

Date: 15 June 2012

Item 14: TfL Statement of Accounts for the Year Ended 31 March 2012

---

**This paper will be considered in public**

**1 Summary**

- 1.1 To present the draft TfL Group Statement of Accounts for the year ended 31 March 2012 to the Audit and Assurance Committee for consideration. The current draft of the Statement of Accounts is attached to this paper and will be referred to the TfL Board for approval on 27 June 2012.

**2 Recommendation**

- 2.1 **The Committee is recommended to note the draft Statement of Accounts, and that the Chief Finance Officer will make any adjustments arising from the ongoing audit work prior to submission to the Board. Any material adjustments arising therefrom will be reported to the next meeting of the Committee.**

**3 Background**

- 3.1 The Statement of Accounts has been prepared in accordance with the provisions of the Audit Commission Act 1998 and the Accounts and Audit (England) Regulations 2011 (“the Regulations”). The form, content and accounting policies followed in preparing the Statement of Accounts are as prescribed in the Regulations and by the Code of Practice on Local Authority Accounting which is developed and published by the CIPFA/LASAAC joint committee (“the Code”). The Code is based on International Financial Reporting Standards (“IFRS”).
- 3.2 The Regulations require that the responsible financial officer, namely the Chief Finance Officer, sign and date the Statement of Accounts by 30 June at the latest, and certify that it presents a true and fair view of the financial position of TfL at the end of the year to which it relates and of TfL’s income and expenditure for that year.
- 3.3 The Regulations further require that the Statement of Accounts 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. Approval is planned to be sought at the Board meeting on 27 June 2012.

- 3.4 As has been the case in earlier years, the Statement of Accounts must be made available for public inspection for a period of four weeks following advertisement of the inspection period. The inspection period commences on 11 June and finishes on 6 July. Following the inspection period, 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 Committee at its next meeting.

## **4 Key Features of the Accounts**

- 4.1 The 2011/12 Code contains very few changes from that for 2010/11, other than incorporating the requirements of FRS 30 Heritage Assets. This has no material impact on the financial statements.
- 4.2 As at 31 March 2012, the Group has usable reserves of £2,413m. Of this, £1,396m is held within the “unapplied capital grants account”. This represents funding received for the Crossrail project but not yet expended, and arises because funding has been received ahead of need. Accordingly, only £1,017m is available to TfL generally.
- 4.3 The majority of this is “earmarked reserves”, reserves set aside for specific policy purposes namely funding of the Investment Programme. As is the case for unapplied capital grants, earmarked reserves are effectively funding received in advance of need.
- 4.4 Before allowing for expected pressures which have not been included in the Business Plan, earmarked reserves at 31 March 2012 amount to £824m, an increase of approximately £306m. These reserves are set aside in respect of projects across the Group, excluding Crossrail. Earmarked reserves form part of the overall funding pot for the Investment Programme, and will be expended on major projects over the next few years such as the SSR Upgrade, Northern Line Upgrade and Congestion Relief Projects at Tottenham Court Road and Paddington.
- 4.5 It is proposed that additional reserves totalling £31m should be earmarked in respect of pressures. Based on TfL’s Business Plan update published in December 2011, the earmarked reserves are expected to be exhausted by 2014/15.
- 4.6 The residual General Fund balance at 31 March 2012 was £162m (2010/11 £154m). A balance of around £150m is maintained to cover risks that may arise, and is determined to be appropriate given the scale of the Group’s operations.

## **5 Remuneration disclosure**

- 5.1 The requirements for producing the salary banding note (note 5a) are unchanged from earlier years. The note includes all voluntary severance amounts, so is impacted by the Project Horizon related departures. The note also includes wording explaining the impact of severance, as was done for 2011.

- 5.2 The disclosure is complicated this year because there were 14 pay dates falling within the tax year to 5 April 2012 on one of TfL's main payrolls. TfL operates a number of payrolls, the majority of which pay on a four-weekly cycle, with thirteen payments in most years. Approximately once in every twenty two years, the timing of the payroll is such that there are fourteen payments in the financial year. The final pay date of the tax year was 4 April 2012, and this was treated as falling into the 2011/12 tax year.
- 5.3 The Code requires that disclosure of employees' remuneration be based on cash payments made in the tax year to 5 April. The inclusion of the additional payment has the effect of increasing reported remuneration, without affecting the underlying annual remuneration earned. The impact of this for 2012 would be the publication of data that would not be comparable with either 2010/11 or 2012/13, and would present a misleading picture.
- 5.4 To facilitate comparability between years, additional columns have been added to the tables showing remuneration paid over thirteen periods as was disclosed in the prior year and as is expected to be disclosed in future years. The payroll run excluded from the disclosure was the first of the financial year, namely 6 April 2011.
- 5.5 The format of the senior remuneration note is also unchanged from earlier years. However for this note, a change in basis has been followed, preparing the numbers on an accruals basis rather than on the basis of taxable income as shown on the P60 form. This is permitted by the Accounts and Audit (England) Regulations 2011, and will provide greater comparability across years. As the basis of preparation has changed, prior year comparatives have also been restated.
- 5.6 There is a new requirement for 2011/12 to disclose the number of exit packages falling within rising bands of £20,000 up to £100,000, and bands of £50,000 thereafter. A split is made between compulsory and voluntary redundancy payments, with the vast majority of payments shown as voluntary. The value of any augmented pension given is included in the cost of the redundancy package. In addition, the total cost of exit packages by band is required.

## **6 Disclosure of Pension Fund Deficit**

- 6.1 The Group balance sheet includes the deficit on the Public Sector and Tube Lines sections of the TfL Pension Fund, TfL's share of the deficit on the Local Government Pension Scheme, and the liability in respect of unfunded pension obligations, all calculated in accordance with IAS 19 Employment Benefits. The total deficit on TfL's defined benefit pension schemes has increased to £2.3 billion.
- 6.2 Under IAS 19, the assets of a pension fund are valued at fair value at the balance sheet date, and the liabilities are discounted at the AA corporate bond rate at that date. The deficit arising is shown in the balance sheet under "Pension and other post retirement liabilities", and is highly volatile due to the variation in the market value of the fund's assets from year to year and the

sensitivity of the liabilities to the market yield on AA corporate bonds at the balance sheet date.

- 6.3 The Code requires that IAS 19 does not impact on Council Tax rates. The income and expenditure account therefore includes an appropriation from or to the Pensions Reserve. The result of these entries is that the pensions deficit is not charged to the general fund, and is instead charged to a separate reserve, and only the actual contributions paid to the pension funds impact on the general fund.
- 6.4 The IAS 19 basis of valuation is different to that used by the Fund Actuary in the triennial valuations which determine the level of contributions that TfL is required to make to the Fund. The last such valuation was at 31 March 2009 and revealed a combined deficit of £1,407 million for the Public Sector and Tube Lines sections. The rules of the TfL Pension Fund require that this deficit should be made good by additional employer contributions over a period not exceeding ten years. The funding valuation at 31 March 2012 is currently under way, and the results are expected to be available in the autumn.

## **7 Borrowings and derivatives**

- 7.1 TfL, through its wholly owned subsidiary, commenced a programme of entering into derivatives to hedge the interest rates on future borrowings in 2010/11. As at 31 March 2012, the Group has in place forward start date interest rate swaps to fix the interest rate on £725m of future floating rate borrowings, a £300m swap to fix the rate on a one year floating rate note, and gilt locks to fix the rate on £823m of future long term borrowings. It also has an interest rate swap to hedge the interest rate risk in a lease of rolling stock.
- 7.2 TfL has adopted hedge accounting for all these derivatives. The effect of this is that movements in the fair value of the derivatives are taken to reserves through "other comprehensive income" rather than flowing through the income and expenditure statement.

## **8 Acquisition of CARE and WARE**

- 8.1 On 23 November 2011, TfL acquired, through Transport Trading Limited, a 100 per cent interest in Woolwich Arsenal Rail Enterprises Ltd (WARE) and City Airport Rail Enterprises Ltd (CARE). The PFI contracts between DLR and these entities were treated as finance leases in the TfL Group accounts. As at 31 March 2011, the value of the finance lease creditor on TfL Group's balance sheet was £150m and £176m for CARE and WARE respectively.
- 8.2 TfL is permitted to swap finance lease creditors in subsidiaries for direct borrowing in the Corporation, in accordance with its Spending Review 2010 funding agreement with the Secretary of State for Transport. The increase in direct borrowing as a result of the CARE and WARE acquisition is limited to the finance lease creditor outstanding in Docklands Light Railway Limited prior to the acquisition of these companies of £326m, and Public Sector Net Debt was therefore unaffected by the transaction.

8.3 Goodwill of £106m arose on the acquisition of the companies, and has been written off in full.

## **9 Refinancing**

9.1 TfL has entered into a number of transactions during the year in order to achieve lower costs of borrowing. Taking into account initial costs of refinancing, these transactions deliver significant cash savings.

9.2 Between August and October 2011, the majority of the borrowings inherited by the TfL Group on the acquisition of Tube Lines was repaid. The premium paid by TfL amounted to £216.5m. Legislation permits this premium to be taken to the Financial Instruments Adjustment Account, and then released to the general fund over the term of the replacement borrowing. The immediate loss on refinancing at a Group level is lower because of a fair value adjustment that arose on acquisition of Tube Lines by TfL.

9.3 The external borrowings held by CARE and WARE were refinanced by TfL shortly after acquisition, with the exception of the WARE EIB loan (see below). The increase in direct borrowings by TfL, including the impact of the EIB loan, was limited to £326m.

9.4 On 29 February 2012, the WARE EIB loan and a similar loan from EIB to Tube Lines (Finance) Plc were transferred from the subsidiaries to TfL. Under IAS 39 Financial instruments: Recognition and measurement, the value at which the transferred loan was initially recognised on TfL's own balance sheet was required to be its fair value at the transfer date. The loan will subsequently be accounted for at amortised cost, with the difference between the fair value on initial recognition and the redemption value being amortised over the life of the loan.

9.5 However, as the novation is intra-group there is no impact on the Group's liabilities, and the adjustment to fair value in the accounts of TfL Corporation has been reversed out on consolidation. As there is no overall increase in liabilities across the TfL Group arising from the novation, this does not affect TfL's borrowing limits.

### **List of appendices to this report:**

Appendix 1 – draft Statement of Accounts

### **List of Background Papers:**

None

Contact: Stephen Critchley, Chief Finance Officer  
Number: 020 7126 4871  
Email: [StephenCritchley@tfl.gov.uk](mailto:StephenCritchley@tfl.gov.uk)

Transport for London

Annual Report and Financial Statements

Year ended 31 March 2012

DRAFT

# Contents

Explanatory Foreword and Financial Review .....	1
Statement of Responsibilities for the Accounts .....	13
Independent Auditor's Report .....	14
Group Comprehensive Income and Expenditure Statement .....	17
Group Balance Sheet .....	18
Group Movement in Reserves Statement	
Group Statement of Cash Flows .....	20
Corporation Comprehensive Income and Expenditure Statement .....	21
Corporation Balance Sheet .....	22
Corporation Movement in Reserves Statement .....	23
Corporation Statement of Cash Flows .....	24
Accounting Policies .....	25
Notes to the Financial Statements .....	46

# Explanatory Foreword and Financial Review

## Financial Performance

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

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

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

## Highlights

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

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

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



# Explanatory Foreword and Financial Review

## Funding sources

TfL's activities are funded from six main sources:

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

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

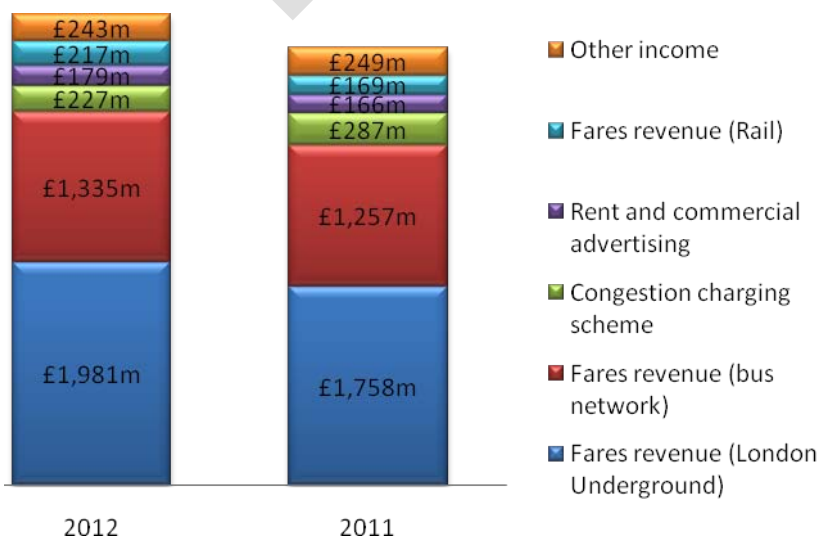
## Revenue

As in previous years, TfL's primary source of revenue comes from fares on the London Underground and Bus networks. This represents 85 per cent of all revenue generated. The January 2012 fares rise was reduced from the previously-planned RPI plus two per cent (7 per cent) to RPI plus one per cent (6 per cent) after the DfT provided an additional grant to support a lower fare increase. The Business Plan continues to assume that fares will rise at two per cent above RPI in each year of the Plan period. Fares decisions are taken annually by the Mayor.

Fares revenue on London Underground was £1,981m, 13 per cent up on 2010/11. This reflected a year-on-year increase in passenger journeys of 6 per cent and above inflation fare increases. On the bus network, a smaller increase in passenger journeys together with fare rises resulted in an increase in fares revenue of 6 per cent to £1,335m.

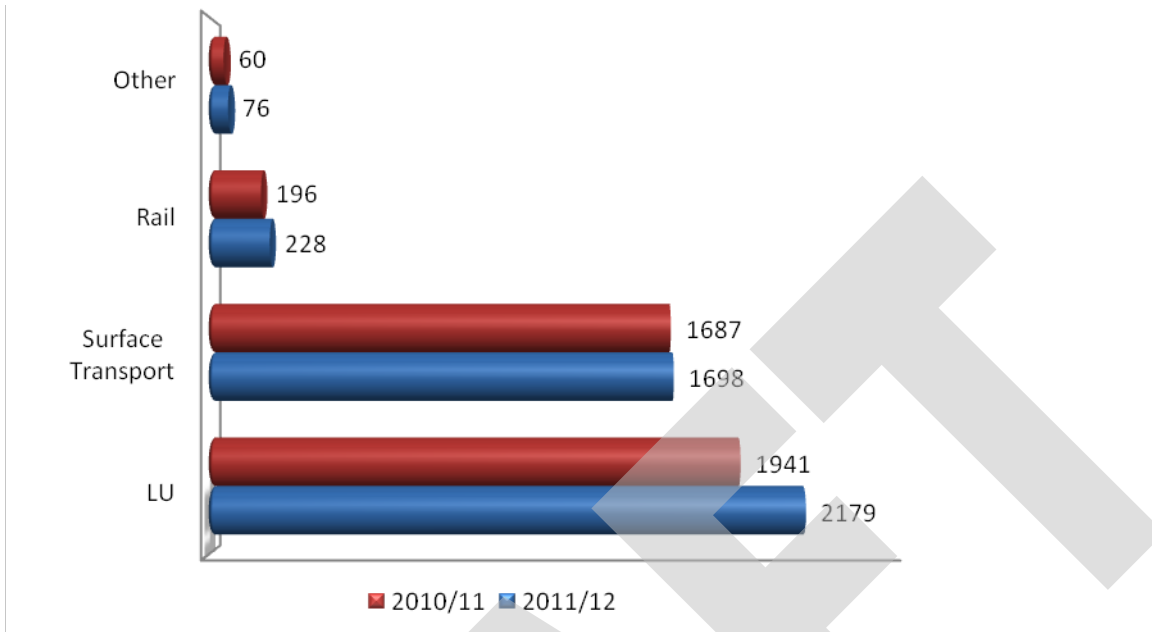
Over the course of 2011/12, the use of Oyster pay as you go has remained stable on TfL services at around 39 per cent of all journeys on the Underground and 21 per cent on buses. Pay as you go use on National Rail services in London is still continuing on a linear increase since its extension to all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

## Revenue breakdown by type



# Explanatory Foreword and Financial Review

## Total revenue by business unit (£m)



London Overground's fares revenue of £93m for this year was up 52 per cent compared to 2010/11 following recent capacity enhancements. Record daily passenger journeys of 466,000 were recorded on 5 March 2012.

