report 2004/05

Jay Walder introduced the report and gave a presentation which informed the Board of progress relating to operational and financial performance against budget and target for 2004/05.

The variances for the full year were:

- Income - £67m over forecast
- Operating expenditure - £14m under forecast

- Capital expenditure - £19m over forecast.

The principal performance highlights were:-
- London Underground ridership increased by 3% over previous year
- London Underground performance indicators were exceeded (with the exception of train kilometres operated).
- Bus ridership increased by 5.3% over previous year
- Levels of service and reliability on the bus network improved during the year
- Traffic entering the Central London Congestion Charging Zone was down by 16% from the level prior to the Charge being introduced.
- The reliability and departure performance on the Docklands Light Railway performed well at 98.1% and 99.1% during the year.

TfL achieved £119m of efficiencies against a revised target of £107m which primarily resulted from greater than planned back office savings and expansion of the programme to operational areas.

The report was **noted.**

06/05/05 Best Value Performance Plan

Jay Walder introduced the report and explained that TfL was required by legislation to publish a Best Value Performance Plan by 30 June each year.

Following discussion **it was agreed** that the contents of the Plan be approved and that the Managing Director, Finance and Planning be delegated the authority to make any changes prior to publication by 30 June 2005.

07/05/05 Report on Modal Share Trends

Barry Broe presented results of the review which revealed a continued growth in bus use and shift to public transport modes with car share continuing to decline during 2005.

The report was **noted**.

08/05/05 Change in Terms of Reference of Finance and Audit Committees regarding scrutiny of Annual Report and Accounts

Fiona Smith introduced the report which proposed that a combined report and accounts document in respect of TfL be produced for the first time. The report also proposed that the Audit Committee be charged solely with the responsibility and authority for scrutinising the report and accounts and making recommendations to the Board in respect of their approval of it.

Following discussion the timetable for preparation and approval of the Annual Report and Accounts was **noted** and **it was agreed** that:
- The proposed outline structure of the Annual Report and Accounts be

approved and
- The amended Terms of Reference of the Audit Committee and Finance Committee be approved in the form attached to these minutes

09/05/05 East London Line Extension

Ian Brown and Howard Smith introduced the report which re-confirmed the business case for proceeding with the project. It was **noted** the basis on which the Project was being taken forward.

It was **noted** that the aggregate value of the 'package' of contracts (and other expenditure) to be let (or otherwise incurred) in 2005/05 might exceed £100 million;

It was **approved** in principle the entering into of the "packages" of contracts (and other expenditure) required to be let (or otherwise incurred) in 2005/06 to progress the East London Line Project and it was **noted** that such arrangements would be awarded in accordance with the applicable levels of procurement authority under Standing Order No 2, Appendix 2 (Procurement and Disposal Transactions).

It was **noted** the total expenditure of budgeted funds in the amount limited to £886 million is forecast to be committed between 2005 and 2010, but that further approvals would be submitted to the Board as appropriate before further expenditure was committed.

10/05/05 Docklands Light Railway Canning Town to Stratford International Extension

Ian Brown presented the report which sought Board approval for DLR Limited to submit an application for an Order under the Transport & Works Act in respect of the proposed extension of the DLR network from Canning Town to Stratford International.

It was reported that the estimated capital cost of the scheme was £111m which included an allowance for the cost of the replacement North London Line facilities, new DLR rolling stock and other project costs.

The members **noted** the report and **it was agreed** that approval be given for the submission by DLR Limited of an application under the Transport and Works Act for powers to build an extension to the DLR from Canning Town to Stratford International ("the Scheme") subject to:
- the agreement of the Managing Director London Rail to the details of the final scheme and principles of station locations at Stratford and Stratford International and
- the consent of the Mayor

It was further agreed that authority be delegated to either the Managing Director London Rail or Chief Operating Officer of London Rail as Directors of DLR Limited to:
- agree the final terms of the application for an Order under the

Transport and Works Act for the Scheme and

- do all such further things and sign and/or seal and deliver, or authorise DLR to sign and/or seal and deliver, such further documents, agreements or notices as are required in connection with the submission of the application for an Order under the Transport and Works Act for the Scheme, responding to any objections to the Scheme or in connection with responding to any public inquiry that may be held in relation to the Scheme.

11/05/05 Audit Committee Report

John Ormerod presented a report on the Audit Committee Meeting held on 18 March 2005. The Board noted the report.

12/05/05 Finance Committee Report

Sir Mike Hodgkinson presented a report on the Finance Committee Meeting held on 3 May 2005. The Board noted the report.

13/05/05 Documents Sealed on Behalf of Transport for London

The Board noted the report presented by Fiona Smith.

14/0505 Any Other Business

Kirsten Hearn asked about the two vacancies on the Board which had been created by the appointment of two former members as MPs. Ken Livingstone said that the two vacancies would not be filled for the time being and that the skills required by the Board would be analysed before any decision would be made.

15/05/05 Date of Next Meeting

It was noted that the next Board Meeting was scheduled to be held on Wednesday 13 July 2005 at 10.00am.

There being no further business the open session of the meeting closed at 12.15pm.

____

Signed as a true record – Chair of the Meeting

AGENDA ITEM 5

TRANSPORT FOR LONDON

TfL BOARD

SUBJECT: **AUDIT COMMITTEE REPORT**

MEETING DATE: **13 JULY 2005**

---

1. PURPOSE

To update the Board on the meetings of the Audit Committee held on 18 May 2005 and 23 June 2005.

2. BACKGROUND

Both meetings reviewed background work done in connection with the Annual Report and Statement of Accounts which are on today's agenda for the Board.

The meeting on the 18 May focussed on the Corporate Governance disclosures and received and considered the Annual Report from General Counsel and the Internal Audit opinion on the Statement of Assurance. These reports are required to provide assurance to the Mayor and the Commissioner that they can sign the statement which is included in the Statement of Accounts. Both of these reports noted that strengthened governance arrangements for the Investment Programme had not yet been fully developed and implemented. The Audit Committee received a response from management which outlined the plan for establishing these arrangements over the coming months and, at its meeting on 23 June, met with the Commissioner who provided an update on progress and outlined his vision of how the governance arrangements for the Investment Programme and in particular the oversight function would operate. The Statement of Assurance still contains a note to the effect that this area of corporate governance requires attention. The Committee considered it important to progress the implementation of the oversight function as quickly as possible and will return to this topic again at its October meeting when it will be considering wider corporate governance issues for the organisation as a whole.

A draft of the Annual Report and Accounts was considered in private session at the June meeting. The latest draft of this document is to be considered in a separate agenda item at this meeting. The Committee discussed the proposed section on in the Annual Report on remuneration and made suggestions which have been taken account of in the latest draft.

In considering the Statement of Accounts attention was given to:

- The application of the Corporation and Group's critical accounting policies in deriving the Statement of Accounts. This follows the Committee considering a detailed paper on critical accounting policies and their rationale at its 25 January 2005 meeting

- The results of KPMG's annual audit of the Transport for London Group based on their fieldwork to date (which was substantially complete). These were presented through two highlights memoranda, the first covering Transport for London itself which included KPMG's comments on the Statement of Accounts and audit highlights for operations within TfL. The other highlights memorandum covered Transport Trading Limited and its subsidiaries. These memoranda follow KPMG's detailed work, the plan of which was considered by the Committee on 25 January 2005

- A paper from the Chief Finance Officer on the basis of preparation of the accounts, changes from last year's accounts and the disclosure of the TfL Pension Fund deficit in the Statement of Accounts.

The following key features of note arose in the Committee's consideration of the Statement of Accounts:

- The 2003/04 results have been restated following changes of accounting policies which have been made in light of the issue of the 2004 Statement of Recommended Practice (with which the accounts are required to comply). This required changes to the basis of preparation of the Group accounts and to align of the accounting for Corporation capital expenditure to the approach adopted by its subsidiaries. These changes of accounting policy and their impact are disclosed in the accounting policies section of the Statement of Accounts

- The Group balance sheet includes provisions of £217.7 million (2004 - £136.5 million). The balance reflects management's best estimates of claims for compensation from contractors, unfunded pensions and claims respect of capital investment activities. The increase during the year is substantially due a few specific claims and disputes in the ordinary course of business which due to their commercial confidentiality are not discussed in this report

- The Group balance sheet also includes a provision of £960.7 million (2003/04 £882.7 million) for the combined deficit on the public sector section of the TfL Pension Fund £945.8 million (2003/04 £880 million) and TfL's share of the deficit on the Local Government Pension Scheme (LGPS) £14.9 million (2003/04 £2.7 million). These liabilities are calculated by the relevant scheme Actuaries in a manner prescribed by accounting standards. TfL management are required to make certain key assumptions over inflation, future wage and pension increases and future bond and equity yields. In comparison with last year the main change in these assumptions relates to a decrease expected yields on AA corporate bonds. This reduces the rate used to discount future liabilities and is the main driver of the increase in the liabilities recorded in the balance sheet. The Committee noted that the basis of valuation is different to that used by the Actuaries in the triennial valuations which determine the level of contributions that the TfL Group is required to make. The last such valuation of the TfL Pension Fund was at 31 March 2003 and revealed a deficit of £421 million which deficit is being made good by additional employer contributions over periods up to 10 years. The next valuation will be undertaken as at 31 March 2006

- The Committee noted that, in accordance with the provisions of the SORP, the result for the year reported in the Revenue Account is struck after transfers to earmarked reserves. The principal element of the balance of earmarked reserves at 31 March 2005 is the amount that management believes should be set aside from current resources to meet outflows of funds over the 5 year Business Plan period, principally in respect of capital expenditure under the Investment Programme. The balance of earmarked reserves is inherently judgemental as it is based on projections of the amount and timing of future expenditures over a relatively long future period

- There are some changes to disclosures made in the Statement of Accounts compared with previous years. These include a voluntary disclosure of employees' remuneration for the whole Group in addition to the required disclosure of Corporation employees' remuneration. In addition, the Audit Committee requested that the disclosure of guarantees, arrangements and indemnities (which is required in the Annual Report) be included in the Statement of Accounts and so be subject to audit.

The highlights memoranda from KPMG detailed areas where significant accounting judgement has been required in preparing the accounts, which principally related to the provisions referred to above and some instances where the split of expenditure between capital and revenue was not straightforward. KPMG reported that they were satisfied that management have made appropriate estimates, provisions and disclosures within the constraints of the commercial sensitivities around these claims. The highlights memoranda also reported that there were no unadjusted differences which had arisen from the audit.

KPMG reported that they were still seeking clarification from the Audit Commission on the form of wording of their audit report. At present, and subject to the completion of their audit procedures, KPMG have indicated that they anticipate being able to provide an unqualified opinion on the Statement of Accounts of TfL.