Total fares revenue on the DLR increased by 16 per cent to £103m reflecting greater than expected demand across the whole network, including the impact of the opening of the Stratford International Extension and the Westfield Stratford City shopping centre.

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

### Government grants and other funding

The main source of grant income is the Transport Grant from the Department of Transport ('DfT') which comprises two elements: an investment grant, which supports delivery of the investment programme; and a general grant, to support TfL's operating activities. Other key funding streams include specific capital grants from the DfT and the Greater London Authority for the Crossrail project and grants for transport related works in preparation for the London 2012 Olympic and Paralympic Games from the Olympic Delivery Authority. The combined general and capital grants from the DfT increased by 6 per cent in 2011/12 to £4,471m. Other grants given to support operating activities however reduced from £120m to £74m, and other capital grants fell from £202m in 2010/11 to £168m in 2010/12.

# Explanatory Foreword and Financial Review

## Prudential Borrowing

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

Set out below is a table summarising movements in the value of borrowings during the year. In addition to the sources of financing in the table below, other sources of financing include the PFIs (see also notes 21 and 22 to the accounts).

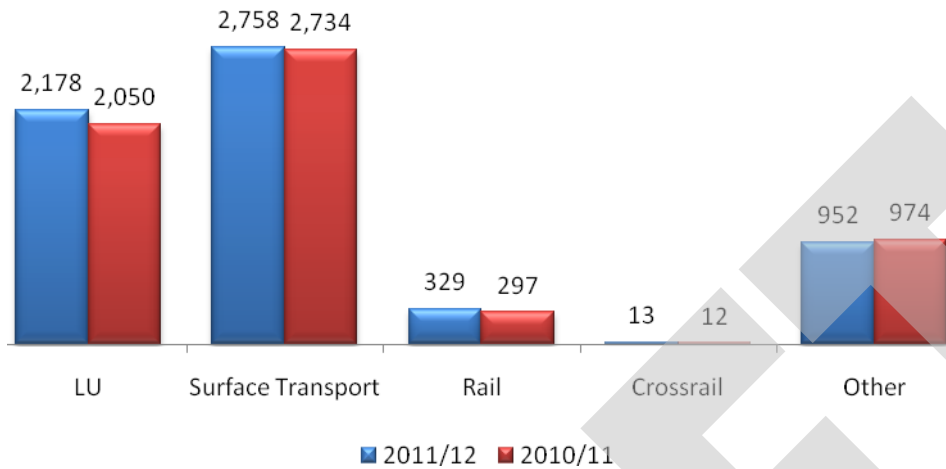
Movement in long-term borrowing £m		
Opening borrowing at 1 April 2011	6,343	
European Investment Bank loan - Crossrail	200	The third instalment of a total facility of £1 bn drawn down over six years. The loan has an average fixed interest rate of 4.9 per cent. Repayment of the loan is between 2021 and 2058
European Investment Bank loan - WARE	94	Debt acquired on acquisition of WARE
Commercial paper	1,417	Borrowings with different maturities ranging between two and four months with a weighted average interest rate of 0.8 per cent taken out to refinance Tube Lines debt, the acquisition of CARE and WARE and the ongoing Capital Investment Programme.
1 year "FRN"	300	A one year floating rate note was taken out in 2011/12 and fixed at an interest rate of 0.883% through the use of an interest rate swap.
Tube Lines	(1,220)	Fixed rate Tube Lines debt refinancing during the year
Closing nominal value borrowing at 31 March 2012	7,134	
Acquisition fair value adjustments	(11)	
Closing borrowing at 31 March 2012 per the accounts	7,123	

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

# Explanatory Foreword and Financial Review

## Uses of funding

### Operational expenditure £m



Operating expenditure on the Underground increased by 6 per cent to £2,178m due to inflationary increases and adjustments to provisions. Bus network costs increased overall by only £18m to £1,886m. Bus network subsidy has decreased by more than a quarter over the last four years from £722m in 2008/09 to £518m. This has been achieved through a combination of accepting the need for fares to make a greater contribution to the cost of providing the service, such that fares now represent three quarters of the cost, and by continuing to ensure good value and cost control. This reduction has been made whilst achieving the highest passenger journey numbers since 1959 and reliability matching best-ever levels.

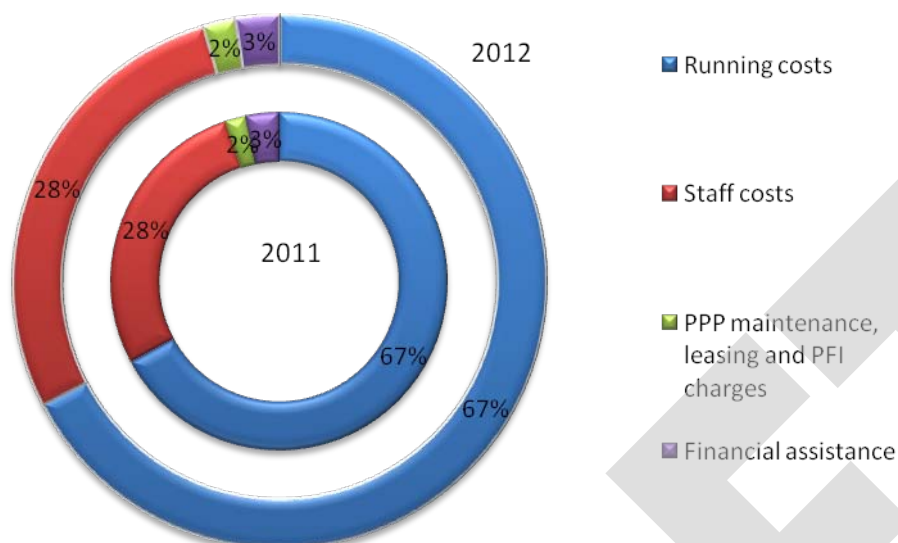
There was a decrease in expenditure on Congestion Charging due to project costs from the introduction of Auto Pay and closure of the Western Extension of the scheme having been incurred in 2010/11, together with a decrease in bad debts in line with the reduction in penalty charge income.

Expenditure on London Rail increased by 11 per cent following the recent capacity enhancements on London Overground and DLR.

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

# Explanatory Foreword and Financial Review

## Expenditure breakdown percentage 2011/12 vs 2010/11



### Net interest and finance charges

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

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

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

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

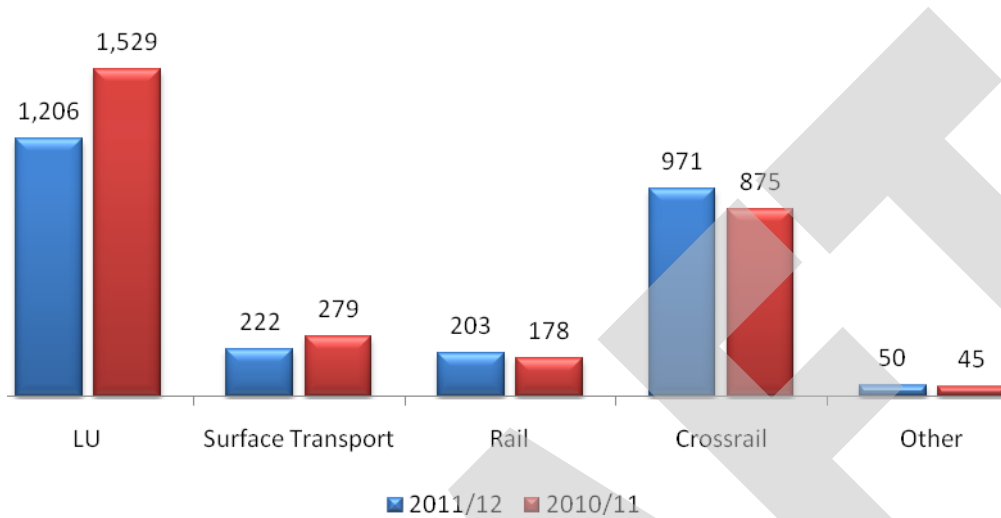
Financing and investment income was £442m, an increase of £34m on the previous year. This was largely due to an increase in the expected return on pension scheme assets as a result of both higher assets at the start of the year and a change in mix of pension scheme assets.

# Explanatory Foreword and Financial Review

## Capital expenditure

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

### Capital expenditure by business area (£m)



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

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

By the end of the year, half of the new fleet of air-conditioned 8-car S-stock trains was in service on the Metropolitan line, and the first of the 7-car S-stock trains is expected to enter passenger service on the Hammersmith & City line during 2012. Preparatory work undertaken in readiness for the introduction of these trains has included lengthening of several station platforms and signalling improvement works at the key location of Edgware Road. The year has also seen extensive track replacement works taking place on the sub-surface network (Metropolitan, District, Circle and Hammersmith & City lines), including a 32-day closure between High Street Kensington and Edgware Road stations during which 2,000 metres of new drainage were laid and approximately 3.5 kilometres of track were replaced.

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

In Surface Transport, £222m was spent on capital works, including the launch of mobile, internet and SMS information services for all 19,000 bus stops, cycling initiatives such as the eastward expansion of the Barclays Cycle Hire scheme and two new Cycle Superhighways routes. There was also expenditure on the Transport for London Road Network (TLRN), including the ongoing capital renewals programme on carriageways and other assets, and major engineering schemes such as the creation of a dual carriageway on the A406 at Bounds Green, refurbishment of the Blackwall Tunnel northbound, and strengthening work on the Hammersmith Flyover. In addition, there was continued investment in safety improvements to tunnels and bridges, traffic signal modernisation and enhancements to associated communications infrastructure.

# Explanatory Foreword and Financial Review

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

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

## Cash and short-term investments

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

## Treasury risk management

The Board approves prudent treasury policies that comply both with the principles of the CIPFA Prudential Code and investment guidance issued by the Secretary of State under Section 15 (1) (a) of the Local Government Act 2003.

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

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

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

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

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

# Explanatory Foreword and Financial Review

## Counterparty credit

The Group's exposure to credit-related losses, i.e. non-performance by counterparties on financial instruments, is mitigated by setting a minimum required credit rating and applying financial limits based on credit ratings. For 2011/12, TfL followed a conservative investment strategy, investing only with the UK Government and its executive agency, the Debt Management Office, UK Government guaranteed investments, selected financial institutions with high (investment grade) credit ratings from a credit rating agency, selected supranational or sub-sovereign agencies with high credit ratings, and selected Money Market Funds with high credit ratings. The amounts that can be invested with the DMO were not limited, while amounts invested with the UK clearing banks were based on the bank's credit rating and any Government support. The minimum rating was A+ / A1. Credit ratings are obtained from the three main ratings agencies and are kept under constant review.

## Funding and liquidity

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

## Interest rates

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

## Pensions

As at 31 March 2012, the majority of TfL's employees were members of the Public Sector Section of the TfL Pension Fund. Over the past year, the fair value of the assets of this Section increased by £337m. There was an increase in the actuarial value of future liabilities of £979m, due to a reduction in the discount rate required to be used for accounting valuations, which is based on the yield on AA-rated corporate bonds. As a consequence the deficit of pension scheme assets over future liabilities for the TfL Pension Fund increased by £642m.

Total future liabilities under funded and unfunded pension arrangements at 31 March amounted to £2,293m (2011 £1,620m).

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

## Prospects and outlook

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

The investment in the Business Plan is designed to support London's projected growth in population and employment. The Mayor of London published the London Plan which describes population growth of up to 1 million and employment growth of up to 0.65 million between 2011 and 2031. This means there will be around three million extra trips a day in the Capital by 2031.



# Explanatory Foreword and Financial Review

TfL has many schemes underway to address this challenge, including:

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

## Key risks

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

These include:

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

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

# Explanatory Foreword and Financial Review

## Accounting statements

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

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

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

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

TfL's subsidiaries are subject to the accounting requirements of the Companies Act 2006 and separate statutory accounts are prepared for each subsidiary and for the Transport Trading Limited group. These accounts are also prepared under International Financial Reporting Standards.

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

The Statement of Accounts comprises:

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

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

## Purposes of major schedules within the financial statements

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

### Comprehensive Income and Expenditure Statement

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

### The Balance Sheet

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

# Explanatory Foreword and Financial Review

reserves that hold timing differences shown in the movement in reserves statement line 'Adjustments between accounting basis and funding basis under regulations'.

## The Cash Flow Statement

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

## Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by TfL, analysed into usable reserves and other reserves. The Surplus or (Deficit) on the Provision of Services is different from the statutory amounts required to be charged to the General Fund Balance. The Net Increase/ Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves.

# Statement of Responsibilities for the Accounts

The Corporation is required to:

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

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

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

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

**Stephen Critchley**  
Chief Finance Officer  
27 June 2012

# Independent Auditor's Report

We have audited the financial statements of Transport for London ('the Corporation') and the Transport for London Group ('the Group') for the year ended 31 March 2012 which comprise the Corporation and Group Comprehensive Income and Expenditure Statements, the Corporation and Group Balance Sheets, the Corporation and Group Movement in Reserves Statements, the Corporation and Group Cash Flow Statements and the related notes, as set out on pages 17 to 145. These financial statements have been prepared under applicable law and the accounting policies set out in the Statement of Accounting Policies.

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

## **Respective responsibilities of the Chief Finance Officer and auditor**

As explained more fully in the Statement of Responsibilities set out on page 13, the Chief Finance Officer is responsible for the preparation of the financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

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

## **Opinion on the financial statements**

In our opinion the financial statements:

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

# Independent Auditor's Report (continued)

## Matters on which we report by exception

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

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

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

### Corporation's responsibilities

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

### Auditor's responsibilities

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

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

# Independent Auditor's Report (continued)

## Basis of conclusion

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

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

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

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

## Conclusion

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

## Certificate

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

W Southwood (Senior Statutory Auditor),

For and on behalf of KPMG LLP, Statutory Auditor

KPMG LLP  
Chartered Accountants  
15 Canada Square  
Canary Wharf  
London  
E14 5GL  
X July 2012

# Group Comprehensive Income and Expenditure Statement

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

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



# Group Balance Sheet

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

The notes on pages 25 to 145 form part of these financial statements.

These financial statements were approved by the Board on 27 June 2012 and signed on its behalf by:

**Boris Johnson**  
Chair of TfL

# Group Movement in Reserves Statement

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

# Group Statement of Cash Flows

Year ended 31 March	Note	2012 £m	2011 £m
<b>Surplus on the provision of services after tax</b>		<b>2,276.0</b>	1,764.7
Adjustments to surplus after tax for non-cash movements	30 a	<b>(2,007.9)</b>	(1,760.1)
<b>Net cash flows from operating activities</b>		<b>268.1</b>	4.6
Investing activities	30 b	<b>(21.0)</b>	47.9
Financing activities	30 c	<b>(222.4)</b>	(35.3)
<b>Net increase in cash and cash equivalents in the year</b>		<b>24.7</b>	17.2
Cash and cash equivalents at the start of the year		<b>54.1</b>	36.9
<b>Cash and cash equivalents at the end of the year</b>		<b>78.8</b>	54.1

DRAFT

# Corporation Comprehensive Income and Expenditure Statement

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

# Corporation Balance Sheet

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

The notes on pages 25 to 145 form part of these financial statements.

These financial statements were approved by the Board on 27 June 2012 and signed on its behalf by:

**Boris Johnson**  
Chair of TfL

# Corporation Movement in Reserves Statement

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

# Corporation Statement of Cash Flows

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

DRAFT

# Accounting Policies

## a) Code of practice

TfL is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011 (the 2011 Regulations), which those Regulations require to be prepared in accordance with proper accounting practices. The Statement of Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code), as amended by the 2011/12 Code Update, developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board under the oversight of the Financial Reporting Advisory Board. The Code constitutes proper accounting practice for the purpose of the 2011 Regulations.

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

The Code is compliant with Adopted IFRS except for:

### **Capital grants and contributions**

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

### **FRS 30 Heritage Assets**

The 2011/12 Code, for the first time, has adopted the requirements of FRS 30 Heritage Assets. The Group has taken the exemption available under the Code to hold heritage assets at historical cost less any accumulated depreciation or impairment losses and has made additional disclosures on its heritage assets as required by the standard. There is no equivalent standard for accounting for Heritage Assets under Adopted IFRS.