In line with previous years and auditing standards, KPMG will be seeking management representations from the directors of subsidiary companies in respect of the relevant subsidiary's accounts and a representation letter from the Chief Finance Officer in respect of the Statement of Accounts.

The Committee thanked the Chief Finance Officer and his team, and the auditors for their work in responding to what the Committee accepted are complex reporting requirements.

At its May meeting the Audit Committee also reviewed the Annual Report from the Internal Audit department which considered total activity in the department during the year as well as the results of audit work carried out. The Committee noted that there had been a significant increase in the numbers of staff in the department, reflecting the continued progress on establishing sufficient, appropriate skilled resources to deliver the Audit Plan. The Committee also noted an increase in the level of allegations of fraud and corruption reported in the year, but also noted that approximately one-third of the cases turned out to be misunderstandings rather than misappropriations and that, at least in part, the level of increased reporting reflects the increasing levels of fraud awareness throughout the organisation which is being promoted by the Fraud and Security section of the Internal Audit department.

As part of its regular review of risk management matters, the Committee received a presentation from Peter Hendy on risk management processes in Surface Transport, and the at the June meeting from David Howarth (Head of Major Projects) on such processes within the Major Projects team in Finance and Planning.

In June, the Committee also considered an update on how TfL is addressing the improvements recommended in the Audit Commission's IPA report. Although TfL was awarded "excellent" status, there were, nonetheless, areas noted which could be improved and good progress is being made in addressing these matters.

The meeting also reviewed the results of the Audit Committee Effectiveness Review that had been carried out using a self assessment questionnaire. KPMG were also asked for their views. The conclusion was that there are no major issues but that the training needs and skills sets need to be kept under review.

3. RECOMMENDATION

The Board is asked to NOTE the content of this report and in particular the recommendation of the Audit Committee that the Statement of Assurance on corporate governance should be signed by the Mayor and the Commissioner and to NOTE that the Committee ENDORSES the recommendation of the Chief Finance Officer regarding the approval of the Statement of Accounts.

Cross Ref:	Secretariat Record Number

Transport for London

Record Sheet

Subject: Report from the Audit Committee

	Name	Signature
Sponsor	John Ormerod *Chair of the Audit Committee*	
Author(s)	Mary Hardy *Director of Internal Audit*	

Routing	Signature	Date
Fiona Smith *General Counsel*		

Destination	Tick or sign as appropriate	Date
Managing Director, Finance & Planning		
Committee:		
Panel:		
Commissioner		
TfL Board:	✓	13/07/05

For Secretariat use:

AGENDA ITEM 6

TRANSPORT FOR LONDON

TfL BOARD

SUBJECT:	**STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005**
MEETING DATE:	**13 JULY 2005**

---

1. PURPOSE

To present the Statement of Accounts for the year ended 31 March 2005, and request approval thereof.

2. BACKGROUND

2.1 Statement of Accounts

The 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 developed and published by the CIPFA/LASAAC joint committee (“the SORP”). This SORP is updated annually.

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 July 2005. It should be noted that the Regulations state that approval for the 2005/06 accounts will be required by 30 June 2006.

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. As described in the Audit Committee report, the auditors will also be seeking a representation letter from the Chief Finance Officer in respect of the Statement of Accounts.

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 commenced on 27 June

2005 and, following it, the auditors may receive questions or objections to the accounts from local government electors in London. Should any such questions or objections be raised, these will be reported to the Audit Committee at its next meeting. Should any matters arise from questions or objections which require, in the opinion of the Chief Finance Officer, a material change to the Statement of Accounts, he will seek the approval of the Board to these changes.

2.3 Publishing of Combined Annual Report and Accounts

In previous years the Statement of Accounts and the Annual Report were both treated as independent documents and published separately. This year it was intended that the Statement of Accounts be incorporated within the Annual Report with both published together as one document.

However, in light of the events of Thursday, 7 July 2005 the draft Annual Report will now undergo significant re-writing and will be published later in the year, either as a stand alone document or combined subject to circumstances.

In the event of both documents being published together, they retain independent status and consequently will require separate approvals.

3. RECOMMENDATION

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 work prior to the auditors signing their opinion. Should any changes be required to the Statement of Accounts which, in the opinion of the Chief Finance Officer, are material, he will seek the approval of the Board to these changes.

Transport for London

Statement of Accounts
Year ended 31 March 2005

Contents

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) and 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) supported by three Public Private Partnerships, under which private sector consortia maintain and upgrade the railway infrastructure. Each weekday over 3 million passenger journeys are made over the network's 408 km route, calling at 275 stations, of which 253 are owned by LUL.

Surface Transport includes:

- Street Management, which is responsible for operating and improving conditions for all road users, including pedestrians and cyclists, 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. These 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 companies, 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 Limited, a joint venture formed with the Department for Transport, 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.

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 TfL Group, which is made up of the Corporation and its subsidiaries as set out in Note 24.

Explanatory Foreword continued

Accounting statements

Under the Greater London Authority Act 1999, the Corporation is treated as a local authority for accounting purposes and the Statement of Accounts, which includes the individual financial statements of the Corporation, has been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain 2004: A Statement of Recommended Practice ('the SORP').

TfL's subsidiaries are subject to the accounting requirements of the Companies Act 1985 and separate statutory accounts are prepared for each subsidiary and for the Transport Trading Limited Group ('the TTL Group'). The financial statements for the TfL Group, which consolidate the accounts of the Corporation and its subsidiaries on the basis set out in the statement of accounting policies (paragraph d), are also presented alongside the financial statements of the Corporation.

The Statement of Accounts comprises:

- the Corporation revenue account, which shows the income and expenditure on the provision of transport services and how the resultant net expenditure has been financed by Government grants and local taxpayers;
- the Corporation balance sheet, which shows the financial position as at 31 March 2005;
- the Corporation statement of movements in reserves, which summarises the movements in the fixed asset restatement account, the capital financing account, earmarked reserves and the general fund;
- the consolidated group accounts, comprising the Group revenue account, the Group balance sheet and the Group statement of movements in reserves;
- the Corporation and Group cash flow statements summarising the inflows and outflows of cash for the Corporation and the Group;
- the statement of accounting policies; and
- the notes to the Corporation's financial statements and to the Group financial information.

Within the Statement of Accounts references to the "Corporation" relate to the transactions, assets and liabilities of TfL. References to the "Group" relate to the accounts of TfL and its subsidiaries. Prior year figures have been restated to reflect new requirements and guidance included in the SORP. The prior year change and the basis of preparation of Group figures are explained in the statement of accounting policies, on page 14.

Financial and Business Review

Statements by the Managing Directors of London Underground, Surface Transport, London Rail and Finance and Planning can be found on pages [to] and the Financial Review on pages [to] of this report. These give a full review of operations and performance during the year.

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 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 SORP, 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 SORP;
- 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 its adopted Code of Corporate Governance (the Code).

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, the Board and the Commissioner and Chief Officers 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.

Corporate Governance in TfL and the related System of Corporate Governance Assurance

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, which together form the framework for TfL's Code of Corporate Governance.

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 a 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.

On an annual basis TfL has 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 maintaining oversight of corporate governance in TfL. It receives regular update reports from the General Counsel and the Director of Internal Audit. Specifically 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.

The Statement of Corporate Governance Assurance continued

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:

- Rail Transport
- Surface Transport
- London Underground.

The panels are drawn from Board members and expert advisers, and provide strategic advice to the Commissioner on the development and the carrying out of policy in TfL.

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

- TfL seeks to deliver the Mayor's transport strategy, which is a publicly available statement of the Mayor's transport objectives ;
- 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 seeks to identify and manage all significant risks;
- TfL has robust processes designed 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.

The Statement of Corporate Governance Assurance continued

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 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, except for the matter identified below, TfL's corporate governance arrangements are adequate and are operating effectively.

The 2003/04 Statement of Corporate Governance Assurance identified only one area where further work was needed to ensure a satisfactory level of compliance with the Code. This was the successful development and implementation of a "shared service" approach to the delivery of finance and human resources activities. Both the Finance and Human Resources Shared Services systems successfully went live in 2004/05 and they are now in routine operational mode.

The aspect of the Code of Corporate Governance where further work is needed in 2005/06 is in relation to TfL's £10bn Investment Programme for 2005/2010, which details the capital works in the transport infrastructure programme of improvements agreed with central Government in the 2004 Spending Review.

The TfL Investment Programme is a significant change in the scope of TfL's operations that will need to be managed and monitored closely to ensure the attainment of the highest standards of operational and financial objectives. Processes are currently being developed and implemented to establish proper corporate monitoring and control over TfL's increasing level of capital investment.

Over the coming year we will take steps to ensure the above matter is properly addressed to enhance further our corporate governance arrangements.

Signed

The Mayor
Chair of the TfL Board

The Commissioner
On behalf of the Board members and the Chief Officers of TfL

Independent Auditor's Report to Transport for London

We have audited the financial statements of Transport for London ('the Corporation') and the Transport for London Group ('the Group') on pages 1 to 2 and 8 to 43.

This report is made solely to Transport for London in accordance with Section 2 of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Transport for London those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Transport for London for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Chief Finance Officer and the Auditor

As described on page 2, the Chief Finance Officer is responsible for the preparation of the financial statements in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2004: A Statement of Recommended Practice. Our responsibilities, as independent auditors, are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements present fairly the financial position of the Corporation and the Group and their income and expenditure for the year.

We review whether the Statement of Corporate Governance Assurance on pages 3 to 5 reflects compliance with CIPFA's Guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003". We report if the Statement does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Corporation's corporate governance arrangements or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Corporation in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Corporation and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we evaluated the overall adequacy of the presentation of the information in the financial statements.

Independent Auditor's Report to Transport for London continued

Opinion

In our opinion the financial statements present fairly the financial position of the Corporation and the Group at 31 March 2005 and their income and expenditure for the year then ended.

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

KPMG LLP
Chartered Accountants
London

July 2005

Group revenue account

	Note	Group 2004/05 £m	Group 2003/04 restated £m
Highways, roads and transport services			
Expenditure	*3*	**4,189.9**	3,937.2
Revenue	*1, 2*	**(2,554.5)**	(2,320.9)
Depreciation net of release of deferred grants	*10d*	**213.8**	198.4
Net cost of services before joint ventures		**1,849.2**	1,814.7
Share of the operating result of joint venture company		**22.1**	15.6
Net cost of services		**1,871.3**	1,830.3
Finance lease charges		**61.6**	33.6
Interest payable		**4.1**	-
Interest and investment income		**(55.4)**	(18.2)
(Profit)/loss on sale of fixed assets		**5.5**	(20.1)
Pensions interest cost and expected return on pensions assets		**13.9**	20.5
Net operating expenditure	*1*	**1,901.0**	1,846.1
Transfer to earmarked reserves		**538.9**	433.7
Contributions to/(from) pensions reserve		**15.5**	(44.4)
Contributions from fixed asset restatement account		**(81.7)**	(73.3)
Realisation of revaluation reserve		**(71.4)**	(67.2)
Contributions from other reserves		**(49.0)**	(26.5)
Contributions to/(from) capital financing account	*6*	**(130.0)**	127.0
Appropriation to/(from) group income and expenditure account		**11.5**	(7.2)
Total amount to be met from government grant and local taxation		**2,134.8**	2,188.2
Revenue transport grant		**(2,121.3)**	(2,230.2)
Other revenue grant		**(12.2)**	(5.7)
Precept		**(25.8)**	(57.8)
Surplus in the year		**(24.5)**	(105.5)

Corporation revenue account

	Note	Corporation 2004/05 £m	Corporation 2003/04 restated £m
Highways, roads and transport services			
Expenditure	*3*	**782.4**	664.7
Revenue	*1, 2*	**(271.5)**	(228.7)
Depreciation	*10d*	**138.5**	117.5
Capital financing charges		**83.7**	82.2
Net cost of services		**733.1**	635.7
Asset management revenue account	*4*	**(135.0)**	(126.2)
Interest and investment income		**(52.6)**	(15.2)
Pensions interest cost and expected return on pensions assets		**(0.1)**	0.1
Net operating expenditure	*1*	**545.4**	494.4
Transfer to earmarked reserves		**538.9**	433.7
Contributions from fixed asset restatement account		**(81.7)**	(73.5)
Contributions to/(from) pensions reserve		**(0.5)**	0.1
Contributions to/(from) other corporation reserves		**(0.1)**	0.1
Contributions to/(from) capital finance account	*6*	**(130.0)**	127.0
Grant funding of subsidiaries and joint venture		**1,262.8**	1,206.4
Total amount to be met from government grant and local taxation		**2,134.8**	2,188.2
Transport grant for operations		**(2,121.3)**	(2,230.2)
Other revenue grant		**(12.2)**	(5.7)
Precept		**(25.8)**	(57.8)
Surplus in the year		**(24.5)**	(105.5)

Group and Corporation balance sheets

as at 31 March 2005

	Note	Group 2004/05 £m	Group 2003/04 restated £m	Corporation 2004/05 £m	Corporation 2003/04 restated £m
Tangible fixed assets					
Infrastructure and other property		**10,309.4**	9,844.8	**2,102.5**	2,097.1
Rolling stock		**1,292.8**	1,230.2	**-**	-
Plant and equipment		**444.3**	472.1	**102.5**	92.0
Non-operational assets		**789.4**	619.2	**73.8**	74.0
Total tangible fixed assets	*10*	**12,835.9**	12,166.3	**2,278.8**	2,263.1
Investment in subsidiaries and joint venture	*11*	**-**	-	**22.5**	22.5
Total fixed assets		**12,835.9**	12,166.3	**2,301.3**	2,285.6
Current assets					
Stocks	*12*	**5.0**	5.7	**2.9**	3.7
Debtors	*13*	**338.4**	367.4	**146.5**	41.9
Short-term investments		**1,326.5**	852.6	**1,300.4**	832.2
Cash at bank and in hand	*14*	**24.0**	22.2	**8.1**	1.9
Total current assets		**1,693.9**	1,247.9	**1,457.9**	879.7
Current liabilities					
Creditors – falling due within one year	*15a*	**(1,457.5)**	(1,104.0)	**(270.3)**	(243.6)
Total current liabilities		**(1,457.5)**	(1,104.0)	**(270.3)**	(243.6)
Net current assets		**236.4**	143.9	**1,187.6**	636.1
Total assets less current liabilities		**13,072.3**	12,310.2	**3,488.9**	2,921.7
Creditors: falling due after one year	*15b*	**(636.5)**	(403.6)	**(8.4)**	(6.9)
Provisions for liabilities and charges	*18*	**(217.5)**	(136.5)	**(101.7)**	(86.3)
Borrowings due after more than one year	*19*	**(195.6)**	-	**(195.6)**	-
Net assets excluding grants		**12,022.7**	11,770.1	**3,183.2**	2,828.5
Deferred grants	*17*	**(6,681.7)**	(6,766.8)	**(477.5)**	(491.6)
Net assets excluding pension and other post-retirement liabilities		**5,341.0**	5,003.3	**2,705.7**	2,336.9
Pension and other post-retirement liabilities	*7*	**(960.7)**	(882.7)	**(14.9)**	(2.7)
Total net assets		**4,380.3**	4,120.6	**2,690.8**	2,334.2
Capital and reserves					
General fund		**150.5**	126.0	**150.5**	126.0
Earmarked reserves		**972.6**	433.7	**972.6**	433.7
Capital financing account		**23.4**	148.5	**23.4**	148.5
Fixed asset restatement account		**1,586.1**	1,655.5	**1,586.1**	1,655.5
Revaluation reserve		**1,907.0**	1,900.7	**-**	-
Other reserves		**(259.3)**	(143.8)	**(41.8)**	(29.5)
Total capital employed		**4,380.3**	4,120.6	**2,690.8**	2,334.2

These accounts were signed on 2005 by

Stephen Critchley
Chief Finance Officer

Statement of movements in reserves

2005 movements

Group	Balance at 31 March 2004 restated	Transfers (to)/from revenue account	Pension actuarial gains / (losses)	Disposal of tangible fixed assets	Adjustment/ Revaluation of fixed assets	**Balance at 31 March 2005**
	£m	£m	£m	£m	£m	**£m**
General fund	126.0	24.5	-	-	-	**150.5**
Earmarked reserves	433.7	538.9	-	-	-	**972.6**
Capital financing account	148.5	(130.0)	-	4.9	-	**23.4**
Fixed asset restatement account	1,655.5	(81.7)	-	(4.1)	16.4	**1,586.1**
Fixed asset revaluation reserve	1,900.7	(71.4)	-	-	77.7	**1,907.0**
Group P&L account	3.7	11.5	-	-	-	**15.2**
Capital reserves in subsidiaries	186.5	(49.0)	-	-	-	**137.5**
Pensions reserve	(882.7)	15.5	(93.5)	-	-	**(960.7)**
Merger reserve	466.1	-	-	-	-	**466.1**
Other reserves	82.6	-	-	-	-	**82.6**
	4,120.6	**258.3**	**(93.5)**	**0.8**	**94.1**	**4,380.3**

Corporation	Balance at 31 March 2004 restated	Transfers (to)/from revenue account	Pension actuarial gains / (losses)	Disposal of tangible fixed assets	Adjustment/ Revaluation of fixed assets	**Balance at 31 March 2005**
	£m	£m	£m	£m	£m	**£m**
General fund	126.0	24.5	-	-	-	**150.5**
Earmarked reserves	433.7	538.9	-	-	-	**972.6**
Capital financing account	148.5	(130.0)	-	4.9	-	**23.4**
Fixed asset restatement account	1,655.5	(81.7)	-	(4.1)	16.4	**1,586.1**
Pensions reserve in Corporation	(2.7)	(0.5)	(11.7)	-	-	**(14.9)**
Other Corporation reserves	(26.8)	(0.1)	-	-	-	**(26.9)**
	2,334.2	**351.1**	**(11.7)**	**0.8**	**16.4**	**2,690.8**

Earmarked reserves reflect the 5 year funding profile of the Corporation and sets aside amounts to meet anticipated future capital and revenue expenditure.

The pensions reserve represents the FRS 17 pension fund deficit, as set out further in Note 7 to these accounts.

The merger reserve of £466.1million 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 capital reserves in subsidiaries and other reserves relate to the transfer of LRT and LUL to TfL group in 2003.

Statement of movements in reserves continued

2004 restated

Group	Balance at 1 April 2003 as originally reported	Prior year adjustment	Transfer (to)/from revenue account	Pension actuarial gains / (losses)	Disposal of tangible fixed assets	Adjustment/ Revaluation of fixed assets	Balance at 31 March 2004 restated
	£m	£m	£m	£m	£m	£m	£m
General fund	20.5	-	105.5	-	-	-	126.0
Earmarked reserves	-	-	433.7	-	-	-	433.7
Capital financing account	345.5	(337.5)	127.0	-	13.5	-	148.5
Fixed asset restatement account	1,823.1	0.5	(73.5)	-	(13.2)	(81.4)	1,655.5
Fixed asset revaluation reserve	1,958.4	-	(67.2)	-	-	9.5	1,900.7
Group P & L account	10.9	-	(7.2)	-	-	-	3.7
Capital reserves in subsidiaries	213.0	-	(26.5)	-	-	-	186.5
Group pensions reserve	(924.5)	-	(44.4)	86.2	-	-	(882.7)
Merger reserve	466.1	-	-	-	-	-	466.1
Other reserves	82.6	-	-	-	-	-	82.6
	3,995.6	**(337.0)**	**447.4**	**86.2**	**0.3**	**(71.9)**	**4,120.6**

Corporation	Balance at 1 April 2003 as originally reported	Prior year adjustment	Transfer (to)/from revenue account	Pension actuarial gains / (losses)	Disposal of tangible fixed assets	Adjustment/ Revaluation of fixed assets	Balance at 31 March 2004 restated
	£m	£m	£m	£m	£m	£m	£m
General fund	20.5	-	105.5	-	-	-	126.0
Earmarked reserves	-	-	433.7	-	-	-	433.7
Capital financing account	345.5	(337.5)	127.0	-	13.5	-	148.5
Fixed asset restatement account	1,823.1	0.5	(73.5)	-	(13.2)	(81.4)	1,655.5
Pensions reserve in corporation	(4.4)	-	0.1	1.6	-	-	(2.7)
Other corporation reserves	(26.9)	-	0.1	-	-	-	(26.8)
	2,157.8	**(337.0)**	**592.9**	**1.6**	**0.3**	**(81.4)**	**2,334.2**