### **IAS 36 Impairment of Assets**

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



# Accounting Policies (continued)

## **b) Basis of preparation**

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

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

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

Where items are sufficiently significant by virtue of their size or nature, they are disclosed separately in the financial statements in order to aid the reader's understanding of the Corporation's and Group's financial performance.

## **c) Basis of consolidation**

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

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

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

## **d) Going concern**

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

# Accounting Policies (continued)

## e) The application of new and revised standards

The provisions of FRS 30 Heritage Assets have for the first time been incorporated into the 2011/12 Code, resulting in a change in accounting policy for the year ended 31 March 2012. Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. These provisions apply to the Corporation's collection of transport-related artefacts held at the London Transport Museum. Due to the diverse nature of the assets held and the lack of comparable values, TfL considers it impracticable to obtain a valuation of its heritage assets at a cost which is commensurate with the benefits to users of the financial statements, and has therefore taken the exemption available under the Code to hold heritage assets at historical cost less any accumulated depreciation or impairment losses.

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

## f) Discontinued operations

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

## g) Uses of estimates and judgements

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

### Impairment of goodwill

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

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

# Accounting Policies (continued)

## g) Uses of estimates and judgements (continued)

### Valuation of acquired businesses

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

### Post-retirement benefits

The pension costs and defined benefit plan obligations of the Group's defined benefit plans are calculated on the basis of a range of assumptions, including the discount rate, inflation rate, salary growth and mortality. Differences arising as a result of actual experience differing from the assumptions, or future changes in the assumptions will be reflected in subsequent periods. A small change in assumptions can have a significant impact on the valuation of the liabilities. More details are given in note 29.

### Useful economic life of property, plant and equipment

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

### Derivative financial instruments

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

### Determining whether an arrangement contains a lease

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

# Accounting Policies (continued)

## g) Uses of estimates and judgements (continued)

### Classification of investment properties

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

### Leases

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

### Provisions

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

### Investment property

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

### Office buildings

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

## h) Revenue recognition

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

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

# Accounting Policies (continued)

## h) Revenue recognition (continued)

### Fares revenue

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

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

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

### Congestion charging

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

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

### Commercial advertising

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

### Rental income

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

# Accounting Policies (continued)

## i) Segmental reporting

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

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

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

## j) Grants and other funding

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

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

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

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

# Accounting Policies (continued)

## k) Financing and Investment income and expenses

Financing and investment income comprises interest income on funds invested, premiums received on the early settlement of borrowings, and the expected return on pension assets. Interest income is recognised in the Comprehensive Income and Expenditure Statement as it accrues using the effective interest rate method.

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

## l) Taxation

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

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

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

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

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

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

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

# Accounting Policies (continued)

## m) Business combinations

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

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

## n) Intangible assets

### Goodwill

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

### Other intangible assets

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

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

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

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

## o) Property, plant and equipment

### Recognition and measurement

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

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

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



# Accounting Policies (continued)

## o) Property, plant and equipment (continued)

The cost of certain items of property, plant and equipment was determined by reference to a previous GAAP revaluation. The Group elected to apply the optional exemption to use this previous revaluation as deemed cost at 1 April 2009, the date of transition.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after April 2009, and any other costs directly attributable to bringing the assets to a working condition for their intended use. Where there is a legal obligation to remove the asset and/or restore the site on which it is located at the end of its useful economic life, the costs of dismantling and removing the items and restoring the site on which they are located are also included in the cost of the asset.

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

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

### Depreciation

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

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

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

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

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

# Accounting Policies (continued)

## **o) Property, plant and equipment (continued)**

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

## **p) Heritage assets**

Property, plant and equipment includes a number of assets classified as heritage assets in accordance with the Code. Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. These provisions apply to the collection of transport-related artefacts held at the London Transport Museum. Due to the diverse nature of the assets held and the lack of comparable market values, TfL considers it impracticable to obtain a valuation of its heritage assets at a cost which is commensurate with the benefits to users of the financial statements, and has therefore taken the exemption available under the Code to hold its heritage assets at historical cost less any accumulated depreciation or impairment losses.

## **q) Investment property**

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

Investment property is measured initially at cost, including transaction costs, and subsequently measured at fair value with any change therein recognised in the Comprehensive Income and Expenditure Statement. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting. Investment properties held at fair value are not subject to depreciation.

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

## **r) Inventories**

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

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

# Accounting Policies (continued)

## s) Non-current assets held for sale

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

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

## t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (those necessarily taking a substantial period of time to get ready for their intended use) are added to the cost of those assets, until such time as the assets are ready for their intended use. The Group has opted to use the date of transition to IFRS (1 April 2009) as the effective date for applying IAS 23 Borrowing costs ('IAS 23'). At the transition date, the majority of the projects funded by borrowing, including Crossrail, had already commenced and are therefore not impacted by IAS 23.

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

## u) Provisions

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

## v) Foreign currencies

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

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

# Accounting Policies (continued)

## w) Leases (the Group as lessee)

### Leased assets

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

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

### Lease payments

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

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

### Determining whether an arrangement contains a lease

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

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

## x) Leases (the Group as lessor)

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

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

# Accounting Policies (continued)

## y) Private Finance Initiative ('PFI') transactions and similar contracts

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

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

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

### Services received

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

### Assets

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

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

### Liabilities

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

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

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

# Accounting Policies (continued)

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

### Life cycle replacement

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

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

### z) Impairment of non-financial assets

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

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

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

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

### aa) Employee benefits

#### Defined benefit plans

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

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

Pension scheme assets are measured using current market bid values. Pension scheme defined benefit obligations are measured using a projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the defined benefit obligation.

# Accounting Policies (continued)

## aa) Employee benefits (continued)

The difference between the value of the pension scheme assets and pension scheme defined benefit obligations is a surplus or a deficit. A pension scheme surplus is recognised to the extent that it is recoverable and a pension scheme deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the Comprehensive Income and Expenditure Statement, actuarial gains and losses. Generally, amounts are charged to operating expenditure on the basis of the current service cost of the present employees that are members of the schemes.

### Defined benefit plans – multi-employer exemption

For certain defined benefit schemes, the Corporation and/or the Group is unable to identify its share of the underlying assets and defined benefit obligations of the scheme on a consistent and reasonable basis. As permitted by the multi-employer exemption in IAS 19 Employee benefits, these schemes are accounted for as defined contribution schemes. The Group's contributions are charged to the Comprehensive Income and Expenditure Statement as incurred.

### Unfunded pension schemes

Ex gratia payments are made to certain employees on retirement in respect of service prior to the establishment of pension funds for those employees. Supplementary payments are also made to the pensions of certain employees who retired prior to the index linking of pensions. The Group augments the pensions of certain employees who retire early under voluntary severance arrangements. These unfunded pension liabilities are provided for in the balance sheet.

### Defined contribution plans

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

# Accounting Policies (continued)

## aa) Employee benefits (continued)

### Other employee benefits

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

### ab) Reserves

Reserves consist of two elements, usable and unusable.

Usable reserves are those that can be applied to fund expenditure. They are made up of the general fund, earmarked reserves, and the capital grants unapplied account.

Unusable reserves cannot be applied to fund expenditure as they are not cash backed. They include the capital adjustment account, pension reserve, the hedging reserve, the financial instruments adjustment account, the retained earnings reserve in subsidiaries and the fixed asset revaluation reserve.

### ac) Financial instruments

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

- Financial assets at fair value through the Comprehensive Income and Expenditure Statement;
- loans and receivables ; or
- available for sale financial assets.

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

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

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

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

Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Assets are carried in the balance sheet at fair value with gains or losses recognised in the Comprehensive Income and Expenditure Statement.



# Accounting Policies (continued)

## ac) Financial instruments (continued)

### Loans and receivables

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

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

### Other investments

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

### Trade and other receivables

Trade and other receivables are classified as loans and receivables financial assets and are recognised initially at fair value and subsequently at amortised cost. For trade receivables this is after an allowance for estimated impairment. The allowance is based on objective evidence that the Group will not be able to recover all amounts due, through a review of all accounts and prior experience of collecting outstanding balances. Changes in the carrying amount of the allowance are recognised in the Comprehensive Income and Expenditure Statement.

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

### Available for sale financial assets

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

# Accounting Policies (continued)

## ac) Financial instruments (continued)

### Cash and cash equivalents

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

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

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

### Financial liabilities measured at amortised cost

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

### Trade and other creditors

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

### Interest bearing loans and borrowings

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

### Obligations under finance leases and PFI arrangements

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

### Derivative financial instruments

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

# Accounting Policies (continued)

## ac) Financial instruments (continued)

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

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

### Hedge accounting

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

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

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

### Cash flow hedges

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

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

Amounts deferred in reserves are recycled in profit or loss in the periods when the hedged items (the hedged asset or liability) are recognised in the Comprehensive Income and Expenditure Statement. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the related asset or liability.

# Accounting Policies (continued)

## ac) Financial instruments (continued)

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

### Fair value measurement of financial instruments

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

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

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

### Impairment of financial assets

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

### Embedded derivatives

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

# Notes to the Financial Statements

## I. Gross income

### a) Gross income

Year ended 31 March	2012 £m	% of total	2011 £m	% of total
Fares	3,271.1	78.2	2,942.3	75.8
Revenue in respect of free travel for the elderly and disabled	275.5	6.6	251.0	6.5
Congestion Charging	226.7	5.4	286.5	7.4
Charges to London boroughs	14.3	0.3	13.2	0.3
Charges to transport operators	8.9	0.2	8.3	0.2
Road Network compliance income	43.6	1.0	41.7	1.1
Commercial advertising receipts	125.1	3.0	106.5	2.7
Rents receivable	53.4	1.3	59.2	1.5
Taxi licensing	20.6	0.5	20.6	0.5
Museum income	3.6	0.1	3.1	0.1
Other	138.1	3.4	151.8	3.9
	<b>4,180.9</b>	<b>100.0</b>	<b>3,884.2</b>	<b>100.0</b>

### b) Congestion charging

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

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

# Notes to the Financial Statements (continued)

## 2. Segmental analysis

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

### Year ended 31 March 2012

	London Underground £m	Tube Lines £m	London Rail £m	Surface Transport £m	Corporate items £m	Total £m
Income	2,146.3	12.8	224.7	1,697.4	60.3	4,141.5
Expenditure	(1,712.4)	(352.7)	(316.0)	(2,585.8)	(356.6)	(5,323.5)
<b>Net operating income/ (expenditure)</b>	<b>433.9</b>	<b>(339.9)</b>	<b>(91.3)</b>	<b>(888.4)</b>	<b>(296.3)</b>	<b>(1,182.0)</b>

### Year ended 31 March 2011

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

# Notes to the Financial Statements (continued)

## 2. Segmental analysis (continued)

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

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

# Notes to the Financial Statements (continued)

## 2. Segmental analysis (continued)

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

	£m	£m
<b>Net operating expenditure per the segmental analysis</b>		<b>(1,182.0)</b>
<b>Net expenditure of services not included in the segmental analysis</b>		
Group items	(2.3)	
Museum net revenue cost	(5.7)	
		<b>(8.0)</b>
<b>Amounts included in the Comprehensive Income and Expenditure Statement not reported to management in the segmental analysis</b>		
Depreciation	(895.3)	
Amortisation	(52.7)	
Goodwill write off	(106.3)	
Pension service costs (note 29)	(181.2)	
		<b>(1,235.5)</b>
<b>Amounts included in the segmental analysis not included in the Comprehensive Income and Expenditure Statement</b>		
Capital and interest payments under the PPP and PFI schemes	90.6	
Pension payments charged to operating costs	279.6	
Grant funding of museum	4.5.8	
		<b>376.0</b>
<b>Net cost of services</b>		<b>(2,049.5)</b>



# Notes to the Financial Statements (continued)

## 2. Segmental analysis (continued)

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

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

## Notes to the Financial Statements (continued)

### 2. Segmental analysis (continued)

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

	Amounts included in the Comprehensive Income and Expenditure Statement not reported to management in the segmental analysis			Amounts included in the segmental analysis not included in the Comprehensive Income and Expenditure Statement		Total
	Net revenue not included cost per the segmental analysis	Net expenditure on services in the segmental analysis				
	£m	£m	£m	£m	£m	£m
Income	4,141.5	39.4	-	-	4,180.9	
Staff costs	(1,538.2)	(74.8)	(181.2)	279.6	(1,514.6)	
Other service expenses	(3,785.3)	27.4	-	96.4	(3,661.5)	
Depreciation, amortisation and impairment	-	-	(1,054.3)	-	(1,054.3)	
<b>Total cost</b>	<b>(5,323.5)</b>	<b>(47.4)</b>	<b>(1,235.5)</b>	<b>376.0</b>	<b>(6,230.4)</b>	
<b>Net cost of services</b>	<b>(1,182.0)</b>	<b>(8.0)</b>	<b>(1,235.5)</b>	<b>374.6.0</b>	<b>(2,049.5)</b>	
Gain on disposal of assets					2.5	
Interest income					441.7	
Interest payable					(943.3)	
Non specific grant income					4,823.1	
<b>Surplus on the provision of services before taxation</b>					<b>2,274.5</b>	

## Notes to the Financial Statements (continued)

### 2. Segmental analysis (continued)

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

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

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

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

## Notes to the Financial Statements (continued)

### 3. Gross expenditure

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

	<b>Group 2012 £m</b>	Group 2011 £m	<b>Corporation 2012 £m</b>	Corporation 2011 £m
Staff costs:				
Wages and salaries	<b>1,207.3</b>	1,141.6	<b>183.7</b>	161.5
Social security costs	<b>109.5</b>	96.8	<b>15.6</b>	14.2
Pension costs	<b>197.8</b>	217.2	<b>42.6</b>	31.4
	<b>1,514.6</b>	1,455.6	<b>241.9</b>	207.1
Other service expenditure	<b>3,661.5</b>	3,475.8	<b>723.4</b>	622.0
Depreciation	<b>895.3</b>	849.7	<b>158.2</b>	159.8
Amortisation of software intangibles	<b>52.7</b>	42.6	<b>39.3</b>	34.8
Impairment of goodwill	<b>106.3</b>	242.9	-	-
	<b>6,230.4</b>	6,066.6	<b>1,162.8</b>	1,023.7

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

The average number of persons employed in the year was:

	<b>Group 2012 Number</b>	Group 2011 Number	<b>Corporation 2012 Number</b>	Corporation 2011 Number
Permanent staff (including fixed term contracts)	<b>25,570</b>	26,653	<b>3,490</b>	3,547
Agency staff	<b>1,823</b>	1,814	<b>277</b>	290
	<b>27,393</b>	28,467	<b>3,767</b>	3,837

## Notes to the Financial Statements (continued)

### 4. External audit fees

External audit fees are made up as follows:

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

# Notes to the Financial Statements (continued)

## 5. Remuneration

### a) Employees' remuneration

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

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

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

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

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

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

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

## Notes to the Financial Statements (continued)

### 5. Remuneration (continued)

#### a) Employees' remuneration

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

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

## Notes to the Financial Statements (continued)

### 5. Remuneration (continued)

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



## Notes to the Financial Statements (continued)

### 5. Remuneration (continued)

#### b) Remuneration for senior employees

	Notes	Salary (including fees and allowances) 2011/12 £	Performance related pay for 2010/11 paid in year 2011/12 £	Compensation for loss of employment 2011/12 £	Benefits in kind 2011/12 £	Total remuneration excluding pension contributions 2011/12 £	Employer's contribution to pension 2011/12 £	Salary (including fees and allowances) 2010/11 Restated £	Performance related pay for 2009/10 paid in year 2010/11 Restated £
<b>Current employees excluding Crossrail</b>									
Peter Hendy, Commissioner	a	331,175	-	-	2,028	333,203	-	331,267	-
Steve Allen, Managing Director, Finance		*289,577	-	-	607	290,184	23,393	270,000	-
Mike Brown, Managing Director, Rail and Underground		*310,734	-	-	2,028	312,762	23,393	289,700	-
Howard Carter, General Counsel		*235,456	-	-	2,028	237,484	23,393	217,777	-
Leon Daniels, Managing Director, Surface Transport	b	234,906	-	-	-	234,906	22,178	97,000	-
Michèle Dix, Managing Director, Planning	c	*158,267	-	-	2,028	160,295	24,047	145,740	-
Vernon Everitt, Managing Director, Group Marketing and Communications		229,020	-	-	2,028	231,048	23,393	229,020	-
Gillian Alford, Director of Corporate Industrial Relations	d	115,191	-	-	459	115,650	27,016	-	-
Sarah Atkins, Commercial Director, Rail and Underground	e	*170,096	26,000	-	1,633	197,729	23,393	156,150	31,230
Howard Collins, Chief Operating Officer, London Underground		*185,982	17,000	-	1,633	204,615	31,588	175,000	26,250
Stephen Critchley, Chief Finance Officer		*176,640	20,000	-	-	196,640	22,051	159,969	20,000
Robert Doyle, Head of Track and Signals, London Underground	f	157,581	7,500	-	5,653	170,734	23,393	167,514	-