Cash flow statements

Reconciliation of net cost of services to net cash outflow from operating activities	Note	Group 2004/05 £m	Group 2003/04 restated £m	Corporation 2004/05 £m	Corporation 2003/04 restated £m
Net cost of services		**(1,849.2)**	(1,814.7)	**(733.1)**	(635.7)
Losses of joint venture company before grant		**(22.1)**	(15.6)	**-**	-
Depreciation (net of release of deferred grants for Group)		**213.8**	198.4	**138.5**	117.5
Capital financing charges		**-**	-	**83.7**	82.2
(Increase)/decrease in stocks		**0.7**	(0.5)	**0.8**	0.2
(Increase)/decrease in debtors		**61.2**	(27.8)	**(0.9)**	0.7
(Increase)/decrease in amounts due from subsidiary companies		**-**	-	**(85.3)**	(1.0)
Increase/(decrease) in creditors due within one year		**(38.9)**	87.7	**3.6**	64.2
Increase/(decrease) in creditors due after more than one year		**(11.2)**	15.4	**1.3**	2.0
Increase/(decrease) in provisions for liabilities and charges		**110.3**	(4.5)	**42.6**	(0.3)
Increase/(decrease) in pension and other post-retirement liabilities		**(29.4)**	23.9	**0.6**	(0.2)
Net cash outflow from revenue activities		**(1,564.8)**	(1,537.7)	**(548.2)**	(370.4)
Net interest and investment income					
Finance lease charges		**(61.5)**	(33.6)	**-**	-
Interest paid		**(4.1)**	-	**(2.9)**	-
Interest received and investment income		**45.0**	18.3	**42.2**	15.2
		(20.6)	(15.3)	**39.3**	15.2
Capital expenditure and disposals					
Payments to acquire tangible fixed assets	*25*	**(385.3)**	(374.3)	**(150.3)**	(149.6)
Receipts from sale of tangible fixed assets		**16.9**	45.4	**4.9**	13.5
		(368.4)	(328.9)	**(145.4)**	(136.1)
Financing and management of liquid resources					
Transport grant		**2,260.1**	2,553.9	**2,260.1**	2,553.9
Other revenue grant		**12.2**	5.7	**12.2**	5.7
Precept		**25.8**	57.8	**25.8**	57.8
Grants to subsidiaries and JV to fund revenue		**-**	-	**(1,262.8)**	(1,206.4)
Grants to subsidiaries and JV for capital expenditures			-	**(103.3)**	(189.8)
Third-party contributions and other grant funding	*25*	**88.7**	157.9	**5.7**	2.2
Capital element of finance lease payments		**(187.9)**	(144.1)	**-**	-
Deferred income received in year		**35.0**	-	**-**	-
Decrease in loans to subsidiary companies		**-**	-	**(4.6)**	-
Increase in short-term investments	*26*	**(473.9)**	(690.0)	**(468.2)**	(683.9)
Decrease in borrowings due within one year		**-**	(20.0)	**-**	(20.0)
Increase in borrowings due after more than one year		**195.6**	-	**195.6**	-
		1,955.6	1,921.2	**660.5**	519.5
Increase in cash	*26*	**1.8**	39.3	**6.2**	28.2

Statement of accounting policies

a) Code of practice

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain 2004, developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Joint Committee and approved by the Accounting Standards Board ('the SORP').

b) Changes in accounting policies

In 2004 the SORP introduced a requirement for local authorities to prepare modified group accounts for accounting periods starting on or after 1 April 2004.

Whilst the statements of accounts published in previous years had included combined financial information, there was no guidance on how to combine accounts of a statutory corporation prepared under the SORP with those of a statutory legal entity prepared under the Companies Act 1985 and in line with UK GAAP. The SORP now requires group accounts consistent with UK GAAP and requires specific adjustments on consolidation as disclosed in paragraph d) below.

The main change is that the SORP requires adjustments on consolidation to be made to the Corporation accounts to bring them more in line with subsidiaries prepared under the Companies Act. This contrasts to the approach taken in previous accounting periods where, prior to being combined with the financial statements of the Corporation, the individual accounts of each subsidiary were restated to bring them into alignment with the accounting policies of the Corporation, except where the accounting policies required by the SORP differed from UK GAAP.

One such area of difference is the accounting for profits and losses on disposal of fixed assets on consolidation. In previously reported accounting periods the profits and losses on disposals in the subsidiaries were adjusted on consolidation, by taking the proceeds and net book value of such disposals directly to reserves in line with the required accounting treatment for the Corporation. The SORP now requires in the Group revenue account proceeds and net book value on disposals to be included in net operating expenditure with corresponding adjustments in appropriations and the appropriate reserves to reverse on consolidation the accounting treatment within the Corporation's accounts. The Group revenue account for the year to 31 March 2004 has been restated to reflect this change. The effect of this change is an increase in net operating expenditure of £20.1 million against that previously reported with an offsetting movement in appropriations for the year.

With the introduction of the SORP the Group has taken the opportunity to review the accounting policy for capital expenditures financed from the Transport Grant to seek alignment in the accounting within the subsidiaries and the Corporation. In prior accounting periods such expenditures within the subsidiaries were accounted for under SAAP 4 with the capital portion of the Transport Grant transferred to the subsidiaries taken to deferred grants in the balance sheets of the Group and its subsidiaries. This deferred grant was amortised annually to match the associated depreciation charge. Such expenditures for the Corporation were treated, both within the revenue accounts of the Group and the Corporation, as capital expenditure financed from revenue. This treatment led to the creation of a capital financing account to match these capital expenditures rather than a deferred grants account in the Group and Corporation balance sheet and thus contrasted with that of the subsidiaries. Similarly the revenue account for the Group included amortisation of deferred grants to match depreciation for subsidiary capital expenditures but not for Corporation capital expenditures.

Statement of accounting policies

b) Changes in accounting policies continued

To remedy this mismatch, the accounting for Corporation capital expenditure has been changed to bring it into line with the subsidiaries. The Transport Grant is now matched separately to both the operating expenditures and the capital expenditures of the Corporation with the latter being taken directly to deferred grants in both the Group and Corporation balance sheets and amortised annually to match the depreciation charge. This change has been applied to previous accounting periods leading to a restatement of the 31 March 2003 balances in the corporation and group balance sheets of the capital financing account and fixed asset restatement accounts. The restatement reduces these accounts in aggregate by £337.0 million with an equal offsetting increase in the balance on deferred grants. The additional amortisation of deferred grants included in the revenue accounts of the Group and the Corporation for the year end 31 March 2004 is £41.6 million.

The Corporation's revenue account now includes as required by the SORP an asset management revenue account to reverse the notional cost of assets (depreciation and capital financing charges) included within net cost of services of the Corporation's revenue account and to charge depreciation, deferred grant amortisation and external interest costs to the net operating expenditure with corresponding entries against appropriations. The SORP now gives guidance on how this account is eliminated on consolidation.

The additional amortisation of deferred grants above, the introduction of the asset management revenue account, and the additional guidance contained within the SORP with regard to consolidation, results in an increase of £73.5 million against previously reported net operating expenditure for the year ended 31 March 2004 for the Group and the Corporation with equal offsetting amounts in appropriations.

The above items have no impact on the surplus for the year to 31 March 2004 of the Corporation or the Group as previously reported.

The surplus for the year to 31 March 2004 of the Group has been restated to £105.5 million from £98.3 million, as previously reported to reflect the SORP's requirement for the amount to be met from government grants and local taxation in the Group to equal that of the Corporation. The balance is taken to the Group profit and loss account through appropriations.

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.

Statement of accounting policies

d) Basis of preparation of group accounts

The SORP requires local authorities with, in aggregate, material interests in subsidiary and associated companies and joint ventures, to prepare group accounts consistent with UK GAAP.

The group accounts presented with the Corporation's financial statements consolidate the individual financial statements of Transport for London (TfL) and its subsidiary undertakings.

In line with the requirements of the SORP certain adjustments are made on consolidation to the Corporation results to bring them more in line with UK GAAP:

- Profits/losses on the disposals of fixed assets are included in net operating expenditure;
- Notional interest charges on fixed assets are written back and replaced with the depreciation charge from net cost of services;
- Amortisation of deferred grants is credited to net cost of services.

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 Group 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. Amounts allocated as capital grants in the Corporation and transferred to the subsidiaries are taken to the deferred grants account in the Corporation and Group balance sheet and are amortised over the useful economic lives of the assets it finances. Third party contributions towards capital expenditure are similarly treated.

Statement of accounting policies

g) Borrowings

Long term borrowings are carried in the Corporation and Group balance sheets net of discounts and issue costs. These discounts and issue costs are amortised to revenue over the duration of the debt. In the Corporation revenue account this charge is made through the asset management revenue account and interest is payable in the Group revenue account.

The Corporation is required to make a minimum revenue provision (MRP) for the repayment of outstanding debt determinable under the Local Government Act 2003. For this period, in line with the provisions of the Local Government Act 2003, the MRP requirement is nil.

Additional disclosures on financial instruments required by FRS 13 and FRS 4 as a consequence of the Corporation's listed debt are made in note 22 to these accounts.

h) Capital financing charges

The SORP requires net cost of services for the Corporation to include a capital charge equal to annual gross depreciation plus a notional interest charge. This notional 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. These charges are reversed by crediting the revenue account below the net cost of services. Subsidiaries do not levy capital financing charges.

These notional capital financing charges are reversed through the asset management revenue account in the Corporation revenue account. Notional capital financing charges are eliminated in deriving the Group revenue account as described in d) above.

i) 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).

Further detail on the policies for the valuation of fixed assets is given in note 10.

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

j) 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.

Statement of accounting policies

k) Debts outstanding

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

l) Provisions

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

m) 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 account and the capital financing account. They do not represent sums available to fund future expenditure.

Receipts over £6,000 from the 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 account 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 account. 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 account. The remaining depreciation charge is transferred to the capital financing account. The revaluation of property in the Corporation is credited to the fixed asset restatement account.

n) 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 losses.

o) 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 Group 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.

Statement of accounting policies

o) Pensions continued

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.

p) Deferred taxation

Provision is made within the Group accounts 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, to the extent it is payable or recoverable in the foreseeable future.

q) 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.

r) London Underground Public Private Partnership (PPP)

London Underground has three Public Private Partnership (PPP) contracts. Under these contracts, existing LUL property is allocated to the PPP Contractors for a 30 year period from when the contract was established, 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 expenditure in the Group revenue account. Performance adjustments to the service charge are also recorded within expenditure.

Notes to the accounts

1 Segmental analysis

	Sales revenue 2004/05 £m	Sales revenue 2003/04 restated £m	Net operating expenditure 2004/05 £m	Net operating expenditure 2003/04 restated £m	Net assets excluding grants 2004/05 £m	Net assets excluding grants 2003/04 restated £m
Corporation	**271.5**	228.7	**(545.4)**	(494.4)	**3,160.7**	2,806.0
Subsidiary operations						
Bus operations	**892.6**	786.2	**(549.2)**	(499.8)	**115.7**	124.2
London Underground	**1,351.7**	1,276.7	**(748.3)**	(768.4)	**8,103.3**	8,214.7
Docklands Light Railway	**12.8**	11.8	**(33.6)**	(31.5)	**436.0**	445.1
Victoria Coach Station	**6.6**	6.9	**0.6**	0.3	**7.8**	7.8
Museum	**3.0**	2.5	**(4.0)**	(3.7)	**10.4**	9.9
River services	**1.5**	1.5	**(0.5)**	(0.3)	**20.7**	20.9
Group services	**14.8**	6.6	**7.0**	(52.8)	**168.1**	141.5
Joint venture						
Cross London Rail Links	**-**	-	**(22.1)**	(15.6)	**-**	-
Profit/(loss) on sale of fixed assets	**-**	-	**(5.5)**	20.1	**-**	-
Group	**2,554.5**	2,320.9	**(1,901.0)**	(1,846.1)	**12,022.7**	11,770.1

2 Group sales revenue

	Note	2004/05 £m	% of total	2003/04 restated £m	% of total
Fares		**1,949.1**	**77.0**	1,776.8	76.6
Revenue in respect of free travel for older and disabled people		**173.2**	**6.9**	165.2	7.1
Congestion charging	*27*	**218.1**	**7.6**	186.7	8.0
Charges to London Boroughs		**11.4**	**0.5**	12.7	0.5
Charges to transport operators		**9.9**	**0.4**	8.3	0.4
Bus enforcement		**20.6**	**0.8**	15.4	0.7
Commercial advertising receipts		**50.6**	**2.0**	44.6	1.9
Rents receivable		**47.3**	**1.9**	43.1	1.9
Taxi licensing		**10.3**	**0.4**	2.1	0.1
Museum income		**3.0**	**0.1**	2.5	0.1
Other		**61.0**	**2.4**	63.5	2.7
Total sales revenue		**2,554.5**	**100.0**	2,320.9	100.0

Notes to the accounts

3 Expenditure

	Note	Group 2004/05 £m	Group 2003/04 restated £m	Corporation 2004/05 £m	Corporation 2003/04 restated £m
Staff costs:					
Wages and salaries		**577.1**	535.4	**93.9**	66.7
Social security costs		**48.3**	44.5	**8.4**	5.9
Pension costs	*7*	**107.5**	88.6	**24.0**	9.6
		732.9	668.5	**126.3**	82.2
Operating leases and PFI charges	*21a*	**254.7**	263.4	**52.4**	15.0
Financial assistance to Boroughs	*28*	**152.7**	211.0	**152.7**	211.0
Materials and services		**4,207.0**	3,657.4	**611.8**	506.0
		5,347.3	4,800.3	**943.2**	814.2
Capital expenditure	*10a & b*	**(1,157.4)**	(863.1)	**(160.8)**	(149.5)
Expenditure charged to revenue		**4,189.9**	3,937.2	**782.4**	664.7

	Group 2004/05 £m	Group 2003/04 restated £m	Corporation 2004/05 £m	Corporation 2003/04 restated £m
The cost of operations include the following amounts:				
Auditor's remuneration for statutory audit services	**0.9**	0.8	**0.4**	0.4
Auditor's remuneration for non-statutory audit services	**0.1**	0.1	**-**	-
Auditor's remuneration for non-audit services	**-**	0.1	**-**	-
	1.0	1.0	**0.4**	0.4
Auditor's remuneration for work awarded by LUL prior to transfer of LUL to TfL	**-**	0.5	**-**	-
	1.0	1.5	**0.4**	0.4

4 Asset management revenue account

	Corporation 2004/05 £m	Corporation 2003/04 restated £m
Depreciation	**138.5**	117.5
Capital financing charge reversal	**83.7**	82.2
Notional capital charge for use of assets reversal	**222.2**	199.7
Depreciation	**(138.5)**	(117.5)
Amortisation of deferred capital grants	**54.2**	44.0
Third party interest payable	**(2.9)**	-
	135.0	126.2

The asset management revenue account is required by the SORP in the Corporation revenue account to reverse the notional capital charge for use of assets included in net cost of services and replace it with depreciation net of amortisation of deferred capital grants and external interest costs.

Notes to the accounts

5 Employees' remuneration

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

£	Group 2004/05 Number	Group 2003/04 Number	Corporation 2004/05 Number	Corporation 2003/04 Number
50,000 - 59,999	**274**	202	**121**	59
60,000 - 69,999	**131**	106	**60**	38
70,000 - 79,999	**81**	50	**36**	16
80,000 - 89,999	**37**	22	**16**	11
90,000 - 99,999	**24**	20	**17**	8
100,000 - 109,999	**24**	11	**11**	5
110,000 - 119,999	**15**	7	**8**	4
120,000 - 129,999	**7**	8	**6**	3
130,000 - 139,999	**5**	2	**1**	1
140,000 - 149,999	**4**	3	**4**	2
150,000 - 159,999	**2**	4	**1**	1
160,000 - 169,999	**4**	2	**4**	1
170,000 - 179,999	**3**	1	**2**	1
180,000 - 189,999	**1**	1	**1**	1
190,000 - 199,999	**1**	1	**1**	-
200,000 – 209.999	**2**	2	**1**	-
210,000 – 219,999	**-**	1	**-**	-
220.000 – 229,999	**1**	-	**1**	-
260,000 - 269,999	**1**	2	**1**	1
270,000 - 279,999	**-**	1	**-**	-
280,000 - 289,999	**-**	1	**-**	1
300,000 – 309,999	**1**	-	**1**	-
320,000 – 329,999	**2**	-	**1**	-
330,000 – 339,999	**-**	1	**-**	-
340,000 – 349,999	**-**	1	**-**	-
690,000 – 699,999	**1**	-	**1**	-
700,000 - 709,999	**-**	1	**-**	1
Total	**621**	450	**295**	154

The SORP requires the above disclosure for only the Corporation's employees. The impact of the transfer of employees into and out of the Corporation from subsidiaries can cause distortion for year on year comparison. Consequently an additional voluntary disclosure for the Group has been provided that shows the combined employee bands for TfL and its subsidiaries.

Notes to the accounts

6 Capital financing

	Group 2004/05 £m	Group 2003/04 restated £m	Corporation 2004/05 £m	Corporation 2003/04 restated £m
Provision for credit liabilities	**(127.0)**	127.0	**(127.0)**	127.0
Depreciation	**(56.8)**	(44.0)	**(56.8)**	(44.0)
Amortisation of deferred capital grants	**54.2**	44.0	**54.2**	44.0
Other	**(0.4)**	-	**(0.4)**	-
Contribution to/ (from) capital financing account	**(130.0)**	127.0	**(130.0)**	127.0

7 Pensions

a) Total pension service cost for the year

	Note	Group 2004/05 £m	Group 2003/04 restated £m	Corporation 2004/05 £m	Corporation 2003/04 restated £m
TfL Pension Fund	*7b*	**95.3**	82.0	**17.0**	5.2
Local Government Pension Scheme	*7c*	**1.9**	1.6	**1.9**	1.6
Principal Civil Service Pension Scheme	*7d*	**1.1**	1.2	**1.1**	1.2
Other schemes and unfunded pensions	*7f*	**9.2**	3.8	**4.0**	1.6
Amount included in net cost of services	*3*	**107.5**	88.6	**24.0**	9.6

The majority of the Group's staff are members of the Public Sector Section of the TfL Pension Fund which was entitled the LRT Pension Fund until 1 April 2005. The majority of the Group's remaining staff belong to the Local Government Pension Scheme or the Principal Civil Service Pension Scheme.

b) TfL Pension Fund

The TfL Pension Fund, to which the Group contributes, is a final salary scheme established under trust. The Fund's Trustee is the TfL Trustee Company Limited, a wholly owned subsidiary of TfL. Under the rules of the Fund, its 18 Trustee Directors are nominated in equal numbers by TfL and on behalf of the Fund's membership. 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 TfL Pension Fund's actuary makes valuations and recommends the level of contributions to be made by the participating employers to ensure the long-term solvency of the Fund. The latest valuation of the Fund was carried out as at 31 March 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 an FRS 17 basis as at 31 March 2005. 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 is derived from cash flow projections. Due to the timescale covered, neither the assumptions nor the cash flow projections may necessarily be borne out in practice.

Notes to the accounts

The Corporation and the Group both account for pension costs in accordance with FRS 17. The underlying assets and liabilities of the TfL scheme cover a number of Group entities and cannot be readily split between each undertaking on a consistent and reliable basis. Thus, in accordance with the standard, the Corporation treats contributions to the TfL Pension Fund as if they were contributions to a defined contribution plan. The pension cost recognised in the Corporation's accounts for the TfL Pension Fund is the amount of contributions payable to the scheme during the year.

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

	FRS 17 valuation at 31 March 2005 %	FRS 17 valuation at 31 March 2004 %	FRS 17 valuation at 31 March 2003 %
Inflation	**2.90**	2.90	2.50
Rate of increase in salaries	**4.40**	4.40	4.00
Rate of increase of pensions in payment and deferred pensions	**2.90**	2.90	2.50
Discount rate	**5.55**	5.70	5.60
Investment return	**6.50**	7.00	7.00

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

	Expected return %	**Value at 31 March 2005 £m**	Expected return %	Value at 31 March 2004 £m	Expected return %	Value at 31 March 2003 £m
Equities	**8.2**	**1,934.4**	8.2	1,700.1	8.6	1,306.3
Bonds	**5.1**	**1,055.9**	5.0	987.7	4.9	976.0
Cash, property and other assets	**3.9**	**43.9**	4.1	37.0	4.2	37.9
Total market value of assets		**3,034.2**		2,724.8		2,320.2
Actuarial valuation of Section liabilities		**(3,980.0)**		(3,604.8)		(3,240.3)
Deficit in the scheme recognised as a liability in the balance sheet		**(945.8)**		(880.0)		(920.1)

Notes to the accounts

7 Pensions continued

Analysis of amounts charged to cost of services:	Group 2004/05 £m	Group 2003/04 restated £m
Current service cost	95.3	82.0
Past service cost	-	-
Total charged to cost of services	95.3	82.0

Analysis of the amount charged to interest and investment income:

	Group 2004/05 £m	Group 2003/04 restated £m
Interest on Section liabilities	204.7	180.3
Expected return on Section assets	(190.7)	(159.9)
Net charge to interest and investment income	14.0	20.4
Total amount included in net operating expenditure in Group revenue account	109.3	102.4
Contribution to/(from) pensions reserve	16.0	(44.5)
Amount to be met from government grant and local taxation	125.3	57.9

Analysis of the movement in deficit in the Section during the year:	Group 2004/05 £m	Group 2003/04 restated £m
Deficit in the Section at start of year	(880.0)	(920.1)
Contributions paid	125.3	57.9
Current service cost	(95.3)	(82.0)
Interest and investment charge	(14.0)	(20.4)
Actuarial gain/(loss)	(81.8)	84.6
Deficit in the Section at end of year	(945.8)	(880.0)