# Notes to the Financial Statements (continued)

## 5. Remuneration (continued)

	Notes	Salary (including fees and allowances) 2011/12 £	Performance related pay for 2010/11 paid in 2011/12 £	Compensation for loss of employment 2011/12 £	Benefits in kind 2011/12 £	Total remuneration excluding pension contributions 2011/12 £	Employer's contribution to pension 2011/12 £	Salary (including fees and allowances) 2010/11 Restated £	Performance related pay for 2009/10 paid in year 2010/11 Restated £
<b>Current employees excluding Crossrail</b>									
Gerald Duffy, Director of Employee Relations, London Underground		*164,934	16,000	-	607	181,541	23,393	151,401	22,540
Garrett Emmerson, Chief Operating Officer Streets, Surface Transport		*177,317	20,000	-	607	197,924	23,393	162,618	20,000
David Hendry, Finance Director, Surface Transport	g	*164,368	10,000	-	1,633	176,001	34,083	153,231	25,000
Philip Hufton, Asset Performance Director, London Underground		255,377	17,000	-	-	272,377	23,393	241,763	35,000
Jon Lamonte, Chief Executive, Tube Lines	h	*179,807	-	-	-	179,807	29,873	8,849	-
Chris Macleod, Director of Group Marketing	i	142,541	-	-	-	142,541	51,436	120,000	-
Stuart Munro, Director of Finance and Commercial, Tube Lines	j	152,801	13,000	-	1,633	167,434	35,511	136,459	20,907
Gareth Powell, Director of Strategy and Service Development, London Underground	k	*155,150	24,000	-	1,633	180,783	33,338	132,500	23,500
Patricia Riley, Human Resources Director	l	*183,973	18,000	-	606	202,579	31,870	125,124	20,000
Robert Stewart, Programme Director, Line Upgrades	m	121,858	-	-	1,017	122,875	14,253	-	-
Steve Townsend, Chief Information Officer	n	151,670	13,000	-	1,633	166,303	29,873	138,586	22,984

# Notes to the Financial Statements (continued)

## 5. Remuneration (continued)

	Notes	Salary (including fees and allowances) 2011/12 £	Performance related pay for 2010/11 paid in 2011/12 £	Compensation for loss of employment 2011/12 £	Benefits in kind 2011/12 £	Total remuneration excluding pension contributions 2011/12 £	Employer's contribution to pension 2011/12 £	Salary (including fees and allowances) 2010/11 Restated £	Performance related pay for 2009/10 paid in year 2010/11 Restated £
<b>Current employees excluding Crossrail</b>									
Shashi Verma, Director of Customer Experience	o	*167,117	25,000	-	607	192,724	29,873	145,000	25,000
David Waboso, Director of Capital Programmes, London Underground	p	*227,744	28,000	-	1,633	257,377	29,873	187,826	15,345
Colin Wood, Head of Games Readiness	q	*59,645	-	-	549	60,194	4,178	-	-
<b>Crossrail current office holders/employees</b>									
Terry Morgan, Non-executive Chairman	r	250,000	-	-	1,632	251,632	-	250,000	-
Andrew Wolstenholme, Chief Executive	s	295,249	-	-	1,098	296,348	21,139	-	-
David Allen, Finance Director		240,722	72,000	-	1,632	314,354	31,331	206,010	61,200
Neil Farmer, IT Director		163,933	26,000	-	1,632	191,565	31,331	153,060	14,875
Robert Flanagan, Finance Operations Director	t	62,207	-	-	659	62,866	15,422	-	-
Ian Lindsay, Land and Property Director	u	156,384	-	-	1,255	157,639	24,390	-	-
Andy Mitchell, Programme Director		308,600	90,000	-	1,632	400,232	31,331	281,599	43,750
Chris Sexton, Technical Director		182,090	8,250	-	-	190,340	31,331	167,205	-
Valerie Todd, Talent and Resources Director	v	*206,279	49,109	-	2,028	257,416	29,873	192,585	38,517

## Notes to the Financial Statements (continued)

### 5. Remuneration (continued)

	Notes	Salary (including fees and allowances) 2011/12 £	Performance related pay for 2010/11 paid in 2011/12 £	Compensation for loss of employment 2011/12 £	Benefits in kind 2011/12 £	Total remuneration excluding pension contributions 2011/12 £	Employer's contribution to pension 2011/12 £	Salary (including fees and allowances) 2010/11 Restated £	Performance related pay for 2009/10 paid in year 2010/11 Restated £
<b>Former employees</b>									
Ian Campbell, Chief Information Officer	w	51,971	-	90,861	311	143,143	10,304	165,000	-
Frank Douglas, Group Human Resources Director	x	25,892	13,000	-	-	38,892	1,917	192,338	-
Richard Parry, Strategy and Commercial Director, London Underground	y	*112,737	23,000	367,534	-	503,271	13,039	194,421	31,353
Peter Regan, Corporate Finance Director	z	1,694	95,000	-	-	96,694	383	162,027	58,776
Geoff Virrels, Director of Projects, Tube Lines	aa	38,129	-	-	392	38,521	7,390	133,209	-
Rob Holden, Chief Executive, Crossrail	bb	163,348	220,500	-	439	384,287	-	570,502	285,000
Simon Philips, Finance Operations Director, Crossrail	cc	43,216	-	-	565	43,781	-	-	-

## Notes to the Financial Statements (continued)

### 5. Remuneration (continued)

#### b) Remuneration for senior employees (continued)

---

- \* Salary, fees and allowances for 2011/12 includes an allowance paid as a result of the individual opting out of part or all of the benefits provided by the Supplementary Pension Scheme. The allowance was introduced in 2011/12 and is paid at the rate of the supplementary scheme pension scheme contribution foregone, discounted by the employer rate of National Insurance in order to ensure no additional employer cost is incurred.
- a salary sacrificed for pension of £17,110 (2010/11 £17,130)
- b entered service 20 April 2011. Payment in 2010/11 includes recompense for loss of benefits from previous employers and/or to comply with TfL's policies
- c part-time, three days per week
- d Entered service 4 July 2011
- e formerly Commercial Director, Tube Lines
- f performance related pay of £nil (2010/11 £13,023) sacrificed to pension fund
- g performance related pay of £10,000 (2010/11 £nil) sacrificed to pension fund
- h entered service 14 March 2011
- i performance related pay of £17,000 (2010/11 £15,000) sacrificed to pension fund
- j Formerly Finance Director, London Rail
- k Formerly Director of Group Business Planning & Performance
- l Formerly Director of Human Resources, London Underground
- m Entered service 22 August 2011
- n Formerly Director of IM, London Underground
- o Formerly Director of Fares and Ticketing
- p performance related pay of £nil (2010/11 £15,960) sacrificed to pension fund
- q Entered service 5 December 2011
- r Paid for providing services three days a week
- s entered service 1 August 2011

## Notes to the Financial Statements (continued)

### 5. Remuneration (continued)

#### b) Remuneration for senior employees (continued)

---

- t entered service 7 November 2011
- u Entered service 27 June 2011
- v employed by TfL but on secondment to Crossrail since January 2009
- w entered service 1 February 2010. Left service 31 July 2011
- x entered service 15 February 2010. Left service 30 April 2011
- y Left service 21 October 2011. Performance related pay of £nil (2010/11 £21,280) sacrificed to pension fund
- z left service 4 April 2011. formerly Commercial Adviser, London Underground two days per week. Seconded to Tube Lines with effect from 25 June 2010, part-time four days per week.
- aa Performance related pay of nil (2009/10 £27,500) sacrificed to pension fund. Left service 2 July 2011
- bb Left service 10 July 2011
- cc entered service 1 August 2011. Left service 31 October 2011

## Notes to the Financial Statements (continued)

### 5. Remuneration (continued)

#### b) Remuneration for senior employees (continued)

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

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

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

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

#### c) Termination payments

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

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

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

## Notes to the Financial Statements (continued)

### 5. Remuneration (continued)

#### c) Termination payments (continued)

£	Group 2012 Number	Group 2012 £m	Corporation 2012 Number	Corporation 2012 £m	Group 2011 Number	Group 2011 £m	Corporation 2011 Number	Corporation 2011 £m
<b>Non-compulsory exit packages</b>								
0 – 20,000	212	2.3	72	0.9	218	1.9	51	0.5
20,001- 40,000	159	4.6	70	2.0	114	3.3	18	0.5
40,001- 60,000	108	5.3	39	1.9	86	4.2	10	0.5
60,001- 80,000	70	4.8	20	1.4	62	4.3	8	0.6
80,001- 100,000	47	4.2	11	1.0	53	4.8	2	0.2
100,001-150,000	61	7.2	19	2.3	28	3.2	4	0.4
150,001-200,000	14	2.4	7	1.2	8	1.4	2	0.4
200,001-250,000	11	2.4	5	1.1	4	0.9	1	0.2
250,001- 300,000	5	1.4	1	0.3	2	0.6	-	-
300,001- 350,000	1	0.3	1	0.3	2	0.6	-	-
350,001- 400,000	1	0.4	-	-	1	0.4	1	0.4
400,001- 450,000	-	-	-	-	1	0.4	-	-
<b>Total non-compulsory exit packages</b>	<b>689</b>	<b>35.3</b>	<b>245</b>	<b>12.4</b>	<b>579</b>	<b>26.0</b>	<b>97</b>	<b>3.7</b>
<b>Compulsory exit packages</b>								
0 – 20,000	18	0.1	-	-	2	-	-	-
<b>Total</b>	<b>707</b>	<b>35.4</b>	<b>245</b>	<b>12.4</b>	<b>581</b>	<b>26.0</b>	<b>97</b>	<b>3.7</b>



## Notes to the Financial Statements (continued)

### 6. Other operating income/expenditure

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

### 7. Financing and investment income

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

## Notes to the Financial Statements (continued)

### 8. Financing and investment expenditure

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

\*During the year the Group paid premiums totalling £168.6m on the early repayment of £1,267.7m of borrowings acquired as part of the acquisition of the Tube Lines Group in 2010/11. The Corporation recognised a premium expense of £216.5m in relation to these transactions. These loans were refinanced in 2011/12 by the Corporation at a lower cost of borrowing.

# Notes to the Financial Statements (continued)

## 9. Grant income

	Group 2012 £m	Group 2011 £m	Corporation 2012 £m	Corporation 2011 £m
Non ring-fenced grant from the DfT used to fund operations	1,634.1	1,162.7	1,634.1	1,162.7
Other revenue grant received	67.7	107.6	67.7	107.6
Council tax precept	6.0	12.0	6.0	12.0
<b>Total grants allocated to revenue</b>	<b>1,707.8</b>	1,282.3	<b>1,707.8</b>	1,282.3
Non ring-fenced grant from the DfT used to fund capital	1,620.0	2,022.2	1,620.0	2,022.2
Ring-fenced grant used to fund capital expenditure relating to Crossrail	1,217.0	1,020.0	1,217.0	1,020.0
Business Rate Supplement levied to fund capital expenditure relating to Crossrail	168.0	202.0	168.0	202.0
Other capital grants and contributions received	110.3	146.1	14.7	27.1
<b>Total grants allocated to capital</b>	<b>3,115.3</b>	3,390.3	<b>3,019.7</b>	3,271.3
<b>Total grants</b>	<b>4,823.1</b>	4,672.6	<b>4,727.5</b>	4,553.6
<b>Allocation of capital grants</b>				
	Group 2012 £m	Group 2011 £m	Corporation 2012 £m	Corporation 2011 £m
Capital grant funding of subsidiaries	-	-	1,445.0	1,704.9
Applied capital grants (note 32)	2,916.6	2,365.1	1,376.0	541.2
Unapplied capital grants (note 34)	198.7	1,025.2	198.7	1,025.2
<b>Total capital grants</b>	<b>3,115.3</b>	3,390.3	<b>3,019.7</b>	3,271.3

# Notes to the Financial Statements (continued)

## 10. Taxation

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

### a) Corporation tax

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

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

### Reconciliation of tax credit

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

## Notes to the Financial Statements (continued)

### 10. Taxation (continued)

#### b) Unrecognised deferred tax assets

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

	Group 2012 £m	Group 2011 £m
Deductible temporary differences	977.7	683.7
Tax losses	1,210.1	1,263.1
<b>Unrecognised deferred tax asset</b>	<b>2,187.8</b>	<b>1,946.8</b>

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

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

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

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

## Notes to the Financial Statements (continued)

### 10. Taxation (continued)

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

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

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

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

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

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

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the Company's future current tax charge and deferred tax asset/liability accordingly.

# Notes to the Financial Statements (continued)

## 11. Intangible assets

### a) Group intangible assets

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

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

# Notes to the Financial Statements (continued)

## 11. Intangible assets (continued)

### b) Corporation intangible assets

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

Assets under construction comprise software assets under development by TfL.



## Notes to the Financial Statements (continued)

### 12. Property, plant and equipment

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

	Note	Infrastructure and office buildings £m	Rolling stock £m	Plant and equipment £m	Assets under construction £m	Total £m
<b>Cost or valuation</b>						
At 1 April 2011		25,658.9	3,857.2	1,331.6	5,121.0	35,968.7
Additions		<b>175.6</b>	<b>3.8</b>	<b>24.7</b>	<b>2,413.0</b>	<b>2,617.1</b>
Disposals		<b>(188.8)</b>	<b>(221.9)</b>	<b>(38.6)</b>	-	<b>(449.3)</b>
Transfers between asset classes		<b>1,194.5</b>	<b>429.9</b>	<b>56.8</b>	<b>(1,674.5)</b>	<b>6.7</b>
Revaluation		<b>2.8</b>	-	-	-	<b>2.8</b>
<b>At 31 March 2012</b>		<b>26,843.0</b>	<b>4,069.0</b>	<b>1,374.5</b>	<b>5,859.5</b>	<b>38,146.0</b>
<b>Depreciation</b>						
At 1 April 2011		9,551.2	2,168.9	843.9	-	12,564.0
Depreciation charge for the year	3	<b>662.3</b>	<b>109.8</b>	<b>123.2</b>	-	<b>895.3</b>
Disposals		<b>(156.8)</b>	<b>(221.9)</b>	<b>(38.5)</b>	-	<b>(417.2)</b>
Revaluation		<b>(2.1)</b>	-	-	-	<b>(2.1)</b>
<b>At 31 March 2012</b>		<b>10,054.6</b>	<b>2,056.8</b>	<b>928.6</b>	-	<b>13,040.0</b>
<b>Net book value at 31 March 2012</b>		<b>16,788.4</b>	<b>2,012.2</b>	<b>445.9</b>	<b>5,859.5</b>	<b>25,106.0</b>
Net book value at 31 March 2011		16,107.7	1,688.3	487.7	5,121.0	23,404.7

## Notes to the Financial Statements (continued)

### 12. Property, plant and equipment (continued)

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

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

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

Borrowing costs are included in the costs of qualifying assets to the extent that the asset is funded by borrowings. However, the Group has opted to use the date of transition to IFRS (1 April 2009) as the effective date for applying IAS 23 Borrowing costs ('IAS 23'). At the transition date, the majority of the projects funded by borrowing, including Crossrail, had already commenced and are therefore not impacted by IAS 23. As a result, the total borrowing costs capitalised during the year were £nil (2011: £nil). The cumulative borrowing costs capitalised are also £nil (2011: £nil).

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

## Notes to the Financial Statements (continued)

### 12. Property, plant and equipment (continued)

#### c) Group PFI assets, and other leased assets

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

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

#### d) Depreciation charge

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

	2012 £m	2011 £m
Depreciation of owned assets	869.4	775.7
Depreciation of assets held under PFI	16.1	64.2
Depreciation of asset held under other leases	9.8	9.8
<b>Total depreciation</b>	<b>895.3</b>	<b>849.7</b>

## Notes to the Financial Statements (continued)

### 12. Property, plant and equipment (continued)

#### e) Group office buildings

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

#### f) Group and Corporation heritage assets

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

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

# Notes to the Financial Statements (continued)

## 12. Property, plant and equipment

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

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

## Notes to the Financial Statements (continued)

### 12. Property, plant and equipment

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

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

Borrowing costs are included in the costs of qualifying assets to the extent that the asset is funded by borrowings. However, the Corporation has opted to use the date of transition to IFRS (1 April 2009) as the effective date for applying IAS 23 Borrowing costs ('IAS 23'). At the transition date, the majority of the projects funded by borrowing, including Crossrail, had already commenced and are therefore not impacted by IAS 23. As a result, the total borrowing costs capitalised during the year were £nil (2011 £nil). The cumulative borrowing costs capitalised are also £nil (2011 £nil).

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

## Notes to the Financial Statements (continued)

### 12. Property, plant and equipment (continued)

#### i) Corporation PFI assets and other leased assets

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

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

#### j) Depreciation charge

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

	2012 £m	2011 £m
Depreciation of owned assets	<b>148.9</b>	150.4
Depreciation of assets held under PFI	<b>9.3</b>	9.4
<b>Total depreciation</b>	<b>158.2</b>	159.8

#### k) Corporation office buildings

The Corporation did not have any office buildings.

## Notes to the Financial Statements (continued)

### 13. Investment properties

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

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

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

### 14. Investments

	Corporation 2012 £m	Corporation 2011 £m
At 1 April	472.5	22.5
Investments in year	650.0	450.0
<b>At 31 March</b>	<b>1,122.5</b>	<b>472.5</b>

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



# Notes to the Financial Statements (continued)

## 14. Investments (continued)

The Group's principal subsidiaries are:

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

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

## Notes to the Financial Statements (continued)

### 15. Inventories

	Group 2012 £m	Group 2011 £m
Raw materials and consumables	36.9	35.1
Goods held for resale	0.7	0.5
	<b>37.6</b>	35.6

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

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

The movement on inventories was as follows:

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

## Notes to the Financial Statements (continued)

### 16. Debtors

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

Long-term trade and other receivables include funds totalling £160.0 million advanced during the year to Network Rail Infrastructure Limited to provide interim financing for the construction of assets related to the Crossrail project. This receivable is non interest bearing and has been discounted to its fair value of £152.6 million using a discount rate of 2.417%.

## Notes to the Financial Statements (continued)

### 16. Debtors (continued)

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

## Notes to the Financial Statements (continued)

### 17. Short term investments

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

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

### 18. Cash and cash equivalents

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

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

## Notes to the Financial Statements (continued)

### 19. Creditors

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

# Notes to the Financial Statements (continued)

## 19. Creditors

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

## Notes to the Financial Statements (continued)

### 20. Borrowings and overdrafts

	<b>Group 2012 £m</b>	Group 2011 £m
<b>Borrowings</b>		
Short-term	<b>2,179.0</b>	494.2
Long-term	<b>4,943.9</b>	5,892.5

	<b>Corporation 2012 £m</b>	Corporation 2011 £m
<b>Short-term</b>		
Borrowings	<b>2,179.0</b>	494.2
Bank overdraft	-	1.5
	<b>2,179.0</b>	495.7
<b>Long-term</b>		
Borrowings	<b>4,951.6</b>	5,848.1

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



## Notes to the Financial Statements (continued)

### 21. Finance lease liabilities

#### a) Group finance lease liabilities

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

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

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

## Notes to the Financial Statements (continued)

### 21. Finance lease liabilities (continued)

#### b) Corporation finance lease liabilities

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

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

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

## Notes to the Financial Statements (continued)

### 22. Private finance initiative contracts

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

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

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

In accordance with IFRIC 12, the unitary charge is apportioned between the repayment of the liability, financing costs and charges for services. The service is recognised as an expense in net operating costs and the finance costs are charged to financial expenses in the Comprehensive Income and Expenditure Statement.

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

## Notes to the Financial Statements (continued)

### 22. Private finance initiative contracts (continued)

Contract	Contract dates	Description
<b>London Underground Limited ('LU'):</b>		
Connect	1999 to 2019 with a voluntary break option on provision of 12 months' written notice	<p>Design, installation, management and maintenance of integrated digital radio system.</p> <p>The contract requires LU to make an annual unitary payment which is adjusted for indexation and performance as specified in the contract.</p>
Power	1998 to 2028 with a voluntary break option from 2013 and every five years thereafter, subject to at least 12 months' written notice	<p>Procurement, maintenance and management of the electricity supply services for the Emergency Supply Plan for London Underground and the Northern Line Power Upgrade.</p> <p>The contract requires LU to make an annual unitary payment which is charged monthly and adjusted for any penalties relating to adverse performance against output measures describing all relevant aspects of the contract.</p>
British Transport Police (London Underground)	1999 to 2021 with a voluntary break option on provision of 12 months' written notice	<p>Provision and ongoing management and maintenance of operational infrastructure to support efficient policing of the Jubilee Line Extension and the delivery of the long-term policing strategy for LU.</p> <p>The contract requires LU to make a base annual unitary payment which is adjusted for indexation and performance as specified in the contract.</p>
<b>Docklands Light Railway Limited ('DLR'):</b>		
Greenwich	1996 to 2021	<p>Design, construction and ongoing maintenance of the Greenwich extension to the Docklands Light Railway.</p> <p>The contract requires DLR to make payments, which are charged monthly and adjusted for any penalties relating to adverse performance against output measures describing all relevant aspects of the contract.</p>

## Notes to the Financial Statements (continued)

### 22. Private finance initiative contracts (continued)

#### Docklands Light Railway contracts for Woolwich and City Airport

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

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

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

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

#### PFI finance lease liabilities

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

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

## Notes to the Financial Statements (continued)

### 22. Private finance initiative contracts (continued)

#### Group

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

	Payments of interest £m	Repayment of capital £m	Payments for service charges £m	Total amount payable under non-cancellable PFI arrangements £m
<b>As at 31 March 2012</b>				
Less than 1 year	40.7	54.1	112.2	207.0
Between 1 to 5 years	127.8	264.4	458.7	850.9
Between 5 to 10 years	79.2	193.2	536.1	808.5
Between 10 to 15 years	41.4	117.4	399.5	558.3
Between 15 to 20 years	4.5	45.1	141.9	191.5
	<b>293.6</b>	<b>674.2</b>	<b>1,648.4</b>	<b>2,616.2</b>
<b>As at 31 March 2011</b>				
Between 1 year	72.6	53.5	111.9	238.0
Between 1 to 5 years	254.1	271.2	470.2	995.5
Between 5 to 10 years	217.5	298.2	591.3	1,107.0
Between 10 to 15 years	150.4	159.3	440.8	750.5
Between 15 to 20 years	77.9	187.0	284.1	549.0
Between 20 to 25 years	16.6	80.7	44.2	141.5
	789.1	1,049.9	1,942.5	3,781.5

## Notes to the Financial Statements (continued)

### 22. Private finance initiative contracts (continued)

#### Corporation

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

	Payments of interest £m	Repayment of capital £m	Payments for service charges £m	Total amount payable under non-cancellable PFI arrangements £m
<b>As at 31 March 2012</b>				
Less than 1 year	8.5	7.8	10.7	27.0
Between 1 to 5 years	30.5	34.5	60.3	125.3
Between 5 to 10 years	28.6	51.0	109.0	188.6
Between 10 to 15 years	16.4	75.3	161.8	253.5
Between 15 to 20 years	1.9	26.4	76.0	104.3
	<b>85.9</b>	<b>195.0</b>	<b>417.8</b>	<b>698.7</b>
<b>As at 31 March 2011</b>				
Between 1 year	8.8	7.5	9.9	26.2
Between 1 to 5 years	31.9	32.3	53.1	117.3
Between 5 to 10 years	30.8	51.4	101.9	184.1
Between 10 to 15 years	19.2	65.4	152.6	237.2
Between 15 to 20 years	3.9	45.8	110.3	160.0
	94.6	202.4	427.8	724.8

## Notes to the Financial Statements (continued)

### 23. Derivative financial instruments

#### Group: cash flow hedges

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

The Corporation has not entered into any derivative financial instruments.



# Notes to the Financial Statements (continued)

## 24. Provisions

### a) Group provisions

	At 1 April 2011 £m	Payments in the year £m	Charge for the year £m	Releases in the year £m	At 31 March 2012 £m
Compensation	77.8	(26.4)	15.5	(41.4)	25.5
Capital investment activities	298.4	(118.0)	82.9	(37.7)	225.6
Environmental harm	2.5	(1.6)	-	-	0.9
Other	41.1	(17.5)	6.5	(6.6)	23.5
	419.8	(163.5)	104.9	(85.7)	275.5
				<b>2012 £m</b>	2011 £m
<b>Due:</b>					
Current				<b>140.8</b>	254.1
Non-current				<b>134.7</b>	165.7
				<b>275.5</b>	419.8

### b) Corporation provisions

	At 1 April 2011 £m	Payments in the year £m	Charge for the year £m	Releases in the year £m	At 31 March 2012 £m
Compensation	23.5	(11.7)	14.4	(10.5)	15.7
Capital investment activities	298.4	(118.0)	82.9	(37.7)	225.6
Other	3.2	(1.4)	2.9	(1.0)	3.7
	325.1	(131.1)	100.2	(49.2)	245.0
				<b>2012 £m</b>	2011 £m
<b>Due:</b>					
Current				<b>132.4</b>	224.3
Non-current				<b>112.6</b>	100.8
				<b>245.0</b>	325.1

## Notes to the Financial Statements (continued)

### 24. Provisions (continued)

#### c) Nature of provisions

##### Compensation

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

##### Environmental harm

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

##### Capital investment activities

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

##### Other

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

### 25. Contingencies

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

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

# Notes to the Financial Statements (continued)

## 26. Guarantees

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

TfL and its subsidiaries have entered into joint and several guarantees in favour of HSBC Bank plc as security for any bank indebtedness outstanding from time to time. TfL gave the guarantee under section 160(1) of the Greater London Authority Act 1999.

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

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

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

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

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

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

## Notes to the Financial Statements (continued)

### 27. Financial commitments

#### a) Operating leases – The Group as lessee

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

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

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

## Notes to the Financial Statements (continued)

### 27. Financial commitments (continued)

#### b) Operating leases – The Group as lessor

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

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

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

## Notes to the Financial Statements (continued)

### 27. Financial commitments (continued)

#### c) Operating leases – The Corporation as lessee

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

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

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

## Notes to the Financial Statements (continued)

### 27. Financial commitments (continued)

#### d) Operating leases – The Corporation as lessor

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

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

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

## Notes to the Financial Statements (continued)

# 28. Funding and financial risk management

### Introduction

TfL is a statutory corporation established under the Greater London Authority Act 1999 ('the GLA Act'). TfL is funded by revenues (predominantly fares), grant and prudential borrowing. The majority of the Group's debt is issued by the statutory body, Transport for London, in the form of loans from the Public Works Loan Board, the European Investment Bank, Medium Term Notes under the £5 billion TfL Euro Medium Term Note programme, and short-term Commercial Paper under the £2 billion TfL Euro Commercial Paper programme. In addition, following the acquisition of Tube Lines (Holdings) Limited in June 2010, TfL guarantees the debt issued by Tube Lines (Finance) Plc.

### Treasury Management

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

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

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

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



## Notes to the Financial Statements (continued)

### 28. Funding and financial risk management (continued)

#### The Prudential Borrowing Regime

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

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

#### Financial Risks and Risk Management

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

- Credit risk
- Liquidity risk
- Market risk

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

#### Credit risk

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

## Notes to the Financial Statements (continued)

### 28. Funding and financial risk management (continued)

#### (i) Trade and other receivables

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

#### (ii) Investments

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

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

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

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

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

## Notes to the Financial Statements (continued)

### 28. Funding and financial risk management (continued)

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

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

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

## Notes to the Financial Statements (continued)

### 28. Funding and financial risk management (continued)

#### (iii) Derivative financial instruments

Counterparty Limits are established and monitored in accordance with TfL's policy relating to the use of Derivative Investments. The Group spreads its exposure over a number of counterparties, and have strict policies on how much exposure can be assigned to each counterparty.

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

#### (iv) Guarantees

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

#### Liquidity risk

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

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

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

## Notes to the Financial Statements (continued)

### 28. Funding and financial risk management (continued)

#### Market risk

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

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

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

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

#### Foreign exchange risk

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

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

## Notes to the Financial Statements (continued)

### 28. Funding and financial risk management (continued)

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

#### Sensitivity analysis on foreign exchange risk

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

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

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

#### Interest rate risk

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

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

In order to achieve certainty over the cost of a portion of its planned borrowing TfL entered into a number of forward starting interest rate swaps and gilt locks, allowing additional funds to be allocated for investment in transport infrastructure in the Business Plan. As at 31 March 2012, the Group, through its wholly owned subsidiary Transport for London Finance Limited, held 23 forward fixing contracts and gilt locks at a notional value of £1,960m (2011 11 forward fixing contracts at a total notional value of £500m). The net fair value of these contracts at 31 March 2012 was a liability of £80.7m (2011 an asset of £4.4m). A further 2 gilt locks with a combined nominal value of £473m expired during the year and new gilt locks were put in place to extend the protection these gilt locks provided. The negative market value of the expiring gilt locks was cash settled at a cost of £35.9m on expiry. This cost has been deferred in the hedging reserve until the related borrowings are issued; at which time the cost will be released to profit or loss over the term of the borrowings. The amounts held in the hedging reserve are expected to impact the Comprehensive Income and Expenditure Statement over the period to December 2042.

The maturity of these forward fixing contracts is disclosed later in this note.

The Group is also exposed to interest rate risk in respect to its investments. Investments are made in accordance with the Investment Strategy, which prioritises security and liquidity over yield.

## Notes to the Financial Statements (continued)

### 28. Funding and financial risk management (continued)

#### Sensitivity analysis on interest rate risk

##### Fair value sensitivity analysis for fixed interest instruments

All of the Group's non-derivative financial instruments with fixed rates of interest are accounted for at amortised cost. Fluctuations in market interest rates would therefore have no impact on the balance sheet or net income figures in respect of these items.

##### Fair value sensitivity analysis for derivative instruments

As at 31 March 2012, the Group holds interest rate derivative contracts with a combined notional value of £1,960m (2011 £500m) which are designated as cash flow hedges.

An increase/(decrease) of 100 basis points in interest rates would increase/(decrease) the fair value of the derivative instruments by £60.1m / (£59.5m) (2011 £27.8m / (£27.7m)).

##### Inflation risk

The Group has a number of exposures to inflation including staff pay awards and fares revenue. The Group has not entered into any derivative instrument to manage its exposure to inflation risk. At present, the risk is partially offset with index linked revenues and index linked costs creating a natural hedge within the Group.

## Notes to the Financial Statements (continued)

### 28. Funding and financial risk management (continued)

#### Maturity profile of derivatives

The Group's derivatives have the following maturities:

	2012 Average exchange rate	2012 Fair value £m	2012 Notional amount £m	2011 Average exchange rate	2011 Fair value £m	2011 Notional amount £m
<b>Foreign currency forward contracts</b>						
<b>Buy euro</b>						
Less than 3 months	0.878	(0.4)	8.7	-	-	-
3 to 6 months	0.871	(0.1)	1.0	-	-	-
<b>Total</b>	<b>0.877</b>	<b>(0.5)</b>	<b>9.7</b>	-	-	-

	2012 Average contracted fixed interest rate	2012 Fair value £m	2012 Notional amount £m	2011 Average contracted fixed interest rate	2011 Fair value £m	2011 Notional amount £m
<b>Interest rate hedges</b>						
Less than one year	2.332	(6.7)	1,122.8	-	-	-
After five years	3.623	(74.0)	836.9	3.680	4.4	500.0
<b>Total</b>	<b>2.861</b>	<b>(80.7)</b>	<b>1,959.7</b>	<b>3.680</b>	<b>4.4</b>	<b>500.0</b>

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



## Notes to the Financial Statements (continued)

### 28. Funding and financial risk management (continued)

#### Maturity profile of derivatives (continued)

The following tables detail the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

	Less than one year £m	Between two and five years £m	More than five years £m	Total £m
<b>Group – 2012</b>				
<b>Derivatives settled gross</b>				
<b>Foreign exchange forward contracts:</b>				
Amounts receivable	9.2	-	-	9.2
Amounts payable	(9.7)	-	-	(9.7)
<b>Derivatives settled net</b>				
Interest rate swaps and gilt locks	(14.9)	(67.4)	(2.5)	(84.8)
	<b>(15.4)</b>	<b>(67.4)</b>	<b>(2.5)</b>	<b>(85.3)</b>
<b>Group – 2011</b>				
<b>Derivatives settled net</b>				
Interest rate swaps and gilt locks	(0.2)	(3.7)	10.7	6.8
	<b>(0.2)</b>	<b>(3.7)</b>	<b>10.7</b>	<b>6.8</b>

The total asset or liability due to the Group as recognised in the Balance Sheet is the fair value of the derivatives, as this represents the cost to terminate. As such it differs from the total net contractual payments shown in the table above. At 31 March 2012, the fair value of the interest rate derivatives was a net liability of £80.7m (2011 a net asset of £4.4m). The fair value of forward foreign exchange derivatives was a liability of £0.5m (2011 £nil).