Notes to the accounts

7 **Pensions** continued

c) Local Government Pension Scheme

The Local Government Pension Scheme is a funded multi-employer defined benefit scheme. The Corporation is able to identify its share of the assets and 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% (2003/04 13.2%) of pensionable pay. The Corporation's share of the underlying assets and liabilities resulted in a deficit of £14.9 million (2003/04 £2.7 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 March 2005 %	FRS 17 valuation at 31 March 2004 %	FRS 17 valuation at 31 March 2003 %
Inflation	**2.90**	2.90	2.50
Rate of increase in salaries	**4.40**	4.40	4.00
Rate of increase of pensions in payment and deferred pensions	**2.90**	2.90	2.50
Discount rate	**5.40**	6.50	6.10
Investment return	**7.10**	7.30	7.40

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

	Expected return %	**Value at 31 March 2005 £m**	Expected return %	Value at 31 March 2004 £m	Expected return %	Value at 31 March 2003 £m
Equities	**7.7**	**19.3**	7.7	11.5	8.0	7.5
Bonds	**4.8**	**2.6**	5.1	1.8	4.8	1.3
Cash, property and other assets	**5.4**	**2.7**	5.8	0.7	4.0	0.3
Total market value of assets		**24.6**		14.0		9.1
Actuarial valuation of liabilities		**(39.5)**		(16.7)		(13.5)
Deficit in the scheme recognised as a liability in the balance sheet		**(14.9)**		(2.7)		(4.4)

Notes to the accounts

7 Pensions continued

	Corporation and Group	
	2004/05	2003/04 restated
	£m	£m
Analysis of amounts charged to cost of services:		
Current service cost	**1.8**	1.6
Past service cost	**0.1**	-
Total charged to cost of services	**1.9**	1.6
Analysis of the amount charged to interest and investment income:		
Interest on Section liabilities	**1.0**	0.9
Expected return on Section assets	**(1.1)**	(0.8)
Net charge/(credit) to interest and investment income	**(0.1)**	0.1
Total amount included in net operating expenditure in Revenue Account	**1.8**	1.7
Contribution (from)/to pensions reserve	**(0.5)**	0.1
Amount to be met from government grant and local taxation	**1.3**	1.8

	2004/05	2003/04 restated
	£m	£m
Analysis of the movement in deficit during the year:		
Deficit in the Section at start of year	**(2.7)**	(4.4)
Contributions paid	**1.3**	1.8
Current/past service cost	**(1.9)**	(1.6)
Interest and investment income/(charge)	**0.1**	(0.1)
Actuarial gain/(loss)	**(11.7)**	1.6
Deficit in the Section at end of year	**(14.9)**	(2.7)

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 2003. Details can be found in the Civil Superannuation Resource Accounts (www.civilservice-pensions.gov.uk).

Notes to the accounts

7 Pensions continued

Employers' contributions were payable to the PCSPS at one of four rates in the range 12.0% 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 2004/05 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2005:

	Group only TfL Pension Fund		Corporation and Group Local Government Pension Scheme	
	£m	%	£m	%
Difference between the expected and actual return on assets (gain)/loss	(97.2)	3.2	(0.7)	2.7
Differences between actuarial assumptions about liabilities and actual experience (gain)/loss	94.3	2.4	4.7	11.9
Changes in the demographic and financial assumptions used to estimate liabilities (gain)/loss	84.7	2.1	7.7	1.9
Actuarial (gain)/loss recognised in reserves	81.8	2.1	11.7	3.0
Comparative totals for 2003/04	(84.6)	2.4	(1.6)	9.7

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 TfL Pension Fund.

The Director of Pensions carried out an estimation as at 31 March 2005 of the above unfunded pension liabilities, using a basis consistent with that adopted by the Actuary to the TfL Pension Fund in his last valuation. Full provision of £40.2 million (2004 £37.7 million) for unfunded pension liabilities is made in these accounts.

Notes to the accounts

8 Publicity

	Group 2004/05 £m	Group 2003/04 restated £m	Corporation 2004/05 £m	Corporation 2003/04 restated £m
Staff advertisements	**2.2**	0.9	**2.2**	0.7
Other publications	**1.7**	1.6	**0.3**	0.8
Other publicity	**1.3**	3.2	**0.4**	1.8
Total cost included within materials and services	**5.2**	5.7	**2.9**	3.3

9 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 2005 the Group had a deferred tax asset in respect of capital allowances of £31.0 million (2003/04 £31.3 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.

10 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 cost or valuation						
Balance at 1 April 2004		17,048.7	2,972.4	892.6	619.4	21,533.1
Additions to fixed assets		842.7	128.6	51.7	134.4	1,157.4
Disposals		(130.8)	(5.3)	(28.8)	(6.1)	(171.0)
Transfers & adjustments		10.5	6.0	(0.3)	(18.2)	(2.0)
Revaluation		11.2	-	-	60.1	71.3
Gross cost or valuation at 31 March 2005		**17,782.3**	**3,101.7**	**915.2**	**789.6**	**22,588.8**
Depreciation						
Balance at 1 April 2004		7,203.9	1,742.2	420.5	0.2	9,366.8
Disposals		(99.5)	(5.3)	(28.6)	-	(133.4)
Depreciation charge	*10d*	373.3	72.0	79.1	-	524.4
Revaluation		(4.9)	-	-	-	(4.9)
Transfers & adjustments		0.1	-	(0.1)	-	-
Balance at 31 March 2005		**7,472.9**	**1,808.9**	**470.9**	**0.2**	**9,752.9**
Net book value at 31 March 2005		**10,309.4**	**1,292.8**	**444.3**	**789.4**	**12,835.9**
Net book value at 31 March 2004		9,844.8	1,230.2	472.1	619.2	12,166.3

Notes to the accounts

10 Tangible fixed assets continued

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:

	Infrastructure and other property £m	Rolling stock £m	Plant and equipment £m	Non-operational assets £m	Total £m
PPP assets	6,765.1	1,212.4	158.7	415.6	8,551.8
Leased assets	199.6	-	33.4	-	233.0
Net book value at 31 March 2005	**6,964.7**	**1,212.4**	**192.1**	**415.6**	**8,784.8**

b) Corporation

	Note	Infrastructure and other property £m	Plant and equipment £m	Non-operational assets £m	Total £m
Gross cost or valuation					
Balance at 1 April 2004		3,584.7	128.9	74.2	3,787.8
Additions to fixed assets		116.6	33.6	10.6	160.8
Disposals		(39.3)	(11.2)	(1.6)	(52.1)
Transfers & adjustments		5.7	0.8	(7.8)	(1.3)
Revaluation		(0.1)	-	(1.4)	(1.5)
Gross cost or valuation at 31 March 2005		**3,667.6**	**152.1**	**74.0**	**3,893.7**
Depreciation					
Balance at 1 April 2004		1,487.6	36.9	0.2	1,524.7
Disposals		(36.9)	(11.2)	-	(48.1)
Depreciation charge	*10d*	114.6	23.9	-	138.5
Transfers & adjustments		(0.2)	-	-	(0.2)
Balance at 31 March 2005		**1,565.1**	**49.6**	**0.2**	**1,614.9**
Net book value at 31 March 2005		**2,102.5**	**102.5**	**73.8**	**2,278.8**
Net book value at 31 March 2004		2,097.1	92.0	74.0	2,263.1

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.

Notes to the accounts

10 Tangible fixed assets continued

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 2005 (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 taken to the fixed asset restatement account.

Plant and equipment

The SORP recommends the use of current replacement cost for plant and equipment. For practical reasons, including difficulties in estimating current replacement cost for these assets, the Corporation has maintained these assets at historic cost.

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 the shorter of the lease term and 40 years. Property awaiting disposal is not depreciated.

d) Depreciation charge

	Note	**Group 2004/05 £m**	Group 2003/04 restated £m	**Corporation 2004/05 £m**	Corporation 2003/04 restated £m
Depreciation for the period:					
- on the historical cost of depreciated fixed assets		**93.1**	102.4	**138.5**	117.5
- on the revalued element of depreciated fixed assets		**120.4**	93.8	**-**	-
- on assets allocated to PPP contractors		**304.0**	298.9	**-**	-
- on assets held under finance leases		**6.8**	6.8	**-**	-
Total depreciation charge	*10a, b*	**524.4**	501.9	**138.5**	117.5
Less: release of deferred grants	*17*	**(310.6)**	(303.5)	**(54.2)**	(44.0)
Depreciation net of release of deferred grants		**213.8**	198.4	**84.3**	73.5

Notes to the accounts

10 Tangible fixed assets continued

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.

	Group 2004/05 £m	Group 2003/04 restated £m	**Corporation 2004/05 £m**	Corporation 2003/04 restated £m
Infrastructure and other property	**12,939.2**	12,175.2	**3,670.2**	3,587.2
Rolling stock	**1,833.1**	1,761.6	**-**	-
Plant and equipment	**881.4**	796.8	**152.1**	129.0
Non-operational assets	**574.0**	457.3	**45.3**	44.0
Gross cost	**16,227.7**	15,190.9	**3,867.6**	3,760.2
Less accumulated depreciation	**(4,679.2)**	(4,306.9)	**(1,614.9)**	(1,524.7)
Net written down cost	**11,548.5**	10,884.0	**2,252.7**	2,235.5

f) Group assets

	Group 2004/05 Number	Group 2003/04 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	**515**	524
Bus stations and stands	**99**	98
Bus shelters	**8,732**	8,475
Offices	**135**	124
Piers	**8**	8

11 Investment in subsidiaries and joint venture

	Group 2004/05 £m	Group 2003/04 restated £m	**Corporation 2004/05 £m**	Corporation 2003/04 restated £m
Balance at 1 April 2004	**-**	-	22.5	22.5
Share of gross assets of joint venture	**6.3**	4.5	-	-
Share of gross liabilities of joint venture	**(6.3)**	(4.5)	-	-
Balance at 31 March 2005	**-**	-	22.5	22.5

Details of the Group's joint venture are given in note 24.

Notes to the accounts

12 Stocks

	Group 2004/05 £m	Group 2003/04 restated £m	Corporation 2004/05 £m	Corporation 2003/04 restated £m
Maintenance stores	**4.6**	5.2	**2.9**	3.7
Goods purchased for resale	**0.4**	0.5	**-**	-
	5.0	5.7	**2.9**	3.7

13 Debtors

	Group 2004/05 £m	Group 2003/04 restated £m	Corporation 2004/05 £m	Corporation 2003/04 restated £m
Trade debtors	**266.4**	230.5	31.1	32.8
Amounts due from subsidiary companies	-	-	98.3	8.4
Prepayments and accrued income	**72.0**	136.9	17.1	0.7
	338.4	367.4	146.5	41.9

14 Cash at bank and in hand

	Note	Group 2004/05 £m	Group 2003/04 restated £m	Corporation 2004/05 £m	Corporation 2003/04 restated £m
Cash at bank		**9.9**	9.5	**8.0**	1.8
Cash in hand and in transit		**14.1**	12.7	**0.1**	0.1
	22	**24.0**	22.2	**8.1**	1.9

Notes to the accounts

15 Creditors

a) Amounts falling due within one year	Note	**Group 2004/05 £m**	Group 2003/04 restated £m	**Corporation 2004/05 £m**	Corporation 2003/04 restated £m
Trade creditors		**690.0**	694.3	**167.2**	164.8
Capital works		**216.9**	147.1	**100.5**	77.5
Finance lease obligations repayable within one year	*16*	**453.7**	173.5	**-**	-
Salaries and wages		**12.6**	7.8	**2.6**	1.3
Receipts in advance for travelcards and bus passes		**84.3**	81.3	**-**	-
		1,457.5	1,104.0	**270.3**	243.6

b) Amounts falling due after more than one year	Note	**Group 2004/05 £m**	Group 2003/04 restated £m	**Corporation 2004/05 £m**	Corporation 2003/04 restated £m
Retentions on capital contracts		**4.1**	4.1	4.2	4.0
Accruals and deferred income		**7.6**	18.8	4.2	2.9
Finance lease obligations	*16*	**624.8**	380.7	-	-
		636.5	403.6	8.4	6.9

16 Finance leases

	Note	**Group 2004/05 £m**	Group 2003/04 restated £m	**Corporation 2004/05 £m**	Corporation 2003/04 restated £m
Obligations repayable:					
Within one year	*15a*	**453.7**	173.5	**-**	-
Between one and two years	*15b*	**225.3**	97.2	**-**	-
Between two and five years	*15b*	**199.0**	77.1	**-**	-
Over five years	*15b*	**200.5**	206.4	**-**	-
	22	**1,078.5**	554.2	**-**	-

The increase in obligations under finance leases principally reflects the level of fixed asset additions provided by the PPP contractors during the year net of the capital element of the annual payments to these contractors.

Notes to the accounts

17 Deferred grants

	Note	Group 2004/05 £m	Group 2003/04 restated £m	Corporation 2004/05 £m	Corporation 2003/04 restated £m
Balance at 1 April 2003 as previously reported		**-**	6,309.4	**-**	61.5
Prior year adjustment		**-**	337.0	-	337.0
Balance at 1 April as restated		**6,766.8**	6,646.4	**491.5**	398.5
Transport grant		**138.8**	323.6	**35.5**	133.9
Third-party contributions and other grant funding		**102.6**	135.1	**5.7**	2.3
Transfer from subsidiary		**-**	-	**(1.0)**	1.0
Release of deferred grant:					
- to meet the depreciation charge	*10d*	**(310.6)**	(303.5)	**(54.2)**	(44.0)
- on disposal of tangible fixed assets		**(15.9)**	(34.8)	**-**	-
Balance at 31 March		**6,681.7**	6,766.8	**477.5**	491.6

Details of the prior year adjustment are to be found in the statement of accounting policies note b).

18 Provisions for liabilities and charges

	Note	At 1 April 2004 restated £m	Unused amounts reversed £m	Payments in year £m	Increase in provision £m	At 31 March 2005 £m
Group						
Claims for compensation		26.8	(2.7)	(6.2)	114.9	**132.8**
Capital investment activities		65.1	(17.8)	(11.5)	-	**35.8**
Unfunded pension liabilities	*7f*	37.7	-	(3.0)	5.5	**40.2**
Other		6.9	(0.6)	(6.7)	9.1	**8.7**
		136.5	(21.1)	(27.4)	129.5	**217.5**
Corporation						
Claims for compensation		3.9	-	(0.6)	40.6	**43.9**
Capital investment activities		57.3	(17.8)	(9.4)	-	**30.1**
Unfunded pension liabilities		25.0	-	(2.0)	3.2	**26.2**
Other		0.1	-	(5.6)	7.0	**1.5**
		86.3	(17.8)	(17.6)	50.8	**101.7**

Claims for compensation include provisions in respect of disputes in the ordinary course of business relating to projects and contracts for which the outcome is uncertain. Whilst a claim is ongoing TfL is unable to disclose the quantum or timing of any settlement as this could prejudice its commercial position.

Capital Investment activities includes compulsory purchases, claims in respect of structural damage or diminution in value of properties affected by transport schemes, and other related third party claims.

Details of unfunded pension liabilities are given in Note 7. Other provisions include the long term charges to Train Operating Companies and dilapidations on full repairing leases.

Notes to the accounts

19 Borrowings due after more than one year

The carrying value and maturity of Group debt are as follows:

Repayable over 5 years	**Group 2004/05 £m**	Group 2003/04 restated £m	**Corporation 2004/05 £m**	Corporation 2003/04 restated £m
£200 million loan notes with fixed coupon of 5.0%	**195.6**	-	**195.6**	-

20 Capital commitments

	Group 2004/05 £m	Group 2003/04 restated £m	**Corporation 2004/05 £m**	Corporation 2003/04 restated £m
In respect of contracts placed for:				
Road projects	**77.1**	81.3	**77.1**	81.3
London Underground projects	**56.2**	51.7	**-**	-
Docklands Light Railway projects	**151.0**	158.2	**-**	-
Other projects	**11.0**	37.7	**2.1**	6.3
	295.3	328.9	**79.2**	87.6

21 Financial commitments

a) Operating leases

As at 31 March 2005, the Group and the Corporation were committed to making the following payments during the next year in respect of operating leases:

	Group 2004/05 £m	Group 2003/04 restated £m	**Corporation 2004/05 £m**	Corporation 2003/04 restated £m
Property leases which expire:				
Within one year	**3.7**	2.3	-	0.3
Between one and five years	**4.2**	0.5	-	-
Thereafter	**20.0**	29.8	-	1.2
	27.9	32.6	-	1.5
PFI agreements and other leases which expire:				
Within one year	**0.8**	2.6	-	-
Between one and five years	**1.0**	0.5	-	-
Thereafter	**251.5**	205.8	**26.3**	21.8
	253.3	208.9	**26.3**	21.8

The Group leases certain properties on short-term and long-term leases. The rents payable on these leases were £27.0 million (2003/04 £33.7 million). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays all insurance, maintenance and repairs of these properties.

Notes to the accounts

21 Financial commitments continued

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 £227.7 million (2003/04 £229.7 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.

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 18).

Whilst any disputes are ongoing TfL does not disclose the quantum or timing of any settlement as this could prejudice its commercial position.

22 Financial instruments

In developing its strategy the Corporation has regard to its financial risks and considers the implications of its overall asset and liability management. It specifically considers the short and long term funding requirements of the Group's operations, its capital investment programmes and liquidity required to discharge its financial obligations when they fall due. It also considers its exposure to inflation and interest rates as they affect its commercial and financial activities. The Group has no exposures to foreign exchange or to derivative contracts.

In managing these financial risks, the Corporation is required by statutory regulation to have regard to the Code of Practice on Treasury Management contained in CIPFA's guidance 'Treasury Management in the Public Services'. This requires the Board to approve a Treasury Management Policy Statement and, annually prior to commencement of the year, a Treasury Management Strategy. A quarterly report on performance against the approved strategy is considered by the Finance Committee, a sub-committee of the Board.

Notes to the accounts

22 Financial instruments continued

The Corporation is subject to the requirements of the Local Government Act 2003. This requires the Mayor to set an affordable borrowing limit. By Statutory regulation, the Mayor and the Corporation are required to have regard to the CIPFA Code of Practice entitled the 'Prudential Code for Capital Finance in Local Authorities' (The Prudential Code). The Prudential Code requires the Board to approve annually indicators for prudent and affordable borrowing, for estimates of capital expenditure and for interest rate exposures and the maturity profiles of borrowing.

The Group's main financial assets and liabilities, as defined in FRS 13, are its cash and investments, its borrowings and its obligations under finance leases, mainly the PPP arrangements in London Underground Limited. These financial assets are taken into account when considering the prudence and affordability of the long term funding plan necessary to support the Group's operations and capital investment programmes.

In managing these financial assets and liabilities, the treasury strategy and annual plan has the following objectives:

- to undertake treasury management operations with primary regards for the security and liquidity of capital invested with reference to the Office of the Deputy Prime Minister (ODPM)'s guidance;
- to maximise yield from investments consistent with the security and liquidity objectives;
- to ensure that sufficient cash is available to enable the Corporation and the Group to discharge its financial obligations in accordance with approved spending plans;
- to undertake treasury management activity with regard to Prudential Code Indicators.

Security and liquidity are dictated by specific policies on counterparty exposure limits, minimum limits on credit quality and term of investment. All investments are made in sterling with institutions having high levels of credit quality and for varying terms not exceeding one year.

The Group intends to raise £3.3 billion through prudential borrowing, as set out to the TfL Board on 29 April 2004, to meet the needs of London and Olympics transport infrastructure. The Secretary of State has confirmed that the Government supports these plans, subject to London's borrowing remaining consistent with the wider Prudential Regime. These resources, together with existing reserves, support TfL's capital investment programme.

In December 2004, the Corporation launched the first ever municipal Eurobond issue for £200 million through joint arrangers HSBC and Morgan Stanley. In issuing this bond, the Corporation used up £196 million of its £400 million limit set by the Mayor for 2004/05.

The maturity profile of obligations under finance leases and group borrowings are given in notes 16 and 19 respectively.

The Group policy in relation to financial risk management is discussed above. As permitted by FRS 13, short term debtors and creditors have been omitted from all disclosures.

Notes to the accounts

22 Financial instruments continued

The following table sets out the book values of financial assets and liabilities as defined and required by FRS 13:

	Group 2004/05 £m	Group 2003/04 restated £m	Corporation 2004/05 £m	Corporation 2003/04 restated £m
Financial assets				
Cash at Bank and in hand	**24.0**	22.2	**8.1**	1.9
Short-term investments	**1,326.5**	852.6	**1,300.4**	832.2
Total financial assets	**1,350.5**	874.8	**1,308.5**	834.1
Financial liabilities				
Borrowings	**195.6**	-	**195.6**	-
Obligations under finance lease	**1078.5**	554.2	**-**	-
Other creditors greater than one year	**11.7**	22.9	**8.4**	6.9
Total financial liabilities	**1,285.8**	577.1	**204.0**	6.9

Short term investments represent bank deposits invested with durations of less than one year with interest receipts on floating rate assets determined mainly by reference to 3 month LIBID/ LIBOR. Obligations under finance leases carry an imputed weighted average interest charge of 6.8% and the long term borrowings carry a fixed coupon rate of 5.0% and a weighted average interest charge of 5.15%.