## Notes to the Financial Statements (continued)

### 28. Funding and financial risk management (continued)

#### Contractual maturity of financial liabilities

The following table details the Group and the Corporation's remaining contractual maturity for their non derivative financial liabilities. The table has been drawn up on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group or Corporation can be required to pay and, therefore differs from the carrying value and the fair value. The table includes both interest and principal cash flows.

	Less than one year £m	Between one and five years £m	More than five years £m	Total £m
<b>Group - 2012</b>				
Trade and other creditors	1,950.1	51.3	-	2,001.4
Borrowings - principal	2,177.5	143.1	4,811.2	7,131.8
Borrowings - interest	232.8	896.1	4,144.9	5,273.8
Finance lease liabilities	135.9	553.8	902.2	1,591.9
	<b>4,496.3</b>	<b>1,644.3</b>	<b>9,858.3</b>	<b>15,998.9</b>
<b>Group - 2011</b>				
Trade and other creditors	1,956.8	55.6	-	2,012.4
Borrowings - principal	494.9	419.7	5,436.1	6,350.7
Borrowings - interest	281.8	1,075.9	4,343.6	5,701.3
Finance lease liabilities	170.1	685.9	1,651.1	2,507.1
	2,903.6	2,237.1	11,430.8	16,571.5
<b>Corporation - 2012</b>				
Trade and other payables	620.7	14.5	-	635.2
Borrowings - principal	2,177.5	143.1	4,811.2	7,131.8
Borrowings - interest	232.8	896.1	4,144.9	5,273.8
Finance lease liabilities	16.3	65.0	199.5	280.8
	<b>3,047.3</b>	<b>1,118.7</b>	<b>9,155.6</b>	<b>13,321.6</b>
<b>Corporation - 2011</b>				
Trade and other payables	514.9	23.7	-	538.6
Overdraft	1.5	-	-	1.5
Borrowings - principal	494.9	419.7	5,436.1	6,350.7
Borrowings - interest	281.8	1,075.9	4,343.6	5,701.3
Finance lease liabilities	16.2	64.1	216.7	297.0
	1,309.3	1,583.4	9,996.4	12,889.1

## Notes to the Financial Statements (continued)

### 28. Funding and financial risk management (continued)

#### Fair values

In accordance with IAS 39, the fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents – approximates to the carrying amount
- Short term investments – approximates to the carrying amount because of the short maturity of these instruments
- Trade and other debtors - approximates to the carrying amount
- Derivative financial instruments –
  - Forward exchange contracts – based on market data and exchange rates at the balance sheet date
  - Interest rate swaps and forward starting interest rate swaps – based on the net present value of discounted cash flows
- Trade and other creditors - approximates to the carrying amount
- Long-term borrowings – based on market data in the case of fixed rate borrowings; and approximates to the carrying amount in the case of short-term commercial paper.
- Finance lease liabilities – approximates to the carrying amount.

## Notes to the Financial Statements (continued)

### 28. Funding and financial risk management (continued)

#### Fair values

The fair values of the Group's financial assets and liabilities together with the carrying amounts recorded in the balance sheets are illustrated below:

	2012 Carrying value £m	2012 Fair value £m	2011 Carrying value £m	2011 Fair value £m
Cash and cash equivalents	78.8	78.8	54.1	54.1
Short term investments	2,582.9	2,582.9	2,012.7	2,012.7
Trade and other debtors	687.7	687.7	607.3	607.3
Derivative financial instruments	0.8	0.8	4.9	4.9
<b>Total financial assets</b>	<b>3,350.2</b>	<b>3,350.2</b>	2,679.0	2,679.0
Trade and other creditors	2,001.4	2,001.4	2,012.4	2,012.4
Borrowings	7,122.9	7,490.4	6,386.7	6,170.6
Finance lease liabilities	1,027.5	1,027.5	1,419.0	1,419.0
Derivative financial instruments	82.0	82.0	0.5	0.5
<b>Total financial liabilities</b>	<b>10,233.8</b>	<b>10,601.3</b>	9,818.6	9,602.5
<b>Net financial liabilities</b>	<b>(6,883.6)</b>	<b>(7,251.1)</b>	(7,139.6)	(6,923.5)

The fair values of financial assets and liabilities of the Corporation determined in accordance with IAS 39, together with the carrying amounts recorded in the balance sheet are:

	2012 Carrying value £m	2012 Fair value £m	2011 Carrying value £m	2011 Fair value £m
Cash and cash equivalents	7.5	7.5	-	-
Short term investments	2,574.3	2,574.3	1,978.9	1,978.9
Trade and other debtors	6,639.2	6,639.2	5,617.0	5,617.0
<b>Total financial assets</b>	<b>9,221.0</b>	<b>9,221.0</b>	7,595.9	7,595.9
Trade and other creditors	635.2	635.2	538.6	538.6
Borrowings	7,130.6	7,490.4	6,343.8	6,053.5
Finance lease liabilities	194.9	194.9	202.3	202.3
<b>Total financial liabilities</b>	<b>7,960.7</b>	<b>8,320.5</b>	7,084.7	6,794.4
<b>Net financial assets</b>	<b>1,260.3</b>	<b>900.5</b>	511.2	801.5

## Notes to the Financial Statements (continued)

### 29. Pensions

The majority of the Group's staff are members of two of the sections of the TfL Pension Fund, namely the Public Sector Section and the Tube Lines Section. The majority of the Group's remaining staff belongs to the Local Government Pension Scheme, the Principal Civil Service Pension Scheme or the Tube Lines defined contribution scheme.

#### a) Amount included in net cost of services

	Note	Group 2012 £m	Group 2011 £m	Corporation 2012 £m	Corporation 2011 £m
TfL Pension Fund		174.0	205.7	-	-
Local Government Pension Scheme		1.3	(4.1)	1.3	(4.1)
Unfunded schemes provision		5.9	3.5	2.6	1.1
<b>Schemes accounted for as defined benefit</b>		<b>181.2</b>	<b>205.1</b>	<b>3.9</b>	<b>(3.0)</b>
TfL Pension Fund		-	-	36.8	32.8
Principal Civil Service Pension Scheme		0.8	1.0	0.7	0.9
Other schemes		15.8	11.1	1.2	0.7
<b>Amount included in net cost of services</b>	3	<b>197.8</b>	<b>217.2</b>	<b>42.6</b>	<b>31.4</b>

The service cost for the Corporation for the TfL Pension Fund represents the employer's contributions payable.

## Notes to the Financial Statements (continued)

### 29. Pensions (continued)

#### b) Defined benefit schemes

This section deals with those pension funds to which the Group contributes that are accounted for under IAS 19 as defined benefit schemes.

##### TfL Pension Fund

The TfL Pension Fund is a final salary scheme established under trust. The Fund's Trustee is the TfL Trustee Company Limited, a wholly owned subsidiary of TfL. Under the rules of the Fund, its 18 Trustee Directors are nominated in equal numbers by TfL and on behalf of the Fund's membership.

Every three years, the TfL Pension Fund's actuary makes valuations and recommends the level of contributions to be made by the participating employers to ensure the long-term solvency of the Fund. The latest valuation of the Fund was carried out as at 31 March 2009 by the Actuary, a partner of consulting actuaries Towers Watson, using the projected unit method. A revised Schedule of Contributions was agreed between the Trustee and the employers following the formal funding valuation of the TfL Pension Fund.

For the Public Sector Section, employers' contributions for the period from 1 April 2010 until 31 March 2020 will continue to be 31.0 per cent, with additional lump sum payments due in 2018, 2019 and 2020. The recovery plan states that the expectation is that the funding shortfall will be eliminated by 31 March 2020.

For the Tube Lines Section, employers' contributions for the period from 1 July 2010 to 31 December 2017 will be 20.95 per cent, with additional lump sum contributions of £0.9m payable each month until 31 December 2017. The recovery plan states that the expectation is that the funding shortfall will be eliminated by 31 December 2017.

The Corporation and the Group both account for pension costs in accordance with IAS 19. The underlying assets and defined benefit obligation of the Public Sector Section cover a number of Group entities and cannot be readily split between each undertaking on a consistent and reliable basis. Thus, in accordance with the standard, the Corporation treats contributions to the Public Sector Section as if they were contributions to a defined contribution plan. The pension cost recognised in the Corporation's financial statements for the Public Sector Section is the amount of contributions payable to the scheme during the year.

A separate valuation of the Public Sector and Tube Lines sections of the TfL Pension Fund has been prepared for accounting purposes on an IAS 19 basis as at 31 March 2012. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, whilst the present value of the schemes' defined benefit obligation is derived from cash flow projections. Due to the timescale covered, neither the assumptions nor the cash flow projections may necessarily be borne out in practice.

The defined benefit obligation for the TfL Pension Fund has been calculated using the mortality assumptions adopted for the latest funding valuation as at 31 March 2009. Standard mortality tables were used, adjusted to reflect the recent mortality experience of the Fund's pensioners at that date. An allowance was made for future mortality improvements in line with the medium cohort projections.

## Notes to the Financial Statements (continued)

### 29. Pensions (continued)

#### b) Defined benefit schemes (continued)

##### Local Government Pension Scheme

The Local Government Pension Scheme is a funded multi-employer defined benefit scheme. The Corporation is able to identify its share of the assets and defined benefit obligation of the scheme and this scheme has therefore been accounted for as a defined benefit scheme under IAS 19. Employer's contributions were payable at the rate of 15.8 per cent (2010/11 15.8 per cent) of pensionable pay. The Corporation's share of the underlying assets and defined benefit obligation resulted in a deficit of £36.7m (2010/11 £26.3m). A full actuarial valuation was carried out at 31 March 2010 with the next one due as at 31 March 2013. The annual report and financial statements for the whole scheme can be found on the London Pensions Fund Authority website ([www.lpfa.org.uk](http://www.lpfa.org.uk)).

##### Unfunded pension costs

The Group bears the cost of the augmentation of the pensions of certain employees, who retire early under voluntary severance arrangements.

In addition, the Group bears the cost of:

- ex-gratia payments which are made to certain former employees on retirement in respect of service prior to the establishment of pension funds for those employees;
- supplementary pensions, which are made to certain former employees who retired prior to index linking of pensions;
- pensions of London Regional Transport (LRT) former board members who did not qualify to join the TfL Pension Fund.

Punter Southall, consulting actuaries, were instructed to report on the financial position of the unfunded pension defined benefit obligation as at 31 March 2012 for the purpose of IAS 19 only. The report does not constitute a formal actuarial valuation of the unfunded pension defined benefit obligation. The valuation as at 31 March 2012 was £63.4m, (2011 £52.8m) and is fully provided for in these financial statements.

## Notes to the Financial Statements (continued)

### 29. Pensions (continued)

#### (b) Defined benefit schemes (continued)

##### Assumptions for defined benefit sections

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

	<b>IAS 19 valuation at 31 March 2012 %</b>	IAS 19 valuation at 31 March 2011 %
RPI Inflation	<b>2.95-3.30</b>	3.35-3.5
CPI Inflation	<b>2.5</b>	2.7
Rate of increase in salaries	<b>3.7-4.2</b>	4.1-4.5
Rate of increase in pensions in payment and deferred pensions	<b>2.5-3.1</b>	2.7-3.5
Discount rate	<b>4.45-4.75</b>	5.5-5.65
Investment return	<b>5.9-6.35</b>	6.7-7.4

During 2010/11, the UK Government announced that public sector pension schemes should base their future statutory minimum pension increases on the Consumer Price Inflation Index (CPI) rather than the generally higher Retail Price Index (RPI), which they have used in the past.

The Government announcement affected the Local Government Pension Scheme, which is now using CPI rather than RPI. The lower CPI resulted in a £6.0m past service credit being taken to the Comprehensive Income and Expenditure Statement for the year ended 31 March 2011. The Group's other pension arrangements were not affected by the change.



## Notes to the Financial Statements (continued)

### 29. Pensions (continued)

#### c) Accounting

The total assets in the Schemes and the expected rate of return were:

	Expected return % pa	2012 Value at 31 March £m	Expected return % pa	2011 Value at 31 March £m
Equities and alternatives	6.3	4,058.4	7.8	3,912.3
Bonds	3.8	1,869.1	5.0	1,679.8
Cash and other	2.8	29.7	4.0	18.2
<b>Total fair value of assets</b>		<b>5,957.2</b>		<b>5,610.3</b>

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

	31 March 2012 %	31 March 2011 %
Equities	68	70
Bonds	32	30
	<b>100</b>	<b>100</b>

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

## Notes to the Financial Statements (continued)

### 29. Pensions (continued)

#### Total pension deficit at the end of the year

Group	2012 £m	2011 £m
Fair value of scheme assets	5,957.2	5,610.3
Actuarial valuation of defined benefit obligation	(8,249.9)	(7,230.4)
<b>Deficit recognised as a liability in the balance sheet</b>	<b>(2,292.7)</b>	<b>(1,620.1)</b>

Group	2012 £m	2011 £m
TfL Pension Fund – Public Sector section	(2,134.3)	(1,492.6)
TfL Pension Fund – Tube Lines section	(58.3)	(48.4)
Local Government Pension Scheme	(36.7)	(26.3)
Unfunded schemes provision	(63.4)	(52.8)
<b>Deficit recognised as a liability in the balance sheet</b>	<b>(2,292.7)</b>	<b>(1,620.1)</b>

Corporation	2012 £m	2011 £m
Fair value of scheme assets	25.5	23.8
Actuarial valuation of defined benefit obligation	(94.9)	(78.2)
<b>Deficit recognised as a liability in the balance sheet</b>	<b>(69.4)</b>	<b>(54.4)</b>

Corporation	2012 £m	2011 £m
Local Government Pension Scheme	(36.7)	(26.3)
Unfunded schemes provision	(32.7)	(28.1)
<b>Deficit recognised as a liability in the balance sheet</b>	<b>(69.4)</b>	<b>(54.4)</b>

## Notes to the Financial Statements (continued)

### 29. Pensions (continued)

#### Analysis of amounts included in the Comprehensive Income and Expenditure Statement

##### Analysis of amounts charged to net cost of services

	<b>Group 2012 £m</b>	Group 2011 £m	<b>Corporation 2012 £m</b>	Corporation 2011 £m
Current service cost	<b>187.3</b>	207.6	<b>1.3</b>	1.9
Past service cost	<b>5.9</b>	(2.5)	<b>2.6</b>	(4.9)
Curtailment and settlements	<b>(12.0)</b>	-	<b>-</b>	-
	<b>181.2</b>	205.1	<b>3.9</b>	(3.0)

##### Amounts charged to financing and investment income and expenditure

	<b>Group 2012 £m</b>	Group 2011 £m	<b>Corporation 2012 £m</b>	Corporation 2011 £m
Interest on Schemes' defined benefit obligations	<b>409.2</b>	399.4	<b>4.4</b>	5.7
Expected return on Schemes' assets	<b>(406.5)</b>	(361.8)	<b>(1.7)</b>	(2.4)
	<b>2.7</b>	37.6	<b>2.7</b>	3.3

##### Amount recognised in other comprehensive income and expenditure

	<b>Group 2012 £m</b>	Group 2011 £m	<b>Corporation 2012 £m</b>	Corporation 2011 £m
Actuarial loss/ (gain) recognised in the year	<b>755.2</b>	(647.2)	<b>12.7</b>	(16.6)
Cumulative loss recognised at the end of the year	<b>1,911.7</b>	1,156.5	<b>44.2</b>	31.5

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

	<b>Group 2012 £m</b>	Group 2011 £m	<b>Corporation 2012 £m</b>	Corporation 2011 £m
Wholly unfunded schemes	<b>63.4</b>	52.8	<b>32.7</b>	28.1
Wholly or partly funded schemes	<b>8,186.5</b>	7,177.6	<b>62.2</b>	50.1
<b>Total scheme defined benefit obligation</b>	<b>8,249.9</b>	7,230.4	<b>94.9</b>	78.2

## Notes to the Financial Statements (continued)

### 29. Pensions (continued)

#### Reconciliation of defined benefit obligation

	<b>Group 2012 £m</b>	Group 2011 £m	<b>Corporation 2012 £m</b>	Corporation 2011 £m
Actuarial value of defined benefit obligation at start of year	<b>7,230.4</b>	7,108.1	<b>78.2</b>	119.4
Defined benefit obligation acquired in the year	-	241.6	-	-
Current service cost	<b>187.3</b>	207.6	<b>1.3</b>	1.9
Interest cost	<b>409.2</b>	399.4	<b>4.4</b>	5.7
Employee contributions	<b>41.3</b>	40.8	<b>0.5</b>	0.5
Actuarial loss/ (gain) on liabilities	<b>663.3</b>	(540.3)	<b>11.3</b>	(11.8)
Actual benefit payments	<b>(275.5)</b>	(224.3)	<b>(3.4)</b>	(32.6)
Past service cost	<b>5.9</b>	(2.5)	<b>2.6</b>	(4.9)
Settlements and curtailments	<b>(12.0)</b>	-	-	-
<b>Actuarial value of defined benefit obligation at end of year</b>	<b>8,249.9</b>	7,230.4	<b>94.9</b>	78.2

#### Reconciliation of fair value of the scheme assets:

	<b>Group 2012 £m</b>	Group 2011 £m	<b>Corporation 2012 £m</b>	Corporation 2011 £m
Fair value of assets at start of year	<b>5,610.3</b>	4,914.4	<b>23.8</b>	44.7
Assets acquired in the year	-	150.5	-	-
Expected return on assets net of expenses	<b>406.5</b>	361.8	<b>1.7</b>	2.4
Actuarial gain/ (loss)	<b>(91.9)</b>	106.9	<b>(1.4)</b>	4.8
Actual employer contributions	<b>262.7</b>	256.6	<b>2.1</b>	1.8
Employee contributions	<b>41.3</b>	40.8	<b>0.5</b>	0.5
Actual benefits paid	<b>(271.7)</b>	(220.7)	<b>(1.2)</b>	(30.4)
	<b>5,957.2</b>	5,610.3	<b>25.5</b>	23.8

## Notes to the Financial Statements (continued)

### 29. Pensions (continued)

#### History of experience gains and losses

The history of experience adjustments on the plans for the current and previous financial years is as follows:

The Schemes	Group only				
	2012	2011	2010	2009	2008
<b>Difference between the expected and actual return on assets (loss)/ gain</b>					
Amount (£m)	<b>(90.5)</b>	106.8	852.3	(1,162.0)	(321.9)
Percentage of scheme assets	<b>1.5%</b>	1.9%	17.3%	30.9%	7.8%
<b>Differences between actuarial assumptions about defined benefit obligation and actual experience gain/ (loss)</b>					
Amount (£m)	<b>42.0</b>	70.0	380.0	(71.7)	(156.2)
Percentage of the present value of the scheme defined benefit obligation	<b>0.5%</b>	1.0%	5.3%	1.4%	3.3%
<b>Changes in the demographic and financial assumptions used to estimate defined benefit obligation (loss)/ gain</b>					
Amount (£m)	<b>(696.5)</b>	457.7	(2,234.2)	703.2	789.4
Percentage of the present value of the scheme defined benefit obligation	<b>8.4%</b>	6.3%	31.4%	14.2%	16.5%
<b>Deficit at year end</b>					
Fair value of assets at year end	<b>5,957.2</b>	5,610.3	4,914.4	3,757.2	4,124.7
Actuarial value of defined benefit obligation at year end	<b>(8,249.9)</b>	(7,230.4)	(7,108.1)	(4,944.7)	(4,774.3)
<b>Deficit at year end</b>	<b>(2,292.7)</b>	(1,620.1)	(2,193.7)	(1,187.5)	(649.6)

## Notes to the Financial Statements (continued)

### 29. Pensions (continued)

#### d) Other pension arrangements

##### Principal Civil Service Pension Scheme

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. The Group is unable to identify its share of the underlying assets and defined benefit obligation on a consistent and reasonable basis and, as permitted by the multi-employer exemption in IAS 19, the Group treats contributions to the PCSPS as if they were contributions to a defined contribution plan. A full actuarial valuation was carried out at 31 March 2010, and the next valuation is due as at 31 March 2013. Details can be found in the Civil Service Superannuation Resource Accounts ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

Employers' contributions were payable to the PCSPS at one of four rates in the range 17.1 per cent to 25.5 per cent of pensionable pay, based on salary bands. Employer contributions are reviewed every three years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

##### Railways Pension Scheme

Crossrail Limited (CRL) contributes to the Omnibus Section of the Railways Pension Scheme (RPS). The RPS is a defined benefit arrangement for rail industry employees. The Omnibus Section is made up of 53 participating employers, each (apart from CRL) having fewer than 51 active members in the scheme.

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

The last actuarial valuation of the Omnibus Section of the scheme was carried out at 31 December 2007. The actuarial report showed that there was a surplus of assets over liabilities of £6.2m for the total Omnibus Section. The results of an actuarial valuation as at 31 December 2010 will be published later in 2012.

The current level of total contribution is 31 per cent, effective from 1 July 2009. Once it has been finalised, the results of the 2010 valuation will be evaluated to determine future contribution levels.

##### Defined contribution schemes

The Group contributes to a number of defined contribution schemes, with contributions amounting to £15.8m (2010/11 £11.1m). The Tube Lines defined contribution scheme is one such scheme with contributions amounting to £3.4m (2010/11 £2.5m).

## Notes to the Financial Statements (continued)

### 30. Cash flow notes

#### a. Adjustments to net surplus for non-cash movements

	<b>Group 2012 £m</b>	Group 2011 £m	<b>Corporation 2012 £m</b>	Corporation 2011 £m
Depreciation of property, plant and equipment and amortisation of intangibles	<b>948.0</b>	892.3	<b>197.5</b>	194.6
Impairment of goodwill	<b>106.3</b>	242.9	-	-
(Gain)/ loss on sale of property, plant and equipment	<b>(2.5)</b>	321.8	<b>2.4</b>	39.2
(Gain)/ loss on sale of investment property	<b>(0.3)</b>	(7.7)	<b>(0.3)</b>	0.2
Movements in the value of investment properties	<b>(21.4)</b>	(29.1)	<b>(9.4)</b>	(0.5)
Reversal of impairment losses on property plant and equipment	-	(0.1)	-	-
Financing income	<b>(420.0)</b>	(371.2)	<b>(250.4)</b>	(147.3)
Financing expense	<b>943.3</b>	813.0	<b>493.0</b>	273.9
Capital grants received	<b>(3,115.3)</b>	(3,390.3)	<b>(3,019.7)</b>	(3,271.3)
Capital grants paid to subsidiaries	-	-	<b>1,445.0</b>	1,704.9
Reversal of defined benefit pension service costs	<b>181.2</b>	(205.1)	<b>3.9</b>	(3.0)
Reversal of taxation credit	<b>(1.5)</b>	(1.3)	-	-
<b>Cash flow from operating activities before movements in working capital</b>	<b>(1,382.2)</b>	(1,324.6)	<b>(1,138.0)</b>	(1,209.3)
(Decrease)/ increase in creditors	<b>(2.9)</b>	(191.9)	<b>(10.8)</b>	143.6
(Increase)/ decrease in debtors	<b>(298.8)</b>	45.7	<b>(48.7)</b>	9.2
(Increase)/ decrease in inventories	<b>(2.0)</b>	(9.5)	<b>0.3</b>	(0.9)
(Decrease)/ increase in provisions	<b>(71.5)</b>	(21.0)	<b>(7.3)</b>	5.2
<b>Cash flow utilised by operations</b>	<b>(1,757.4)</b>	(1,501.3)	<b>(1,204.5)</b>	(1,052.2)
Cash payments for employers' contributions to defined benefit pension funds and direct payments to pensioners	<b>(266.5)</b>	(260.2)	<b>(4.3)</b>	(4.0)
Taxation refund received	<b>16.0</b>	1.4	-	-
<b>Net cash utilised by operating activities</b>	<b>(2,007.9)</b>	(1,760.1)	<b>(1,208.8)</b>	(1,056.2)

## Notes to the Financial Statements (continued)

### 30. Cash flow notes (continued)

#### b. Investing activities

	Group 2012 £m	Group 2011 £m	Corporation 2012 £m	Corporation 2011 £m
Interest received	13.8	7.9	249.0	143.6
Capital grants received	3,328.4	3,232.6	3,239.4	3,100.0
Capital grants paid to subsidiaries	-	-	(1,445.0)	(1,704.9)
Purchase of property, plant and equipment and investment property	(2,690.8)	(2,699.3)	(292.8)	(361.2)
Purchase of intangible assets	(33.8)	(28.1)	(1.8)	(8.0)
Proceeds from the sale of property, plant and equipment and intangible assets	34.6	12.4	-	-
Purchases of short-term investments	(570.1)	(434.0)	(595.3)	(551.1)
Loans to subsidiaries	-	-	(1,214.1)	(2,224.9)
Proceeds from sale of investment property	48.6	37.3	40.2	13.1
Loan notes acquired	-	(90.0)	-	-
Payments to acquire subsidiaries/ investments in subsidiaries (Note 31 / 14)	(184.3)	(65.1)	(650.0)	(450.0)
Cash acquired with subsidiaries	32.6	74.2	-	-
<b>Net cash flows from investing activities</b>	<b>(21.0)</b>	<b>47.9</b>	<b>(670.4)</b>	<b>(2,043.4)</b>

#### c. Financing activities

	Group 2012 £m	Group 2011 £m	Corporation 2012 £m	Corporation 2011 £m
Loans from subsidiaries	-	-	(1,527.3)	1,592.3
Cash payments for reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI arrangements	(158.1)	(83.7)	(16.2)	(6.9)
Proceeds from new borrowing	1,954.0	651.2	2,315.4	632.3
Repayments of borrowings	(1,563.2)	(161.2)	-	-
Premiums paid on early repayment of borrowings	(168.6)	-	(216.5)	-
Cash paid on early settlement of derivatives	(96.3)	-	-	-
Interest paid	(190.2)	(441.6)	(177.0)	(266.9)
<b>Net cash flows from financing activities</b>	<b>(222.4)</b>	<b>(35.3)</b>	<b>378.4</b>	<b>1,950.8</b>



## Notes to the Financial Statements (continued)

### 31. Acquisitions

#### WARE and CARE GROUP

On 23 November 2011, the acquisition of both the Woolwich Arsenal Rail Enterprises ('WARE') and the City Airport Rail Enterprises ('CARE') groups was completed, with 100 per cent of the shares acquired for consideration of £30.7m. The consideration comprised £29.2m in cash and £1.5m of deferred consideration as detailed in the sale and purchase agreement. The fair value of the deferred consideration was not considered materially different to the nominal amount.

The WARE and CARE groups of companies consist of Woolwich Arsenal Rail Enterprises (Holdings) Limited (a holding company), Woolwich Arsenal Rail Enterprises Limited (which maintains part of the Docklands Light Railway network), City Airport Rail Enterprises (Holdings) Limited (a holding company) and City Airport Rail Enterprises PLC (which maintains part of the Docklands Light Railway network). WARE and CARE hold concession contracts with Docklands Light Railway Limited ('DLR') for the design, construction and maintenance of the extensions of the Docklands Light Railway to Woolwich and City Airport. Prior to the acquisition, these contracts were accounted for by the TfL group as Private Finance Initiative contracts (see note 22).

As part of the sale and purchase agreement, the Group also acquired £32.9m of shareholder loan notes. This amount entitled the Group to receive payment of the loan notes from WARE and CARE rather than being a payment made to obtain control, and as such, the loan notes have been included in the tables below as a liability of the acquired companies rather than as part of the purchase consideration.

Adjustments are made to identifiable assets and liabilities on acquisition to reflect their fair value. The fair value of the net liabilities acquired was £75.6m, which resulted in goodwill of £106.3m. These fair values are provisional and represent estimates following a preliminary valuation exercise. The estimates may be adjusted to reflect any development in the issues to which they relate.

As part of the exercise, management have reviewed WARE and CARE's activities and concluded that there are no intangible assets to be recognised in the fair valued acquisition balance sheets of the acquired companies.

Following acquisition, CARE and WARE received early repayment of their contract debtors from Docklands Light Railway Limited ('DLR') and in turn repaid their outstanding senior debt obligations with the exception of a £85.5m EIB loan note held by Woolwich Arsenal Rail Enterprises limited. This EIB liability was subsequently novated to TfL Corporation.

In order to reflect the now debt-free status of CARE and WARE, DLR and CARE and WARE management agreed to amend the terms of the concession arrangements, reducing the fees payable by DLR to CARE and WARE to a level such as to ensure the CARE and WARE companies break even.

Accordingly, the Group has impaired the goodwill recognised on acquisition down to £nil as it is unlikely that this amount will be recoverable through the future operations of the acquired businesses.

## Notes to the Financial Statements (continued)

### 31. Acquisitions (continued)

The assets and liabilities acquired are set out below:

	23 November 2011 Book value £m	23 November 2011 Fair value adjustments £m	23 November 2011 Fair value total £m
Debtors	19.3	(5.8)	13.5
Finance lease receivable	348.9	(24.9)	324.0
Cash and cash equivalents	32.6	-	32.6
Creditors	(45.7)	4.9	(40.8)
Borrowings	(353.7)	8.5	(345.2)
Derivative instruments	-	(59.7)	(59.7)
Deferred tax	(0.5)	0.5	-
<b>Net liabilities acquired</b>	<b>0.9</b>	<b>(76.5)</b>	<b>(75.6)</b>
Cash			(29.2)
Deferred consideration			(1.5)
<b>Total consideration</b>			<b>(30.7)</b>
<b>Goodwill</b>			<b>106.3</b>

Reconciliation to Group Statement of Cash Flows	Note	£m
Cash consideration paid for acquisition for CARE and WARE		(29.2)
Deferred consideration paid for prior year acquisition of Tube Lines		(155.1)
<b>Total payments to acquire subsidiaries per Group Statement of Cash Flows</b>	<b>30b</b>	<b>(184.3)</b>

In accordance with IFRS 3 Business Combinations, a review was completed to determine the value of the pre-existing relationship that TfL had with the WARE and CARE groups. It was determined that there was no value to the pre-existing relationship as the contracts were neither favourable nor unfavourable to either party.

WARE's and CARE's revenues derive solely from Docklands Light Railway Limited and hence when WARE and CARE are consolidated into the TfL Group there is no impact on Group revenue. In the four month period ended 31 March 2012, the WARE and CARE groups contributed a profit of £0.5m to the Group's surplus or deficit on the provision of services. If the acquisition had occurred on 1 April 2011, the impact on the consolidated revenue of the TfL Group would have been £nil and the impact on the consolidated profit would have been £nil. The results of the acquired companies for the period before acquisition have not been adjusted to reflect the TfL Group's accounting policies or to reflect the fair value adjustments made on acquisition. This information is provided for illustrative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of the future results of the combined companies.

## Notes to the Financial Statements (continued)

### 32. Unusable reserves

	2012 £m	2011 £m
<b>Group</b>		
Capital adjustment account	14,638.0	12,435.4
Pension reserve	(2,203.7)	(1,547.0)
Accumulated absences reserve	(5.0)	(4.5)
Retained earnings reserve in subsidiaries	1,087.3	1,437.1
Revaluation reserve	51.1	47.7
Hedging reserve	(117.1)	4.4
Financial instruments adjustment account	(216.5)	-
Merger reserve	466.1	466.1
<b>At 31 March</b>	<b>13,700.2</b>	<b>12,839.2</b>

	2012 £m	2011 £m
<b>Corporation</b>		
Capital adjustment account	3,455.5	2,269.7
Pension reserve	(69.4)	(54.4)
Accumulated absences reserve	(5.0)	(4.5)
Financial instruments adjustment account	(216.5)	-
<b>At 31 March</b>	<b>3,164.6</b>	<b>2,210.8</b>

## Notes to the Financial Statements (continued)

### 32. Unusable reserves (continued)

#### Capital adjustment account

The Capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by TfL as finance for the costs of acquisition, construction and enhancement. The account also contains accumulated gains and losses on investment properties.

	Note	Group 2012 £m	Group 2011 £m	Corporation 2012 £m	Corporation 2011 £m
Balance at 1 April		<b>12,435.4</b>	10,974.5	<b>2,269.7</b>	1,962.0
Charges for depreciation and impairment of non current assets	11, 12	<b>(197.5)</b>	(194.6)	<b>(197.5)</b>	(194.6)
Gain/ (loss) on sale of investment property	7,8	<b>0.3</b>	(0.2)	<b>0.3</b>	(0.2)
Movements in the market value of investment properties	7	<b>9.4</b>	0.5	<b>9.4</b>	0.5
Capital grants and contributions	9	<b>2,916.6</b>	2,365.1	<b>1,376.0</b>	541.2
Profit or loss on disposal of non current assets	6,7	<b>(2.4)</b>	(26.0)	<b>(2.4)</b>	(39.2)
Adjustments between Group and Corporation financial statements	*	<b>(523.8)</b>	(683.9)	-	-
<b>Balance at 31 March</b>		<b>14,638.0</b>	12,435.4	<b>3,455.5</b>	2,269.7

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

## Notes to the Financial Statements (continued)

### 32. Unusable reserves (continued)

#### Pension reserve

The Pension reserve represents pension and other post-retirement defined benefit obligations shown on the balance sheet, excluding those reflected on the balance sheets of the subsidiary companies. The pension reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Group and Corporation account for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the defined benefit obligations recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Group and Corporation make employer's contributions to pension funds or eventually pay any pensions for which they are directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources that have been set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	<b>Group 2012 £m</b>	Group 2011 £m	<b>Corporation 2012 £m</b>	Corporation 2011 £m
Balance at 1 April	<b>(1,547.0)</b>	(2,170.4)	<b>(54.4)</b>	(74.7)
Actuarial gains and losses on pension assets and defined benefit obligations	<b>(731.1)</b>	609.4	<b>(12.7)</b>	16.6
Reversal of charges relating to retirement benefits	<b>(262.8)</b>	(229.2)	<b>(6.6)</b>	(0.3)
Employer's pension contributions and direct payments to pensioners payable in the year	<b>337.2</b>	243.2	<b>4.3</b>	4.0
<b>Balance at 31 March</b>	<b>(2,203.7)</b>	(1,547.0)	<b>(69.4)</b>	(54.4)

## Notes to the Financial Statements (continued)

### 32. Unusable reserves (continued)

#### Accumulated absences reserve

The Accumulated absences reserve absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the reserve.

	<b>Group 2012 £m</b>	Group 2011 £m	<b>Corporation 2012 £m</b>	Corporation 2011 £m
Balance at 1 April	(4.5)	(4.9)	(4.5)	(4.9)
Settlement or cancellation of accrual made at the end of the preceding year	4.5	4.9	4.5	4.9
Amounts accrued at the end of the current year	(5.0)	(4.5)	(5.0)	(4.5)
<b>Balance at 31 March</b>	<b>(5.0)</b>	(4.5)	<b>(5.0)</b>	(4.5)

#### Retained earnings reserve in subsidiaries

The retained earnings reserve in subsidiaries represents the retained earnings in the Group's subsidiary companies. These are disclosed as unusable reserves as unless and until they are paid up in dividends to the Corporation, they are not available to fund the expenditure of the Corporation.

	<b>Group 2012 £m</b>	Group 2011 £m
Balance at 1 April	1,437.1	1,935.6
Loss for the year	(327.2)	(539.2)
Actuarial (loss)/ gain	(24.1)	37.8
Release of revaluation reserve relating to the difference between historic cost of disposal and fair value cost of disposal	1.5	2.4
Release of capital reserve	-	0.5
<b>Balance at 31 March</b>	<b>1,087.3</b>	1,437.1

## Notes to the Financial Statements (continued)

### 32. Unusable reserves (continued)

#### Revaluation reserve

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

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

	Note	Group 2012 £m	Group 2011 £m
Balance at 1 April		47.7	49.6
Revaluation of assets	12	4.9	1.0
Release of revaluation reserve relating to the difference between fair value depreciation and historic cost depreciation		(1.5)	(2.4)
Release of capital reserve		-	(0.5)
<b>Balance at 31 March</b>		<b>51.1</b>	<b>47.7</b>

#### Hedging reserve

The hedging reserve holds the gain or loss on a hedging instrument that is determined to be an effective hedge. The ineffective portion, if any, is recognised immediately through the Comprehensive Income and Expenditure Statement. The gain or loss deferred in reserves is recognised in the Comprehensive Income and Expenditure Statement in the period(s) during which the hedged forecast transaction affects profit or loss.

	Group 2012 £m	Group 2011 £m
Balance at 1 April	4.4	-
Net change in fair value of cash flow interest rate hedges	(121.0)	4.4
Net change in fair value of cash flow foreign exchange hedges	(0.5)	-
<b>Balance at 31 March</b>	<b>(117.1)</b>	<b>4.4</b>

The Corporation does not have a hedging reserve as it has not entered into any derivative transactions, nor does it have legal powers so to do.

## Notes to the Financial Statements (continued)

### 32. Unusable reserves (continued)

#### Financial instruments adjustment account

The financial instruments adjustment account provides a balancing mechanism between the different rates at which gains and losses (such as premium on the early repayment of debt) are recognised under the Code and are required by statute to be met from the General Fund.

	<b>Group 2012 £m</b>	Group 2011 £m	<b>Corporation 2012 £m</b>	Corporation 2011 £m
Balance at 1 April	-	-	-	-
Transfers arising from debt restructuring during the year	(216.5)	-	(216.5)	-
<b>Balance at 31 March</b>	<b>(216.5)</b>	-	<b>(216.5)</b>	-

#### Merger reserve

The merger reserve of £466.1m arose as a result of the transfer of the net assets of London Regional Transport, including the share capital of London Underground Limited (LUL), to TfL in 2003. It represents the share capital of LUL and was taken as a credit to merger reserve. The Group has taken advantage of the exemption in IFRS 1 not to restate business combinations occurring prior to the transition date of 1 April 2009.

	<b>Group 2012 £m</b>	Group 2011 £m	<b>Corporation 2012 £m</b>	Corporation 2011 £m
<b>Balance at 1 April and 31 March</b>	<b>466.1</b>	466.1	-	-



## Notes to the Financial Statements (continued)

### 33. Business rate supplement

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

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

In 2010/11, the GLA made its first grant to TfL from BRS funding to support the delivery of the Crossrail Project. In the year to 31 March 2012, TfL recognised £168.0m (2011: 202.0m) of BRS income in its Income and Expenditure Statement (see note 9) of which £166.4 (2011: £32.4m) was received and £1.6m (2011: £169.6m) was held as a debtor on the Corporation and Group's balance sheets.

	<b>Corporation 2012 £m</b>	Corporation 2011 £m
Opening Balance on BRS Account	-	-
Transfer to Capital Adjustment Account in respect of BRS capital expenditure	<b>(168.0)</b>	(202.0)
Transfer from General Fund to clear BRS account deficit	<b>168.0</b>	202.0
<b>Closing Balance on BRS Account</b>	-	-

### 34. Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Corporation in the year in accordance with proper accounting practice in order to determine the resources that are specified by statutory provisions as being available to the Corporation to meet future capital and revenue expenditure. The General Fund reserve represents monies available to finance the day to day activities of TfL.

## Notes to the Financial Statements (continued)

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

Corporation 2012

	Note	General fund £m	Capital adjustment account £m	Pension reserve £m	Financial instruments adjustment account £m	Accumulated absences reserve £m
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</b>						
Charges for depreciation amortisation and impairment of non current assets	3	197.5	(197.5)	-	-	-
Movements in the market value of investment properties	7	(9.4)	9.4	-	-	-
Gain on sale of investment property		(0.3)	(0.3)	-	-	-
Capital grants and contributions	9	(1,376.0)	1,376.0	-	-	-
Unapplied capital grants		(198.7)	-	-	-	-
Loss on disposal of non current assets	6	2.4	(2.4)	-	-	-
Reversal of items relating to retirement benefits		6.6	-	(6.6)	-	-
Premium on refinancing	8	216.5	-	-	(216.5)	-
Difference between the remuneration charged on an accruals basis and the remuneration chargeable in accordance with statutory requirements		0.5	-	-	-	(0.5)
<b>Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement which are required to be charged in accordance with statutory requirements</b>						
Employers pension contributions and direct payments to pensioners payable in the year		(4.3)	-	4.3	-	-
		<b>(1,165.2)</b>	<b>1,185.8</b>	<b>(2.3)</b>	<b>(216.5)</b>	<b>(0.5)</b>

## Notes to the Financial Statements (continued)

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

Corporation 2011

	Note	General fund £m	Capital adjustment account £m	Pension reserve £m	Accumulated absences reserve £m
<b>Reversal of items debited or credited to the Comprehensive income and Expenditure account</b>					
Charges for depreciation and impairment of non current assets		159.8	(159.8)	-	-
Loss on sale of investment property	8	0.2	(0.2)	-	-
Amortisation of intangible assets	11	34.8	(34.8)	-	-
Movements in the market value of investment properties	7	(0.5)	0.5	-	-
Capital grants and contributions	9	(541.2)	541.2	-	-
Unapplied capital grants		(1,025.2)	-	-	-
Loss on disposal of non current assets	6	39.2	(39.2)	-	-
Reversal of items relating to retirement benefits		0.3	-	(0.3)	-
Difference between the remuneration charged on an accruals basis and the remuneration chargeable in accordance with statutory requirements		(0.4)	-	-	0.4
<b>Inclusion of items not debited or credited to the Comprehensive income and expenditure statement which are required to be charged in accordance with statutory requirements</b>					
Employers pension contributions and direct payments to pensioners payable in the year		(4.0)	-	4.0	-
		(1,337.0)	307.7	3.7	0.4

## Notes to the Financial Statements (continued)

### 35. Sources of finance

Capital expenditure analysed by source of finance:

	Note	Corporation 2012 £m	Corporation 2011 £m
<b>Capital expenditure</b>			
Intangible asset additions	11	1.8	8.0
Property, plant and equipment additions	12	223.5	424.2
Investment property	13	0.8	-
Investments in year	14	650.0	450.0
Loans made to subsidiaries in year for capital purposes		1,208.1	2,224.9
Capital grants allocated to subsidiaries in year		1,445.0	1,704.9
<b>Total capital expenditure</b>		<b>3,529.2</b>	<b>4,812.0</b>
<b>Sources of finance</b>			
Transport grants used to fund capital	9	1,620.0	2,014.6
Business rates supplement	9	168.0	202.0
Crossrail specific grant	9	1,217.0	2.4
Prudential borrowing		794.3	2,589.4
Third party contributions		14.7	27.1
Capital receipts		-	6.9
Repayments of finance leases		(7.4)	(6.9)
Working capital		(277.4)	(23.5)
<b>Total sources of finance</b>		<b>3,529.2</b>	<b>4,812.0</b>

## Notes to the Financial Statements (continued)

### 36. Minimum revenue provision

The Local Government and Housing Act 1989 requires a Minimum Revenue Provision (MRP) to be set aside for the redemption of external debt. As a statutory corporation regulated as if it were a local authority, TfL is required to comply with the Local Authorities Capital Finance Regulations. New MRP regulations were approved by the Secretary of State in February 2008. TfL is required to approve an Annual MRP Statement determining the amount of MRP which it considers to be prudent.

The Department for Communities and Local Government issued guidance setting out four possible methods which are deemed automatically prudent, but also states that “approaches differing from those exemplified should not be ruled out... the broad aim of prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.”

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

TfL has therefore adopted the following policy:

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

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

## Notes to the Financial Statements (continued)

### 37. Financial assistance

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

Financial assistance given under section 159 of the Greater London Authority Act 1999 is outlined below:

		Corporation 2012 £m	Corporation 2011 £m
<b>Financial assistance to subsidiaries</b>			
Transport Trading Limited		319.7	141.2
London Underground Limited		1,059.6	3,666.1
London Bus Services Limited		568.0	606.1
Docklands Light Railway Limited		480.0	126.7
Rail for London Limited		169.1	243.8
London River Services Limited		4.5	0.3
Tramtrack Croydon Limited		12.5	13.6
London Transport Museum Limited		5.8	6.0
Crossrail Limited		1,098.7	477.4
Transport for London Finance Limited		325.0	-
City Airport Rail Enterprises Limited		26.5	-
Woolwich Arsenal Rail Enterprises Limited		49.5	-
		<b>4,118.9</b>	<b>5,281.2</b>
	Note	Corporation 2012 £m	Corporation 2011 £m
<b>Financial assistance to London Boroughs and other third parties</b>			
London Investment Programme		139.5	145.3
Taxicard		10.8	13.8
Safety schemes		4.0	5.6
Cycle network		6.8	7.3
Cycle hire scheme		-	6.7
Other		4.6	14.5
	3	<b>165.7</b>	<b>193.2</b>

## Notes to the Financial Statements (continued)

### 38. Related parties

Transport for London is required by the Code and IAS 24 Related party transactions ("IAS 24") to disclose material transactions with related parties. Related parties are entities or individuals who have the potential to control, indirectly control or significantly influence TfL or to be controlled, indirectly controlled or significantly influenced by TfL.

TfL is a statutory corporation established by section 154 of the Greater London Authority Act 1999 (GLA Act 1999). It is a functional body of the Greater London Authority and is controlled by the Mayor of London. TfL is classified as a government entity in accordance with IAS 24, as it is controlled by the GLA, through the Mayor. The GLA and its other functional bodies are considered to be related parties of TfL and its subsidiaries, as they are all under the control of the Mayor. Other related parties include TfL's Board Members, Chief Officers, Commissioner, the Mayor of London and the TfL Pension Fund. In addition, central government has the potential to influence TfL by providing the statutory framework within which TfL operates and through the provision of funding in the form of grants.

Disclosure of related party transactions allows readers to assess the extent to which the Corporation might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with it.

#### **GLA and functional bodies**

Details of the funding granted to TfL by the GLA from the Business Rates Supplement levied by the GLA are included in note 33. In addition, the GLA made grants to TfL in respect of the Crossrail project amounting to £700m. This amount is included in note 9 as part of "Ring-fenced grant to fund capital expenditure relating to Crossrail".

#### **Board Members and Officers**

Board Members, Chief Officers, the Commissioner and the Mayor of London are required to complete a declaration regarding any related party transactions. During the year, none of the Corporation Board, key management personnel or parties related to them have undertaken any material transactions with the Corporation or its subsidiaries (2010/11 none).

#### **TfL Pension Fund**

The Accounts of the TfL Pension Fund are prepared separately and are subject to a separate audit opinion. Contributions payable to the TfL Pension Fund by TfL as employer are disclosed in note 29.

#### **Central Government**

Transport Grant is paid by the Department for Transport to the Greater London Authority, which in turn pays the grant to the Corporation. Details of Transport Grant are disclosed in the Corporation and Group Comprehensive Income and Expenditure Statements and Cash Flow Statements.

The Department for Transport sets the level of Transport Grant through the spending review process. The last such spending review was SR 2010, and the settlement covered grant funding and permitted levels of borrowing for the period up to 31 March 2015.

## Notes to the Financial Statements (continued)

### 38. Related parties (continued)

#### Other public bodies

TfL provides financial assistance to London Boroughs to support borough schemes that improve the local travelling environment. Financial assistance provided is disclosed in note xx.

TfL receives income from the London Boroughs for the provision of free travel for the elderly, disabled, and students. This income is set out in note I.

TfL has borrowings outstanding from the Public Works Loan Board ("PWLB"), and pays interest to PWLB in respect of those borrowings.

TfL makes payments to the British Transport Police for the provision of policing services on the Underground and Overground railways.

TfL makes payments to the Metropolitan Police Service for policing services provided by the Safer Transport Command.

Transactions between the Corporation and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

### 39. Events after the balance sheet date

There have been no events occurring after the reporting date that would have a material impact on these financial statements.