At 31 March 2005 the market value of the group's quoted debt was £197.4 million. All other financial assets and liabilities have fair values equal to their book value.

23 Related parties

The Corporation is required to disclose material transactions with related parties, defined as bodies or individuals that have the potential to control or influence the Corporation or to be controlled or influenced by the Corporation. Disclosure of these transactions allows readers to assess the extent to which the Corporation might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with it.

Central government is responsible for providing the statutory framework within which the Corporation operates and provides the majority of its funding in the form of Transport Grant. Transport Grant is paid by the Department for Transport to the Greater London Authority, which in turn pays the grant to the Corporation. Details of Transport Grant are disclosed in the Corporation and Group Revenue Accounts and Cash Flow Statements and are therefore not included in this note.

Members of the Board of the Corporation are appointed by the Mayor, who serves as the Chair. The Board is responsible for approving the Corporation's strategic direction and monitoring the performance of the executive team in executing these strategies. During 2004/05 there were no material related party transactions between the Corporation and members of the Board, or between the Corporation and members of the executive team.

Further related parties are those companies listed in note 24.

Notes to the accounts

24 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. Transport Trading Limited holds 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. The statutory accounts for these companies for the year ended 31 March 2005 all received unqualified audit opinions.

On 15 July 2003, London Regional Transport transferred the entire share capital of London Underground to Transport Trading Limited. This transfer was accounted for as a merger under FRS 6.

25 Cash flow statements: reconciliation with the accounts

Capital expenditure	Group 2004/05 £m	Group 2003/04 restated £m	Corporation 2004/05 £m	Corporation 2003/04 restated £m
Additions to fixed assets	(1,157.4)	(863.1)	(160.8)	(149.5)
(Increase)/decrease in debtors	(0.4)	35.2	(3.3)	2.5
Increase/(decrease) in creditors due within one year	69.8	(8.6)	23.0	13.2
Increase/(decrease) in creditors due after one year	0.1	(2.2)	0.1	(1.5)
Additions under finance lease arrangements	712.1	475.6	-	-
Increase/(decrease) in provisions	(9.5)	(11.2)	(9.3)	(14.3)
Capital expenditure per cash flow statement	(385.3)	(374.3)	(150.3)	(149.6)

Contributions from third parties for capital expenditure	Group 2004/05 £m	Group 2003/04 restated £m	Corporation 2004/05 £m	Corporation 2003/04 restated £m
Third-party contributions and other grant funding	102.6	135.1	5.7	2.2
(Increase)/decrease in debtors	(13.9)	22.8	-	-
Contributions from third parties per cash flow statement	88.7	157.9	5.7	2.2

Notes to the accounts

26 Analysis of change in net debt

Group	Note	At 1 April 2004 £m	Movement £m	**At 31 March 2005 £m**
Cash at bank and in hand	*14*	22.2	1.8	**24.0**
Investments		852.6	473.9	**1,326.5**
Borrowings due after more than one year		-	(195.6)	**(195.6)**
Finance lease obligations	*16*	(554.2)	(524.3)	**(1,078.5)**
Total of net debt		320.6	(244.2)	**76.4**

Corporation	Note	At 1 April 2004 £m	Movement £m	**At 31 March 2005 £m**
Cash at bank and in hand	*14*	1.9	6.2	**8.1**
Investments		832.2	468.2	**1,300.4**
Borrowings due after more than one year		-	(195.6)	**(195.6)**
Total of net debt		834.1	278.8	**1,112.9**

27 Congestion charging

	Note	**Group and Corporation 2004/05 £m**	Group and Corporation 2003/04 restated £m
Revenue	*2*	**218.1**	186.7
Expenditure:			
- Toll facilities		**(120.8)**	(120.9)
- Traffic management		**(0.6)**	(2.0)
Financial assistance	*28*	**1.7**	(17.2)
Depreciation		**(1.6)**	(1.1)
Capital financing charges		**(0.4)**	(0.2)
Net income/(Expenditure)		**96.4**	45.3

Congestion charging was introduced on 17 February 2003 in central London at a daily rate of £5 per car or goods vehicle. The daily rate was increased to £8 on 4 July 2005. The net revenues from the congestion charge are spent on improving transport within London in line with the Mayor's Transport Strategy.

Notes to the accounts

28 Financial Assistance

TfL may give financial assistance to any body or person in respect of expenditure incurred or to be incurred by that body or person in doing anything which, in the opinion of TfL, is conducive to the provision of safe, integrated, efficient and economic transport facilities of services to, from or within Greater London.

Financial assistance given under section 159 of the GLA Act 1999 is outlined below:

	Corporation 2004/05 £m	Corporation 2003/04 restated £m
Financial assistance to subsidiaries and joint venture		
Transport Trading Limited	**25.9**	6.5
London Underground Limited	**807.0**	143.5
London Bus Services Limited	**549.9**	503.0
Docklands Light Railway Limited	**43.0**	31.5
London River Services Limited	**0.8**	1.0
Cross London Rail Links Limited	**22.1**	15.6
	1,448.7	701.1
Financial assistance to London Boroughs		
Bus priority	**19.6**	21.8
Safety schemes	**13.8**	22.5
Cycle network	**9.5**	10.3
Congestion charging	**(1.7)**	17.2
Trafalgar Square	**(0.5)**	6.3
Local traffic and pedestrian improvements	**8.0**	5.9
Parking control and enforcement	**0.9**	1.1
Taxicard	**0.1**	4.6
Maintenance of borough roads	**48.4**	36.7
Maintenance of borough bridges including strengthening	**11.9**	15.9
Walking initiatives	**4.0**	6.6
Bus Stop accessibility	**3.1**	3.5
Interchanges	**3.5**	3.7
Streets for People	**7.9**	4.9
Safer routes to schools	**6.1**	7.9
20 mph zones	**7.4**	4.1
Other projects	**10.7**	38.0
	152.7	211.0

Notes to the accounts

29 Guarantees

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

TfL gave a guarantee in favour of HSBC Bank plc, under section 160(1) of the GLA Act 1999.

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

Approximate maximum amount of debt envisaged to be drawn under the relevant debt facilities as part of the:

Agreement with Tube Lines	£1,803 million
Agreement with Metronet BCV	£1,325 million
Agreement with Metronet SSL	£1,325 million
Agreement with CityLink	£ 502 million
Agreement with PADCo and Seeboard Powerlink Ltd	£ 168 million
Agreement with TranSys	£ 197 million
Agreement with CARE	£ 164 million

Whilst the guarantees in relation to the PPP Contracts noted above are the significant guarantees issued on behalf of LUL, it should also be noted that TfL guarantees LUL termination obligations under a further two contracts relating to the Northern Line Train Service Contracts and the Jubilee Line Agreement. Unlike the agreements listed above, the contracts are not based on a initial amount of debt and so cannot be quantified in a similar manner.

No arrangements were entered into with another person under which that person gives a guarantee which TfL has power to give under section 160 (4) and no indemnities associated with the guarantees were given by virtue of section 160 (5) of the GLA Act 1999.

AGENDA ITEM 7

TRANSPORT FOR LONDON

STAFF SUMMARY

TFL BOARD MEETING

SUBJECT: **A406 Hanger Lane Bridges Replacement Scheme - Compulsory Purchase**

MEETING DATE: **13 July 2005**

---

1. PURPOSE

1.1. To seek further approval in principle for the making of a Compulsory Purchase Order if land required for the scheme to replace two bridges that carry the A406 Hanger Lane (part of the North Circular Road) over LUL and Network Rail Lines cannot be acquired by agreement or other processes.

2. BACKGROUND

2.1. At its meeting on 23 March 2005, the Board gave approval in principle for TfL to make a Compulsory Purchase Order if this becomes necessary for the acquisition of the land interests required for the A406 Bridges Replacement Scheme. The Board noted that the final decision to make the Compulsory Purchase Order will be taken by the Managing Director, Surface Transport.

2.2. Since that resolution was made it has become clear that additional land owned by third parties will be required for the purposes of the scheme. Approximately 13 square metres of land along the frontage of 33 Hanger Lane and approximately 10 square metres of land across the frontage of the entrance to Ealing Village is required for the construction of retaining walls that will be built as part of the scheme. In addition, TfL will need to temporarily occupy approximately 54 square metres along the frontage of 33 Hanger Lane and some 200 square metres of land at the entrance to Ealing Village for the purposes of construction. It will also be necessary to acquire rights of access over some of that land to allow for the future maintenance of the new works.

2.3. Although the Board has already given approval in principle for the making of a Compulsory Purchase Order for the purposes of this scheme it could be argued that, because the need for these additional interests was not appreciated when the Board considered the issue in March, the resolution does not extend to include them. In the circumstances the safest course is to seek a further Board resolution to clarify the position.

2.4. In the first instance TfL will seek to acquire these additional land interests by negotiation but it may be necessary to include them in the Compulsory Purchase Order in order to ensure that the scheme is not delayed. Any use of Compulsory

Purchase powers will however be limited to the acquiring of the minimum amount of land required for the construction and operation of the scheme.

2.5. A compulsory acquisition of land interferes with an owner's rights of property under Article 1 of the First Protocol to the European Convention on Human Rights which is incorporated into English Law under the Human Rights Act 1998. However, the view is taken that the interference is made for a legitimate aim and is in the public interest. Furthermore, compensation will be paid under the statutory code to all landowners from whom land is taken and in all cases the acquisition will be proportional and justified.

2.6. The scheme is fully funded in the budget and business plan including provision for compulsory purchase if needed.

3. RECOMMENDATIONS

3.1. The Board is asked to give approval in principle for TfL to make a Compulsory Purchase Order, if this becomes necessary, for the acquisition of all of the land interests, including those at 33 Hanger Lane and Ealing Village and any additional interests that may ultimately be identified, required for the purposes of A406 Bridges Replacement Scheme. The Board is asked to note that the final decision as to what land interests are to be included in any Compulsory Purchase Order and the decision to make the Order will be taken by the Managing Director, Surface Transport.

Peter Brown
Chief Operating Officer - Streets
28 June 2005

Cross Ref:	Secretariat Record Number

Transport for London **Record Sheet**		
Subject: **A406 Hanger Lane Bridges Replacement Scheme – Compulsory Purchase**		
	Name	Signature
Sponsor	Peter Hendy	
Author(s)	Peter Brown	

Routing	**Signature**	**Date**
Richard Browning, Director of Business Planning & Performance		
Jay Walder, MD, Finance & Planning		
General Counsel/TfL Legal		
Ben Plowden, MD Communications		

Destination	**Tick or sign as appropriate**	**Date**
Managing Director, Finance & Planning:		
Committee:		
Panel:		
Commissioner:		
TfL Board:		13/07/05

For Secretariat use:
