

Transport for London

Annual Report and Statement of Accounts 2010/11



MAYOR OF LONDON

Transport for London



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Message from the Mayor

At the beginning of the 20th century London was the capital of the world.

We were the global centre of banking, we exported clothes to India and China, we imported timber from Canada and sold it back as tennis racquets, and all that wealth was created with Victorian capital and 19th century infrastructure.

In 1836 the world's first commuter railway brought clerks and office workers into the City and 20 years later it was the world's first underground railway that showed the daring and invention of this city in dealing with the problems of mass transit.

The Victorians built the first tunnel under the Thames and virtually every bridge that now spans the river. Right up to the Second World War our city continued to boom. But a post-war loss of confidence saw us fail to make the investments necessary for long-term competitiveness.

We failed to upgrade the Tube – and I could take you to see bizarre 1930s Bakelite fuses and knobs that are still being used to this day at Edgware Road. In the course of an entire century we built only one new bridge east of the Tower of London. We ran our Routemaster buses into the ground and lacked the energy to replace them with a new bus specifically suited – as the Routemaster was – to the needs of this Capital.

In the early 1990s the tide began to turn. Population, jobs and confidence returned. An array of infrastructure investments made that prosperity possible including the Jubilee line and Docklands Light Railway (DLR). When we look at London today we see incredible potential. However, every Londoner knows our ageing transport infrastructure can lead to delays and inconvenience.

In a year when public sector finances were squeezed the Government's agreement to commit funding for our transport modernisation programmes was vital. My argument was simple: London is the UK's economic engine room and its prosperity is at the root of the country's return to economic health. As a result the Tube upgrades will continue and Crossrail alone will provide a 10 per cent increase in London's rail capacity.

Yet even the act of modernisation causes disruption from closures and teething troubles as new infrastructure beds in. But Transport for London (TfL) is making real progress on reliability. The system is experiencing fewer failures and recovering faster if they do happen.

Last year we took a step closer to the completion of an orbital railway with the opening of London Overground's East London line. It has boosted communities in the east and south by providing improved access to jobs and leisure opportunities. Next year we will connect

Clapham Junction and Surrey Quays to create a seamless rail link around the city.

I'm thrilled so many have taken to two wheels following the launch of my flagship Barclays Cycle Hire Scheme. Our distinctive blue bikes have become part of the fabric of London life and I believe we will become one of the world's great cycle-friendly cities.

On the roads we have removed unnecessary traffic lights, re-phased others and introduced a permit scheme that forces utilities to get permission before they can dig up our roads. However, more can be done and my team are working on further plans to improve the flow of traffic.

Crime on the transport system continues to fall as the result of a productive partnership between TfL, the Metropolitan Police and the British Transport Police. Our Tubes, trains, buses and stations are now low-crime environments. We will make them even safer.

Improved reliability, increased capacity and a safer travelling environment are critical to the success of the 2012 Games next year. This will be the first 'public transport' games and we are well prepared.

So it has been a good year. But we are not complacent. More must be done and I have the best possible team in place to tackle the



challenges that arise; and to continue to build the infrastructure and run the crucial transport services that keep our great city moving.

A handwritten signature in blue ink, which appears to be 'Boris Johnson'.

Boris Johnson
**Mayor of London and
Chairman of Transport for London**

Commissioner's foreword

This year TfL carried a record number of passengers and operated more services than ever before.

It has achieved this while managing the biggest upgrade and investment programme seen across the Tube and rail for generations.

This has been coupled with an ambitious cost saving exercise to protect frontline services. Our previous savings target of £5bn has been revised to £7.6bn – with £4.6bn of that already secured. The salaries of senior staff were frozen for a second year running and the Chief Officers and I declined our performance pay awards. The number of director-level posts at TfL is being reduced by 25 per cent and our support functions are being rationalised.

Operational performance is, of course, a key priority. Reliability is improving, but we fully recognise that we must constantly improve what we do to minimise disruption and the inconvenience it causes, particularly interruptions to services at the busiest times of the day.

The Government Spending Review was good news for TfL. We had to take our share of the pain of the Treasury's deficit reduction programme, but we kept the funding necessary to upgrade the Tube, build Crossrail and maintain London's comprehensive bus network.

With funding secured, our major projects are progressing well. Crossrail is on track with many of the big contracts already let and construction under way at sites across the city. Since TfL took over Tube Lines and ended the failed PPP, we have been able to make

significant improvements to the way the Tube upgrade programme is managed, with dramatic reductions in weekend closures. Better still, we've been able to cut costs substantially.

We are on track with our preparations for the 2012 Games. All the infrastructure is in place and we are continuing to work closely with our partners and local communities to ensure a successful event.

All of this was achieved due to the hard work of TfL staff, our contractors and many partners. My thanks to them all.

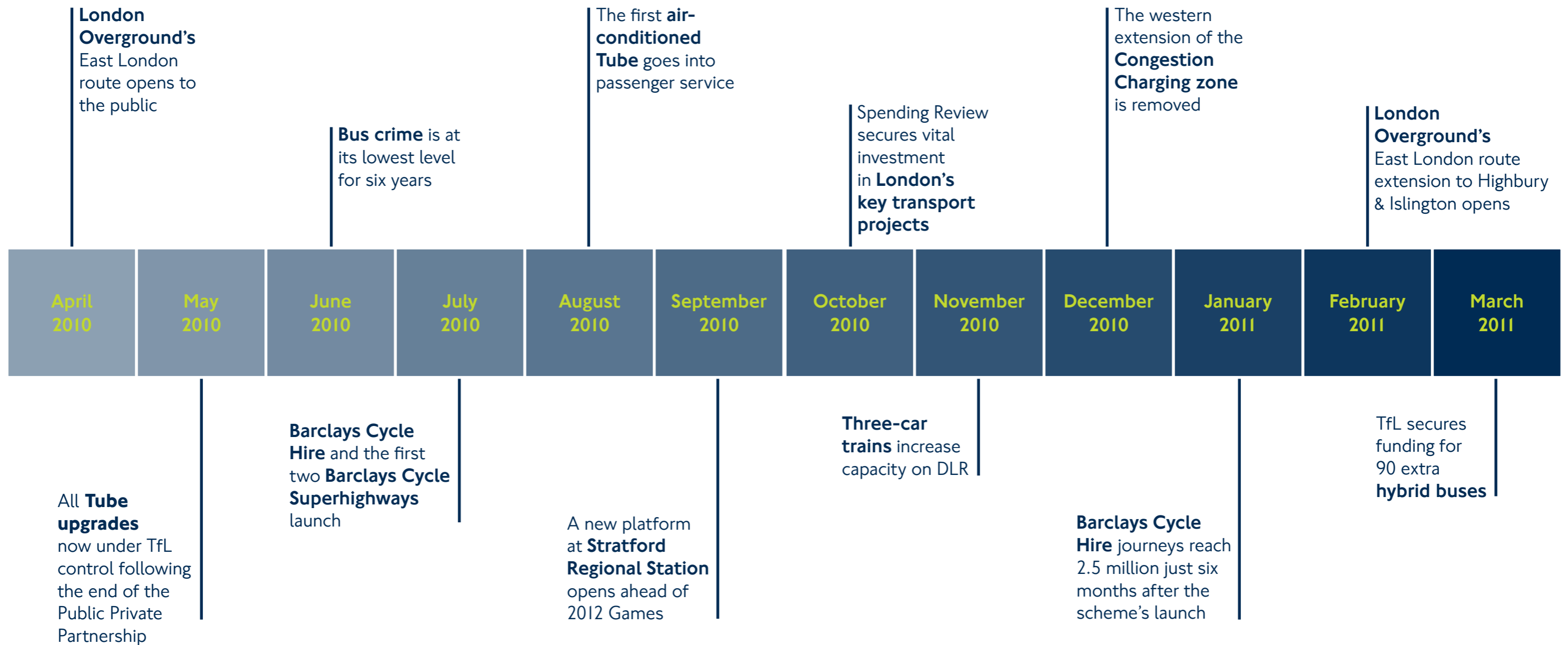


A handwritten signature in blue ink, appearing to read 'Peter Hensley'.

**Commissioner
Transport for London**

The year at a glance

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Operational performance

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Buses

	2010/11	2009/10	2008/09	2007/08	2006/07
Passenger journeys (millions)	2,289	2,257	2,247	2,176	1,880
Kilometres operated (millions)	486	483	478	468	458
Percentage of schedule operated (per cent)	97.4	97.1	97	97.5	97.5
Excess wait time (high frequency) (minutes)	1.0	1.1	1.1	1.1	1.1
Passenger satisfaction (score)	80	79	80	79	78

Note: The methodology for calculating bus passenger journeys changed from April 2007 and the re-based figure for 2006/07 for comparison is 2,069 million. The figure for bus passenger journeys in 2010/11 reflects a change in the method for calculating child journeys. The comparable figure for 2009/10 is 2,265 million journeys.

London Underground

	2010/11	2009/10	2008/09	2007/08	2006/07
Passenger journeys (millions)	1,107	1,065	1,089	1,072	1,014
Kilometres operated (millions)	68.9	69.4	70.6	70.5	69.8
Percentage of schedule operated (per cent)	95.6	96.6	96.4	94.8	94.5
Excess wait time (weighted) (minutes)	6.5	6.4	6.6	7.8	8.1
Passenger satisfaction (score)	79	79	79	77	76

Docklands Light Railway

	2010/11	2009/10	2008/09	2007/08	2006/07
Passenger journeys (millions)	78	69	66	67	61
Kilometres operated (millions)	4.7	4.6	3.9	4.4	4.4
On-time performance (per cent)	97.4	94.8	94.6	97.3	97.8
Passenger satisfaction (score)	81.4*	91.9	92	97.3	96.8

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

London Tramlink

	2010/11	2009/10	2008/09	2007/08	2006/07
Passenger journeys (millions)	27.9	26.5	27.0	26.3	24.8
Kilometres operated (millions)	2.7	2.6	2.7	2.6	2.5
Planned kilometres delivered (per cent)	98.6	98.6	98.4	99	99.3
Passenger satisfaction (score)	85.3	86.3	86	85	84

London Overground

	2010/11	2009/10	2008/09	2007/08
Kilometres operated (millions)	5.2	3.4	3.4	n/a
On-time performance (per cent)	94.8	93.2	92.2	91.4
Passenger satisfaction (score)	80.3	78.5	73	n/a

Note: London Overground services started operation in November 2007. Previously, services were operated by Silverlink Metro. Journey data are not reported at present as passenger numbers are derived from revenue allocations based on passenger surveys and can only be considered as estimations. TfL is currently introducing a new fleet of trains on to the London Overground network. These trains have a weighing system which should allow passenger data to be provided in future years.

Effective and efficient business operations

During 2010/11, TfL has continued working on and embedding the expanded efficiencies programme, which is now in its second year.

The programme comprises around 250 individual initiatives across the whole of the organisation – streamlining back office and support functions, generating additional secondary revenue and cutting out the lowest priority areas of expenditure.

Total gross savings achieved across the business in 2010/11 amount to £630m, against a target of £526m. The net position is £587m against a target of £447m. This has been achieved through completion of the majority of planned activities, identification of substitute and additional initiatives where those initially scoped have proved unachievable, and acceleration of some activities from future years with benefits arising commensurately earlier.

Total cumulative net savings since the efficiencies programme began are £800m, £216m (37 per cent) ahead of target. This represents more than 10 per cent of the £7.6bn of savings planned in the entire programme. The actions completed so far will create £4.6bn in savings by 2017/18.

London Underground

In 2010/11, London Underground has delivered savings of £335m, against a target of £247m. These efficiencies build on the foundations laid in 2009/10. Savings this year were achieved from:

- Continued value engineering and procurement strategy reviews on capital projects. Examples include the track renewals and bridges and civil engineering renewals contracts which introduce sharing of both cost overruns and efficiency savings with the contractors on each framework
- Reduced maintenance costs through contract consolidations, allowing contractors to plan delivery in a more strategic fashion
- A reduction of around 800 back office roles following a review of support services
- A cut in 800 management and operations roles as a result of ticket office changes designed to improve customer service by moving staff out to areas where passengers need them

Surface Transport

Surface Transport has achieved savings of £142m against a target of £136m.

Ongoing savings have been made through:

- Re-procurement and renegotiation of key contracts (eg bus network contracts, and energy costs)

- Reduced labour costs through process improvements and use of new technology (eg 90 posts relating to data collection have been saved following the introduction of iBus)

London Rail

Savings of £9m have been achieved during 2010 /11 as a result of the organisational restructuring carried out during the previous year and the ongoing focus on cost control of overheads.

Corporate

Savings of £21.5m have been achieved this year through the termination of the Prestige PFI contract for the provision of Oyster, which has been replaced by the more efficient Future Ticketing Agreement.

The Customer Contract Transformation Programme successfully implemented technological changes which allow customers to get travel information by telephone without having to speak to a call centre agent. Technology has also been deployed which enables customer enquiries to be routed and managed by different contact centres and allows staffing levels to be more closely matched to demand. These actions have enabled TfL to reduce operating costs and improve customer service by responding more effectively to rapid

increases in demand. A foundation has been put in place for future technical initiatives that will bring further benefits.

TfL disposed of its interest in the Shard at London Bridge, choosing to make better use of its existing property portfolio – generating significant savings in this and future years. Buildings with a total capacity of 1,290 workstations were also disposed of during 2010/11. In addition, desk sharing was implemented at Palestra which released more than 400 workstations.

Savings have also been achieved in Finance, HR and Information Management through aligning finance and performance activities and restructuring.

Work has continued to ensure that TfL procures better value contracts – with specific focus on engineering and construction, information management, operational services and corporate support.

Expenditure on non-permanent labour has dropped by £22m since 2009/10 as a result of concerted efforts to standardise and reduce rates and reduce the use of contractors and temporary staff.

Progress on the Mayor's Transport Strategy

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Demands on London's transport network and roads are certain to grow in the coming years.

Over the next two decades, the Capital's population is expected to increase by 1.25 million and jobs by 750,000.

In May 2010, following extensive consultations, the Mayor of London published a new transport strategy, setting out his goals and aspirations for the transport network over the next 20 years. These are aimed not only at increasing capacity but also bringing improvements in comfort, speed and security, and helping London meet its climate change and environmental targets.

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

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

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



Support economic development and population growth

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This MTS goal is being addressed by the biggest investment programme on the Capital's transport network since the second world war.

Work continued on numerous projects during 2010/11, and in some cases was completed, as the following highlights show:

- The new signalling system on the Jubilee line began operating over much of the line in December, and the full upgrade is due to complete in June 2011. Journeys are already quicker for many passengers, and the first of a phased series of timetable improvements, with more frequent services, will follow at the end July 2011
- Track and platform works and train testing took place on the Circle, District, Metropolitan and Hammersmith & City lines to enable new walk-through, air-conditioned trains to run. The trains began being phased in on the Metropolitan line
- Changes to the Northern line fleet – involving more than 3,000 wiring alterations to each of the 106 trains – were completed in preparation for a new signalling system
- The Public Private Partnership came to an end in June when TfL acquired infrastructure company Tube Lines. The deal means that TfL has far greater control over how the Tube upgrade works are carried out
- Engineering works continued on the Docklands Light Railway (DLR) to allow three-car trains to be introduced, increasing capacity by 50 per cent. The longer trains are already running between Bank and Lewisham and the entire network will be upgraded by the end of 2011
- On TfL's road network, 1,008 traffic signal timing reviews during the year contributed to a 7.9 per cent reduction in stop-start traffic delays. Also, SCOOT (Split-Cycle Offset Optimisation Technique) was installed at 225 traffic lights. SCOOT helps smooth traffic flow by using detectors in the road to change timings
- Almost 1,315 days of disruption on London's roads were prevented, thanks to better coordination of utility works following the introduction last year of the London Permit Scheme for Roadworks and Streetworks. Under the scheme, utility companies must apply for a permit to dig up roads – or face a penalty. The Mayor is also urging Government to give him the legal powers to introduce a lane rental system for utility companies carrying out roadworks
- CC Auto Pay, an automated system that allows drivers to pay the Congestion Charge online, was introduced in January. By April more than 115,000 people had signed up to the scheme, which uses cameras to record the number of days a vehicle travels within the zone and bills the driver accordingly
- Work to increase capacity and relieve congestion at key Tube stations continued. At Tottenham Court Road surrounding properties were demolished and excavation got under way. Work also began on a new entrance and ticket hall at Bond Street and a new ticket hall at Paddington. The main Victoria ticket office was expanded and re-opened (see page 22)



Spotlight: Vital London

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The Capital's essential role in the UK economy was recognised by the Government in October 2010's Spending Review, when it protected investment for vital transport projects in London.

Crossrail, Europe's largest infrastructure rail project, will, with the full Tube upgrades, provide a £78bn boost to the UK economy and dramatically improve capacity and rail links in the South East.

But it's not just London that is set to benefit. A host of manufacturing, engineering and construction jobs are being created across Britain.

For instance, an order for 2,000 train carriages enabled Derby-based global transport company Bombardier to create 400 manufacturing, engineering and technical roles, boosting the number of workers at the company's main site to 3,000. Around 8,000 jobs within Bombardier's supply chain are also supported.

Forty of TfL's 100 largest suppliers are headquartered outside the Capital, with their supply chains and manufacturing facilities spread widely. For example:

- Tube escalator refurbishment and installations are contracted to companies in Leeds and Glasgow

- Steel rail track is supplied by a Lincolnshire-based company where around 40 jobs are supported by TfL contracts. Track timber is also bought from Lincolnshire and loose stone track support is quarried in Yorkshire and Scotland
- TfL's traffic control systems come from suppliers in Co. Durham, Cambridgeshire and Berkshire which employ more than 600 staff

Commenting on the Bombardier order, the leader of Derby City Council, Harvey Jennings, pointed out: 'These contracts are bringing around £3bn into the East Midlands economy. Many people have said that London receives more than its fair share of investment, but this proves that investment in London benefits other regions and helps sustain the UK's manufacturing industry.'

There are other gains besides. For instance, TfL's research and trials into low-carbon bus technology have spurred other UK cities into similar efforts. And with more bus manufacturers needing to invest in vehicle developments to win transport contracts, there are environmental and health gains as well as economic improvements (see page 44).



Strong backing from business

MPs, business leaders, transport groups and other organisations all showed strong support for the need to secure investment in London's transport network, recognising its importance to the city's future growth and success.

More than 100 leaders from the Capital's business community, coordinated by London First, wrote to the Transport Secretary. And in a cross-party letter to the Chancellor, London Assembly Members argued that Crossrail and the Underground were vital to the UK's economic health. MPs from all parties also joined to sign a motion backing investment in the Tube and calling on a Government commitment to Crossrail.

'Working with the Mayor and London businesses, we successfully campaigned to secure vital investment to take forward the upgrade of the Tube and the construction of Crossrail, maintain frontline services on the extensive bus network and expand London's popular Barclays Cycle Hire.'

Peter Henty, Commissioner, TfL

'It's great news for London's businesses that the Government has recognised that investment in the Tube and Crossrail is vital to secure future economic growth – not just for the Capital but the whole of the UK.'

Sara Parker, Director, CBI London

Spotlight: A Capital crossing

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'Crossrail is a critical project for this country, with the potential to generate wider economic benefits for UK GDP and allow the creation of tens of thousands of jobs.'

Teresa Villiers, Minister for Transport

Faster by Crossrail

Journey	2010 journey time	Crossrail journey time
Slough to Tottenham Court Road	55mins	36mins
Ilford to Bond Street	35mins	22mins
Heathrow to Liverpool Street	55mins	36mins
Liverpool Street to Abbey Wood	40mins	22mins
Paddington to Canary Wharf	30mins	17mins

Constructing 42km of tunnels underneath central London, while causing minimal disruption and avoiding Underground lines, sewers and building foundations, is no easy task.

Yet that's the challenge set to the companies awarded the main tunnelling contracts for Europe's largest civil engineering project.

When construction is complete in 2018, the benefits will be huge. Crossrail will boost London's rail capacity by 10 per cent, enabling new journey opportunities and faster journey times with up to 24 trains an hour between Paddington and Whitechapel during peak periods.

Around 21km of twin-bore tunnels will be built, with work due to begin in late 2011. The first boring machine starts out on its journey in spring 2012. From then on, teams of construction workers will work round the clock to create the tunnels that will carry Crossrail passengers across London in minutes.

Minimising disruption

All construction projects by their nature result in some degree of disruption. But it is critically important that the impact of Crossrail's construction on central London is kept to a minimum.

More than 85 per cent of excavated material from tunnelling will be removed by rail and river, while construction material from stations and station-

related work, such as permanent access and ventilation shafts, will generally be removed by road before being transferred to the river.

During the project a total of seven million cubic metres of material will be excavated – the equivalent of covering the whole of Hyde Park and Kensington Gardens with a three-metre layer of soil. More than five million cubic metres of material excavated from the project will be transported by boat along the Thames for use in landscaping projects.

Skills legacy

As well as providing much-needed additional rail capacity, Crossrail has an important role to play in supporting regeneration and the economy, and in creating a skills legacy.

Construction work started in November 2010 on a Tunnelling and Underground Construction Academy at Aldersbrook sidings near Ilford Town Centre. Tackling the shortage of people with the necessary training to work on Crossrail and other tunnelling projects, the academy will provide training for the key skills required.

It will be open by September 2011, and over the lifetime of the project will offer training in underground construction to at least 3,500 people. After Crossrail has been completed, the academy will remain as a lasting legacy for London and the construction industry, operating as an independent organisation and long-term provider of tunnelling skills.

Spotlight: Victoria reigns

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Better access, less congestion and easier interchanges are the principal driving forces behind a massive £700m upgrade to Victoria station.

Victoria is one of the busiest stations on the Tube network. It currently serves nearly 80 million passengers each year, and this is predicted to rise to 100 million by 2016.

Nearly every day it closes for short periods during the morning and evening rush hours to avoid severe overcrowding. And the station has no step-free access, which causes major difficulties for disabled people and the large numbers travelling through it with luggage and pushchairs.

By summer 2016, a new station entrance and subterranean ticket hall north of the station at Cardinal Place will be open and by 2018 the existing Victoria line ticket hall will be enlarged. There will be new escalators and lifts for step-free access, plus an improved interchange with Victoria National Rail station.

When the work is finished the benefits will be substantial, including:

- Increasing the size of the station by 50 per cent
- Enlarging the existing Victoria line ticket hall to cut congestion

- A new North ticket hall with an entrance in Cardinal Place providing additional access to the station
- Nine new escalators and seven new passenger lifts for step-free access to the District, Circle and Victoria lines

Keeping cool

All major projects are highly complex and Victoria is no exception. One of the issues contractors have had to contend with is underground water seepage.

Normally this water is pumped away to avoid flooding, but as part of the station's redesign programme an innovative, environmental process is recycling the water to help cool down platforms.

The water is pumped through specially designed units mounted above the platforms. Hot air from the station is then channelled through the units and chilled by the water, effectively cooling the platforms and offering much needed relief from high temperatures, especially in the summer months.



'Anyone that's ever been near Victoria Tube in rush hour will know that these improvements cannot be made soon enough. It will make journeys easier for the hundreds of thousands of passengers that use the station.'
Boris Johnson, Mayor of London

'More than four million journeys are made on the Tube each weekday yet parts of the network are very old (some dating back to the 1860s). The upgrade of the Tube has never been as critical to London's economic, social and cultural success as it is today, and without continued investment the Tube will cost increasingly more to run and become increasingly unreliable.'
Mike Brown, Managing Director, London Underground

Spotlight: Tunnel visions

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Smoothly does it

Under the Traffic Management Act 2004, it is up to TfL and the boroughs to ensure London's road network runs as smoothly and efficiently as possible.

Smoothing the traffic flow increases the reliability and predictability of journeys, and helps tackle the stop-start conditions that increase emissions of harmful pollutants.

The Mayor's Transport Strategy outlines how the Mayor and TfL will seek to improve conditions on London's roads.

'Smoothing traffic flow means more reliable journey times and more free-flowing travel conditions,' the Mayor, Boris Johnson, argues. There are a number of ways to achieve this, ranging from more efficient use of road space, to looking at parking and loading arrangements, traffic signals and roadworks.

In fact, around a third of London's serious and severe disruption is caused by roadworks, it is estimated, at a cost to London's economy of almost £1bn a year. The introduction of the London Permit Scheme (see page 16) has already begun to make a difference by imposing tighter regulations on utility companies seeking to dig up roads.

Since its introduction last year, TfL has granted around 48,000 permits but refused 10,000 and issued 160 fixed penalty notices to companies working without a permit.

At the same time, TfL has continued with its programme of traffic signal timing reviews and installation of smarter signal technology (see page 16). And it has progressed on major road improvement schemes to smooth traffic flow such as those on the North Circular Road at Bounds Green and Henlys Corner, and the removal of the Tottenham Hale gyratory.

Amazing but true: TfL figures show Blackwall Tunnel has been forced to close no fewer than 1,200 times in nine months simply because drivers failed to heed height restriction warnings or their vehicles ran out of fuel.

The northbound and southbound tunnels are used by around 100,000 vehicles a day and although the closures are often for only a few minutes, the resulting queues and traffic congestion can last for hours.

To combat this problem, TfL has introduced a number of measures. First, it has been calling on drivers to check before they travel to ensure their vehicles are well maintained, have enough fuel and, in the case of the northbound tunnel, comply with the tunnel's height restrictions.

In early 2011, TfL also began a three-month trial with road response police officers based at the tunnel to provide an immediate response to any unplanned incidents, such as breakdowns. The team will also be working closely with the Vehicle and Operator Services Agency to strengthen enforcement of vehicle standards on the approach to the tunnel.

A new digital sign has been installed on the northbound approach, showing the number of over-height and broken down vehicles that have stopped traffic in the previous month. By

drawing attention to the high number of avoidable incidents, it is hoped drivers will remember to check their vehicle is in an appropriate condition and complies with the height restrictions before they enter the tunnel.

TfL's Chief Operating Officer for London Streets, Garrett Emmerson, puts the figures in stark perspective: 'For every minute the tunnel is closed, it stops up to 60 vehicles getting through,' he says. 'On an average day, these unnecessary closures, many of which occur at peak time, can stop up to 750 vehicles passing through the tunnel.'

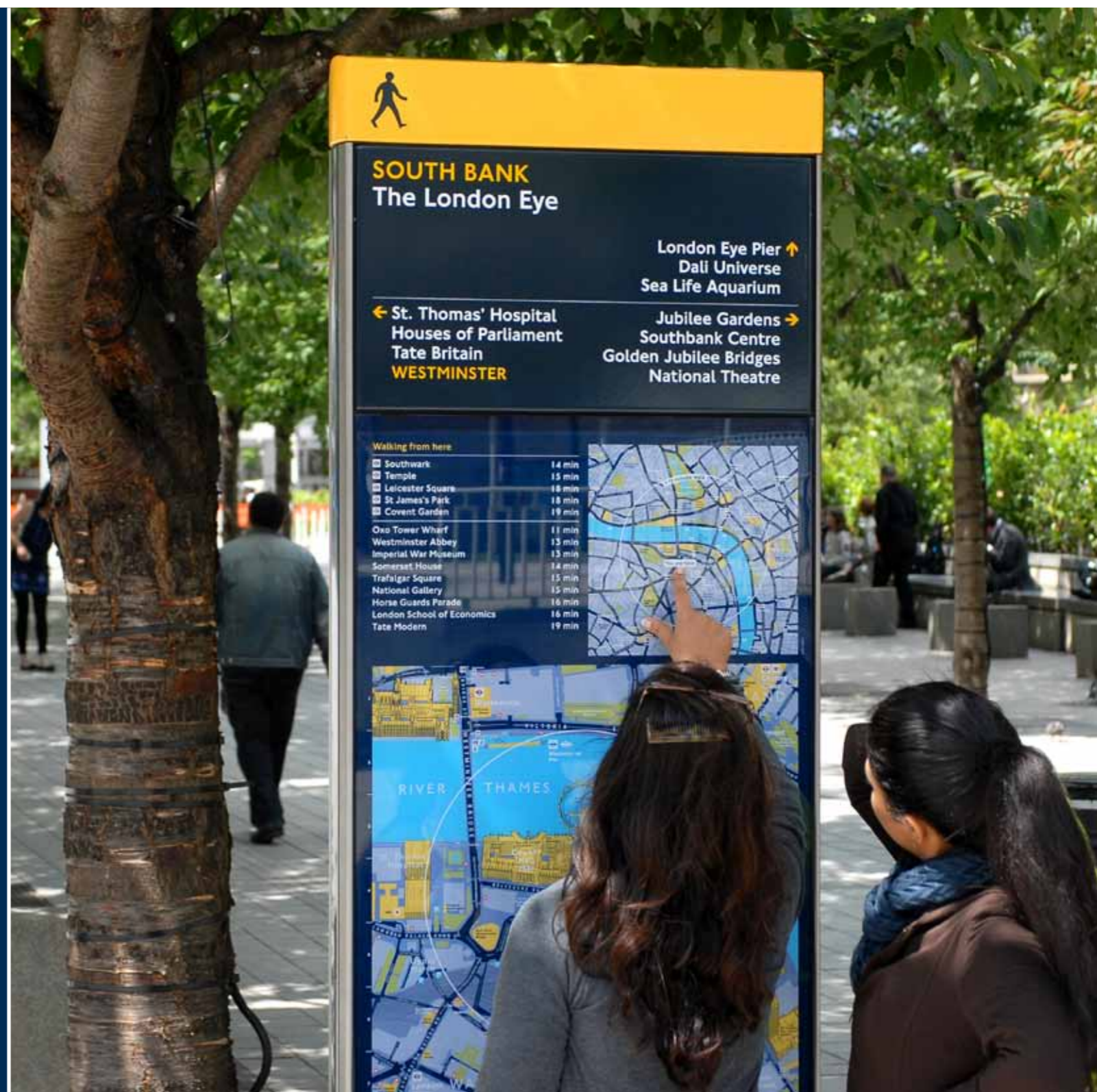
'We established a policy area called 'smoothing traffic flow' not because we want to see more cars driving around London, but to reduce frustration and improve journey time reliability for businesses and Londoners who rely on motorised vehicles.'
Garrett Emmerson,
Chief Operating Officer for London Streets, TfL

Enhance the quality of life for all Londoners

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Progress was made this year on a range of projects to enhance the quality of life for Londoners, as the following highlights show:

- Air-conditioned trains began running on the Metropolitan line. The first of 191 new walk-through trains, they will serve 40 per cent of the network by 2016
- On the Victoria line, mid-tunnel ventilation shafts were upgraded to help reduce the temperature. More are expected to be upgraded during 2011/12
- Plans continue to expand Legible London, TfL's pedestrian wayfinding system, following successful trials in central London, Richmond and Twickenham. The system's on-street maps and signs make it easier for people to navigate areas on foot and are now being incorporated into all TfL's wayfinding information, eg cycle hire docking stations, Tube stations and bus stops
- TfL, together with London boroughs, other partners and the private sector, is working to ensure the installation of 66,000 new cycle parking spaces in London by the end of 2012. More than 46,000 are already on streets, at stations, workplaces, schools and at new building developments and 55,000 will be delivered by March 2012
- The Mayor published his Air Quality Strategy in December. This aims to cut emissions from London's transport network by introducing a number of measures over the next few years. These include introducing age limits for taxis and private hire vehicles, fitting older buses with equipment to curb pollution and – in the first trial of its kind in the UK – introducing dust suppressant machines that prevent dust and other particles from the road being re-circulated in the air
- TfL launched an information campaign to remind vehicle operators of lorries, buses and coaches and other types of diesel vehicles already affected by the Low Emission Zone that tighter emissions standards will come into force from 3 January 2012. In addition, owners of larger vans and minibuses are being advised that their vehicles will be affected for the first time and will need to meet certain emission standards from January 2012
- TfL's Strategic Walk Network received £1.5m to ensure its seven routes will be completed in time for the 2012 Games. The routes are: the Capital Ring, Green Chain, Jubilee Greenway, Jubilee Walkway, Lea Valley Walk, London Loop and Thames Path
- In response to the Mayor's Better Streets manifesto, TfL set up a Design Review Panel to carry out audits of urban realm improvement schemes valued at more than £2m. This will ensure the schemes meet required quality standards
- Through the provision of Local Implementation Plan funding, TfL has supported the introduction of a significant number of transformational public realm schemes. The following schemes were completed this year: Orpington town centre, Herne Hill, Harrow town centre, Greenford town centre, Byng Place in Camden and Carting Lane in Westminster



Spotlight: Shipshape in Brixton

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When the Empire Windrush set sail from the Caribbean in 1948 no one could have known that, 60 years on, the ship would inspire the design of a town square in Brixton, south London.

The £10m square, now known as Windrush Square, is the third and final part of a project to improve Brixton town centre. Phases one and two saw upgrades to facilities for pedestrians, bus users, drivers and cyclists, which have improved road safety and access to the town centre.

Work on the square, a flagship project of the Mayor of London's Great Outdoors programme, was completed in 2010 and was carried out by Transport for London in partnership with Lambeth Council, Design for London and the London Development Agency. The area has now been transformed into a community focused space in the heart of Brixton, providing a much needed venue for local events.

It was originally given its name in 1998 to commemorate the 50th anniversary of the ship's voyage and arrival of West Indians in Brixton and the surrounding area. For many Londoners, the voyage symbolises the beginnings of modern British multicultural society.

Capitalising on the theme, lighting in the trees and embedded in pavements and tall structures has been created to look like windrushes.

The Mayor, Boris Johnson, said: 'It is fitting the name Windrush Square remains almost 62 years after the first West Indian immigrants arrived on the Empire Windrush, many choosing to make Lambeth their home. The positive contribution that this community has made not only to Brixton but the whole of London and the UK is unmistakable.'

The square has been designed to fit in with the historic character of the Brixton area and was built with materials matching those used in the surrounding buildings. The Sharpeville memorial plaque, the Tate statue and London Plane tree in Tate Gardens have been kept to retain the quarter's distinctive character.

The new 3,000 square metre area now includes a water feature, which sprays a fine mist illuminated by coloured lights, more than 20 new trees and a sculpted granite seat.

There is also potential for a café with an outside seating area. Fixed chairs provide a place to sit outdoors for local office workers at lunchtime and for people visiting the Ritzy cinema or Tate library, which both face on to the Square.

From consultation with local people in 2005 it was clear they wanted a space that would be safe and well used, respect the history of the area and add to the life of the town centre.

The local police and Lambeth Council were active in the design development to ensure these concerns were addressed. The square's open design means that anyone walking through it can see who is in the area and what they are doing. Carefully placed CCTV cameras and improved lighting also enhance the feeling of security.



'Ever since the time of the ancient Greeks, public spaces have brought together communities to share, play and enjoy life. The new Windrush Square is a welcome focal point for culture, entertainment and relaxation for the thriving and creative community in Brixton, reinforcing London's popularity as a place to live in, visit and invest.'

Boris Johnson, Mayor of London

Winning look

An international design competition was held to choose the best possible designers for the project. An expert panel including Lord Richard Rogers and the borough police commander selected award-winning landscape architects Gross.Max, whose previous work includes the new Potters Field Park next to Tower Bridge and improvements to the Royal Festival Hall.

Spotlight: Pedal power

Contents



'One of the best things about Barclays Cycle Hire has been the number of cyclists who have told me how the bikes have made a positive change to their life as well as their commute. Users say they feel healthier, fitter and invigorated when they reach their destination.'

Kulveer Ranger, the Mayor's Director of Environment & Digital London (formerly Transport Advisor)

'Not only are we seeing more people cycling to work, but we are also actively encouraging cycling for business trips as a result.'

Carlo Laurenzi, Chief Executive, Wildlife Trust

Superhighways

The first two Barclays Cycle Superhighway routes were introduced in July between Merton and the City, and Barking and Tower Gateway. They offer clearly marked, direct and continuous cycle routes into central London – a viable commuting option for cyclists between Outer and central London.

Early research suggests there has been an overall rise of 70 per cent in cycle journeys on the routes, with some sections of the Merton to City route showing increases of up to 100 per cent.

There are plans to launch 12 superhighways in all. Two more will open in summer 2011, running from Bow to Aldgate and Wandsworth to Westminster.

2010 was London's 'year of cycling' and the Capital embraced TfL's newest transport mode – Barclays Cycle Hire.

Around 3.8 million cycle hire trips have been made and more than 10m km travelled since the scheme launched in July, with thousands taking advantage of the new healthy way to make short trips across central London.

Initially open to members only, the scheme launched to 'casual' users in December, allowing anyone with a credit or debit card to turn up at a docking station and pay to hire a bike.

The scheme continues to change the face of the Capital as plans go ahead to extend it eastwards. By spring 2012, there will be around 8,000 hire bikes and 14,400 docking points.

Managing demand

As a result of the scheme's huge popularity, a big challenge is to ensure that bikes are redistributed effectively to meet demand. Serco, the scheme's operator, employs a team of nearly 100 people and more than 20 vehicles to maintain and redistribute bikes.

Nick Aldworth, the General Manager of Cycle Hire at TfL, said: 'We've introduced a brand new mode of public transport to London's streets and we've been delighted with the public's enthusiasm and customer feedback. With every journey we learn more about our users and, as we expand out to

the east, we are continually looking at ways to improve the operation and provide a smooth customer experience.'

The most popular docking stations are regularly monitored to ensure supply meets demand. And, following the introduction of casual use, some redistribution has been taking place naturally.

Barclays Cycle Hire at a glance

- By the end of March 2011, the scheme had 114,976 members and almost 3.8 million cycle journeys had been made
- Hire bikes are available 24 hours a day. The first 30 minutes of any journey are free once an access fee has been paid. Around 95 per cent of journeys made by members so far have been under 30 minutes
- By spring 2012, approximately 2,700 docking points in east London and an extra 1,500 in central London will be available
- An average journey from Regent's Park to Notting Hill Gate takes 25 minutes; London Bridge to Hyde Park, 27 minutes; Tower Hill to Bond Street, 23 minutes; and Regent's Park to Westminster Abbey, 16 minutes
- The largest docking station, at Waterloo mainline station, has space for 124 bikes. TfL is continuing to look at ways to improve the service and meet the demands of an increasingly popular scheme.

Improve the safety and security of all Londoners

Contents

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

Initiatives included:

- A Safer Travel at Night programme, combining education and enforcement, saw cab-related sexual offences and use of bogus cabs fall to their lowest levels since 2003. More than 1,300 drivers were arrested for touting or other illegal cab activity
- Fare evasion levels fell on TfL services in response to intelligence-led deployments of Revenue Protection Inspectors at 'hotspot' locations. A new campaign was launched to tackle fare evasion by reminding the travelling public that plainclothes inspectors operate across the network
- Further measures to tackle cycle theft and criminal damage were introduced. These included establishing the TfL-funded Metropolitan Police Safer Transport Cycle Task Force, free cycle-marking events across London and crime prevention advice
- Working with the Metropolitan Police and British Transport Police, TfL introduced a programme to improve collaboration at

key transport hubs. At three priority hubs – Victoria, Finsbury Park and Stratford – a more integrated approach has been adopted, involving joint tasking and deployment, unified intelligence and analysis, and priority setting

- Average-speed cameras were installed on the A13 in a trial to reduce the number of speed-related collisions on this busy road
- The campaign to highlight the dangers to cyclists of travelling too close to heavy vehicles continued, as part of the Mayor's Cycle Safety Action Plan
- Safety on the road, particularly in relation to the growing numbers of cyclists, is an important feature of the Freight Operator Recognition Scheme. Nearly 60,000 commercial vehicles are now registered with the scheme, which recognises and rewards best practice by operators
- Better lighting, more CCTV and Help points on the transport network, and improvements to the public realm were among the measures introduced during the year to help reduce opportunities for crime and antisocial behaviour
- The 2001-2010 London Road Safety Plan has been completed, delivering casualty reductions in all target areas and achieving a 57 per cent cut in the number of collisions resulting in people being killed or seriously injured in London compared to the 1994-1998 average



Spotlight: Safety first

Contents

When Boris Johnson became Mayor of London he pledged to make public transport safer.

This pledge remains high on his and TfL's agenda, but already the results speak for themselves.

Figures from the British Transport Police (BTP) and Metropolitan Police (MPS) show that crime continued to fall on TfL's transport services in 2010/11.

Crime levels on the transport system are at their lowest in more than six years despite passenger numbers being at an all-time high. Over the past year, crime has fallen by 7.3 per cent on the Tube and DLR networks (1,064 fewer offences) and by four per cent on the bus network (1,002 fewer offences) – building on significant reductions in recent years.

In fact the crime rate per million passenger journeys for the bus network was 10.5 for 2010/11 – half the level experienced in 2005/06.

These are impressive results that reflect the efforts of TfL and its partners. TfL's investment in transport policing provided for more than 2,500 uniformed officers in the Police Safer Transport Command in 2010/11.

'It's not rocket science,' says Deputy Mayor for Policing Kit Malthouse. 'Boris's recruitment of 440 additional police officers to manage bus hubs has resulted in 2,000 fewer crimes.'

London Overground passengers, meanwhile, are now seeing the results of a two-year £1.4bn

upgrade, which has included more use of CCTV on trains and premises and staffed stations. There have been significant reductions in robberies and drug-related offences. Eighty-four per cent of passengers now feel safe at stations, compared with 79 per cent a year ago – a result of the TfL policy of always having staff on platforms while a service is running.

Launched in February, 'The Right Direction', the Mayor's strategy for improving transport safety and security in London, sets out the key activities TfL and its partners are undertaking to further reduce crime, antisocial behaviour and fear of crime on the transport system.

Protecting frontline staff

Following the success of London Underground's Workplace Violence Unit (WVU) in protecting its staff from assaults, an equivalent was set up in 2009 for bus operational staff.

They are partnership units with staff from TfL and the police, and they support the investigation and prosecution of assaults on all operational staff.

The WVU has handled 228 cases of assaults on bus staff since 1 April 2010. By the end of February 2011, 51 cases had been heard at court and there was a 100 per cent conviction rate.



Caught on camera

TfL's extensive CCTV network plays an important role in targeting crime and disorder on the transport system. It includes cameras on all of London's 8,500 buses, more than 12,000 throughout the Tube network, and more than 2,000 on London Overground.

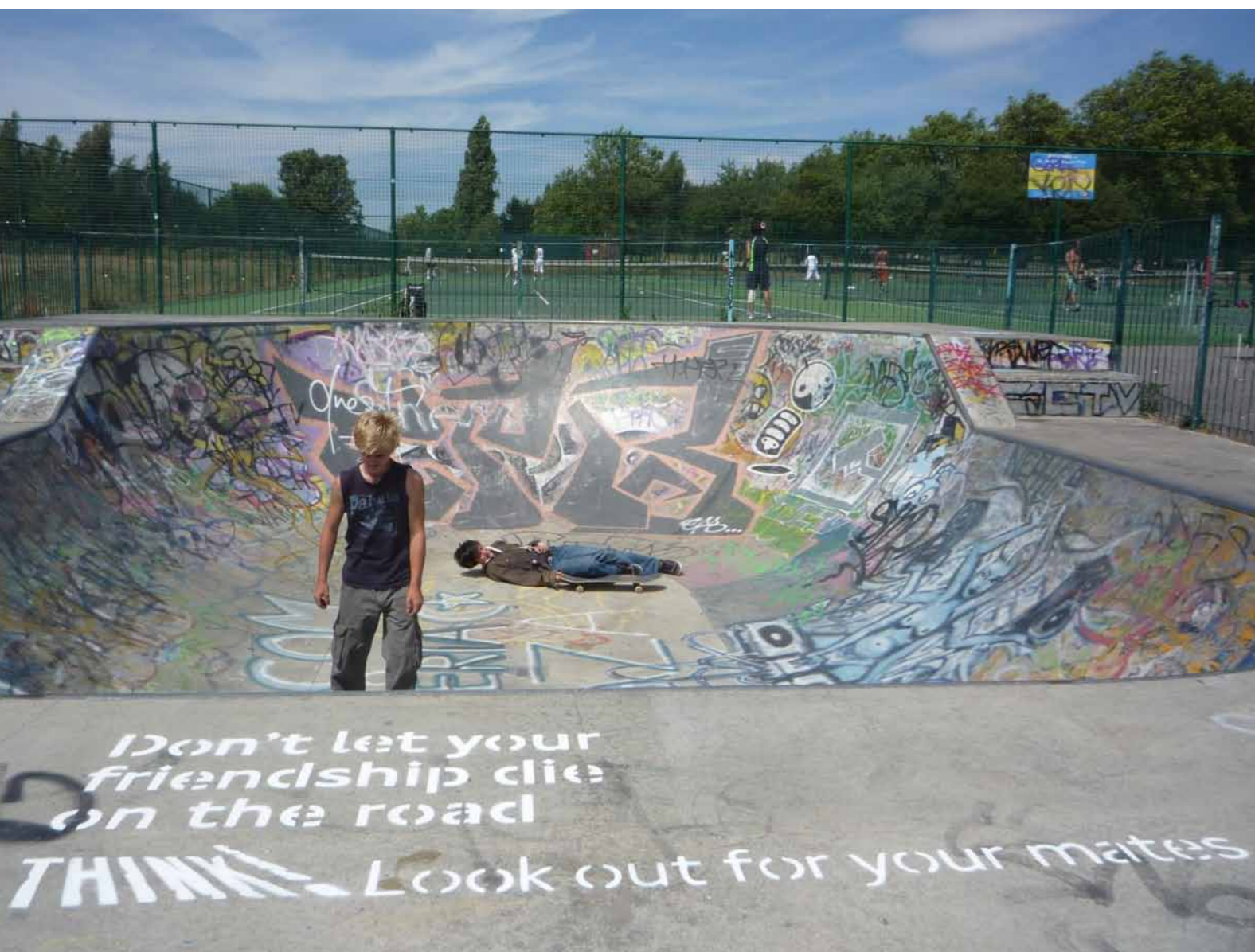
They are used by officers for surveillance, identification, deterrence and reassurance, and they provide the evidence vital to securing convictions and bringing offenders to justice.

Footage from CCTV cameras on the Tube network is not only able to be viewed and monitored locally by a specific station but can also be accessed remotely by the Network Operations Centre at London Underground HQ and by the BTP.

BTP Chief Superintendent Mark Newton said: 'CCTV is absolutely vital to our investigation of crime on the Tube and DLR network. Good-quality images allow us to identify suspects and follow their movements throughout the system, ultimately helping to bring about convictions and justice for victims.'

Spotlight: Look out for your mates

Contents



'This is a fantastic campaign. I really hope that my contribution will help it reach more teens across the Capital.'

Tinie Tempah

'It may not be cool and it may not be very exciting, but the issue of road safety is very serious. I hope that all London teens listen up and look out for their friends as a result of this campaign.'

Eliza Doolittle

TfL's latest campaign to improve road safety among teenagers gained valuable 'vocal backing' when chart-topping London singers Tinie Tempah, Eliza Doolittle and Tinchy Stryder lent their support.

Teens are the most vulnerable age group when it comes to road collisions in the Capital. It's at this age, of course, that young people start travelling on their own and spending more time with friends.

Nearly every day a teenager is killed or seriously injured on London's roads, which is why these stars – role models to many young people – were enlisted to help get the safety message out to them.

A video clip featuring the artists was posted online warning teens to look out for their mates and not let their friendship die on the road. Clips were also posted on Facebook and on the stars' own websites.

Through these channels TfL was able to reach thousands of teenagers across London, generating more than 1,000 views a week.

The stars were chosen as key influential figures for London's teenagers. They all volunteered their time for free although it took up to a year to track them all down and get time in their busy diaries.

'It is wonderful that these influential stars feel just as strongly and have donated their support by contributing to this important road safety campaign,' Ben Plowden, Director of Better Routes and Places at TfL, said.

As well as working with pop artists, TfL placed thought-provoking stencils in areas popular with young people, such as skate parks. The stencils came with the strapline 'Think! Look out for your mates'.

With agreement from local councils, the stencils were placed in areas of high teenage footfall over the summer and removed at the end of the campaign. Reflecting TfL's strong position on graffiti, 'reverse graffiti' was used – a process in which the image is created by water blasting the concrete with a high-pressure jet hose to 'clean' the stencil outline.

TfL's teen road safety campaign has now been running for 10 years. During this time the number of teens killed or seriously injured has been reduced by nearly 55 per cent.

In fact, TfL and the boroughs met the Government's 2010 targets for reducing the number of children killed or seriously injured, as well as the total number of people killed or seriously injured, three years early. London's own more stringent target of a 60 per cent reduction in the number of children aged 15 and younger killed or seriously injured on our roads was also met. But the fight to reduce road casualties goes on.

Improve transport opportunities for all Londoners

Contents

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

- Planning permission was granted for London's first cable car service across the Thames. Providing a quick, direct transport link between Greenwich Peninsula and the O2 and Royal Victoria Docks and the ExCeL centre, the service is expected to carry up to 2,500 passengers an hour
- Platform humps are being installed on the Victoria line to provide level access between the platform and train, and they will also be provided on the Circle, District, Hammersmith & City and Metropolitan lines in conjunction with new trains
- PA systems and visual information systems have been improved at Tube stations across the network. Electronic service update boards are now at 96 per cent of stations
- During 2010/11, Southfields, Kingsbury and King's Cross St. Pancras were made more accessible with the addition of lifts. Green Park, Farringdon and Blackfriars stations are due to become step-free during 2011
- The New Bus for London, due to launch in 2012, will include a step-free gangway on the lower deck from the front to the back, to allow easy access for mobility-impaired people and passengers with buggies. There will be a wheelchair bay directly opposite the ramped centre door. A full-size mock-up of the new bus was scrutinised by a range of mobility groups from November 2010 to January 2011

and enabled refinements to be incorporated into final design. The mock-up went on display to the general public in the London Transport Museum, Covent Garden, in February 2011. WrightBus, the manufacturer, is finalising the engineering test vehicle

- The integration of fares collection systems and ticketing across London's public transport continues. This includes Oyster zonal fares on all suburban rail services and river services. More than 1.5 million National Rail journeys are now made each week using Oyster pay as you go
- Work continues to update the Countdown real-time information system. In autumn 2011, the project will provide bus arrival time information for all 19,000 bus stops through the internet and SMS. The existing 2,000 signs at bus stops will be replaced by 2,500 new signs in 2012
- TfL continued to invest in the Dial-a-Ride door to door bus service for Londoners who, through permanent or long-term disability, are unable to access mainstream public transport. A further 39 bespoke low-floor minibuses entered the fleet during the year, replacing older vehicles and contributing to more than 1.3 million trips in 2010/11, the highest yearly total since the service began in the 1980s
- TfL's Travel Mentoring service provided training and support to enable disabled Londoners to gain the necessary knowledge and confidence to use all of London's mainstream public transport modes and National Rail services. Nearly 8,000 escorted trips were completed during the year



Spotlight: Transforming lines and lives

Contents

Thanks to the £1bn East London rail route, tens of thousands more people are now enjoying extra travel options for work, school, college and leisure, as well as faster and cheaper rail connections.

The line reopened in May as part of London Overground's radical improvements to rail connections in the east and south of the city.

It runs from Dalston Junction in the north via the City and Docklands, to New Cross, Crystal Palace and West Croydon in the south.

The reopening means that an orbital rail route around the Capital is almost complete. In 2012, the final part of the link will connect Clapham Junction to Surrey Quays.

Around 100,000 passengers a day are expected to use the service in its first year. This is forecast to rise to 120,000 a day by 2016 in step with the expected population increase.

The line is already making a significant impact on the area, reconnecting previously isolated areas and communities. Local estate agents have reported a rise in enquiries about property available near the route. House prices have also increased, particularly in the New Cross and New Cross Gate areas, by around 20 per cent in the past two years.

Before the line opened, the journey for passengers travelling from West Croydon to Whitechapel would have taken around 50 minutes, with four

changes, including travel into Zone 1 at a cost of £5*. The trip on London Overground takes 35 minutes (plus a short walk) and costs £2.20*, and passengers do not need to enter Zone 1 (*based on 2010 fares).

A fleet of 20 new air-conditioned trains offer more comfortable journeys and a greater sense of safety, with clear sightlines through the carriages and comprehensive CCTV coverage.

The scale of the East London line project was enormous:

- In just two-and-a-half years, 2.1km of old Underground track was upgraded and 3.5km of new track was built between Whitechapel and Dalston Junction
- A flyover and maintenance depot were built at New Cross Gate, two new bridges were constructed, and a Victorian viaduct was refurbished. Four new stations were built and 14 were refurbished to include upgraded safety features and improved passenger information
- Throughout the project, TfL has recycled around 93 per cent of construction and demolition waste, rather than send it to landfill

Quicker, cheaper journeys

Following the opening of the East London rail route, journey times have improved. From Dalston Junction it takes just 47 minutes to travel to West Croydon and 37 minutes to Crystal Palace. From Shoreditch High Street it's a 16 minute ride to Brockley, 19 minutes to Honor Oak Park, 22 minutes to Forest Hill and 24 minutes to Sydenham.



The culture line

The new East London route is one of the reasons the Geffrye Museum is carrying out a £13m redevelopment. The Museum is just two minutes' walk from the new Hoxton Overground station. During the first three to four months following the route's opening, 22 per cent of visitors used the line to travel there, and visitor numbers are expected to increase by 25 per cent by 2015. The redevelopment includes a new entrance, additional space for collections, a library and conference centre.

'Not since the Jubilee line was extended over 10 years ago have we seen such a transformational transport project.'
Peter Hendy, Commissioner, TfL

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

Contents

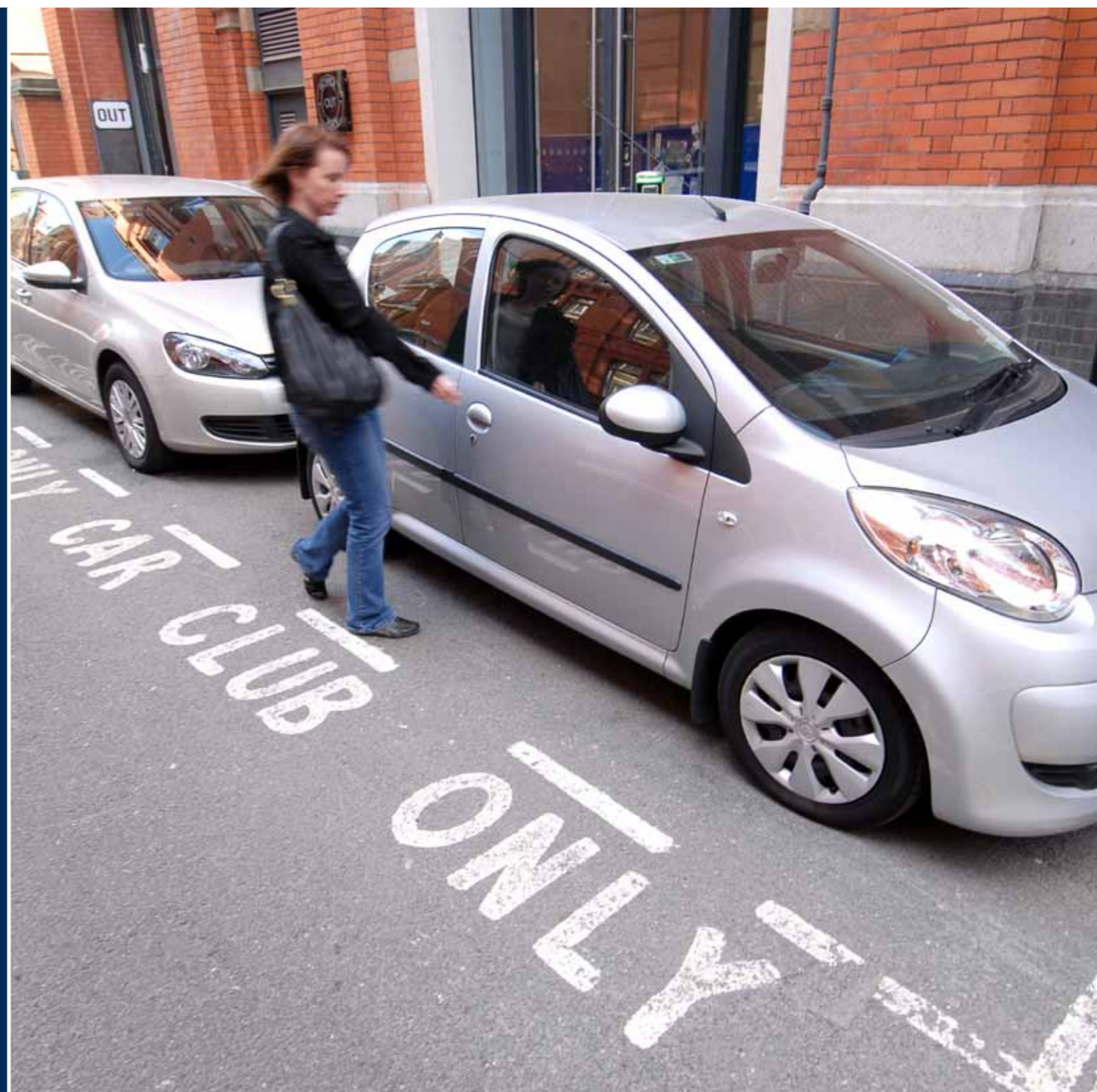
Efforts to lessen the impact of the transport network on the environment continued during the year as TfL worked to support targets set by the Mayor, including a 60 per cent reduction in carbon dioxide (CO₂) emissions by 2025.

Among the highlights:

- Membership of London's car clubs continued to grow. It now stands at more than 133,000 members – 88 per cent of total UK membership. Car clubs offer pay-as-you-go access to vehicles without the ownership costs
- With financial support from TfL, London's boroughs increased the number of car club bays in the Capital by 705 during the year, bringing the total to 2,597
- London Underground is looking at ways to source decentralised and renewable energy. New procurement processes are being set up so LU can work with energy companies under the Government's Feed in Tariff – a scheme that pays individuals and organisations for producing electricity
- Following a review of climate change risks, TfL submitted a report to Government in January complying with the Adaptation Reporting Power (ARP). The ARP is part of the Climate Change

Act 2008, which gives the Government power to direct public bodies to report on how they will address the risks of climate change to their assets and services

- The New Bus for London and build specification for new train rolling stock includes adaptation measures to control high summer temperatures
- Flood risk assessments have been carried out this year which will enable upgrade work to take place in summer 2011 to reduce the likelihood of track flooding
- Crossrail has completed flood risk modelling this year for 2100 to establish flood design levels. Measures to mitigate flood risk have been identified. These include raising tunnel entry and exit levels, raising track and building flood gates if necessary
- All new trains being rolled out on the Tube network have regenerative braking. The system recycles the energy lost during the braking motion and uses it to power the trains
- As part of its commitment to the Mayor's climate change mitigation strategy, TfL has purchased six Toyota plug-in hybrid Prius cars and four Mitsubishi I-MiEV electric cars this year. These vehicles were part-funded through the DfT Low Carbon Vehicle Procurement Programme. The TfL Electric Vehicle delivery team is actively working with the GLA group to increase the number of electric vehicles in the fleet



Spotlight: Clean, green and red all over

Contents

TfL's efforts to minimise CO₂ emissions were rewarded in July when London Buses won the first ever Low Carbon Champion Award for Buses.

The Low Carbon Vehicle Partnership acknowledged that TfL is leading the country in testing and introducing low-carbon buses with greenhouse gas emissions at least 30 per cent lower than conventional diesel buses.

Buses contribute five per cent of the total transport CO₂ emission in London and the largest share, nearly 40 per cent, of TfL's own CO₂ footprint. The latest bus technology will help meet the Mayor's goal of a 60 per cent CO₂ reduction by 2025 compared with 1990 levels.

But it's not enough just to find and fund greener technology. TfL needs systems that provide both fuel and operational efficiency.

Diesel/electric hybrids

Hybrid buses powered by a conventional diesel engine and electric motor typically reduce fuel consumption and CO₂ emissions by up to a third compared to conventional diesel buses. They also produce fewer pollutants such as oxides of nitrogen. TfL's current bus network produces 630,000 tonnes of CO₂ and consumes up to 280 million litres of diesel a year.

There are currently 106 hybrid buses operating in London. This includes 56 hybrids which were

part of an initial trial to assess their reliability, availability and operational performance. The trial is already helping to advance hybrid technology and encourage manufacturers to make technical improvements and switch to larger scale production which will bring units cost down.

Results so far suggest significant savings in fuel and CO₂ can be made. With financial support from the Department for Transport's Green Bus Fund, the hybrid fleet is scheduled to grow to 300 buses by the end of 2012. The pace of the roll-out depends on available funds and the cost of hybrids falling as production grows.

Hydrogen hybrids

There are five hydrogen fuel-cell buses operating on the Covent Garden to Tower Hill route RVI and this will rise to eight by the end of 2011 as part of TfL's longer-term strategy to find a solution to reducing London's CO₂.

Hydrogen fuel-cell buses produce zero tailpipe emissions. It is recognised the production of hydrogen gas generates emissions but taking account of its manufacture, supply and consumption by vehicles in service, overall emissions are still lower than conventional diesel counterparts. The hydrogen industry is working towards generating hydrogen from greener technologies which will further reduce overall emissions. The latest generation of hydrogen fuel-cell buses should enable these vehicles to travel further without refuelling because they incorporate hybrid technology and are far more efficient.



The right credentials

Fresh design and accessibility features are among the attractions of the proposed New Bus for London (see page 38). But its environmental credentials have not been forgotten.

Predicted fuel consumption equivalent to 10mpg means this diesel-electric hybrid will:

- Be 40 per cent more efficient than conventional diesel double-deckers
- Be 15 per cent more efficient than other hybrid double-deckers
- Produce CO₂ emissions of 750g/km per bus compared with 1,200g/km for conventional diesel counterparts
- Cost around the same as other hybrids when in full production

'The arrival of these hydrogen, hybrid fuel-cell buses marks an exciting new chapter for London Buses as we embrace new technologies.'

David Brown, former TfL Managing Director for Surface Transport

'Having a bus route running entirely on hydrogen gives us a fantastic flagship fleet to demonstrate the massive benefits of this exciting fuel.'

Kit Malthouse, Chair of the London Hydrogen Partnership and Deputy Mayor of London for policing

Spotlight: Plug in, power up... go!

Contents



‘When Source London is complete, the Capital will have more charge points than petrol stations. The ongoing support of the Government and increased private sector involvement shows how key investing in electric vehicles remains.’
Nick Fairholme, Interim Director of Congestion Charging and Traffic Enforcement

‘Through the development of Source London, we are seeking to create the fertile conditions for electric vehicles to flourish to make our city the electric driving capital of Europe.’
Boris Johnson, Mayor of London

Funding

TfL leads a consortium of private and public partners which has won £9.3m in funding from the Government’s Plugged in Places Programme to establish Source London. This will be supplemented by investment from private and public sector partners. Siemens will run the IT and back office functions for Source London free of charge for three years, significantly reducing TfL’s costs and providing a boost to electric vehicles in the Capital.

Nearly a quarter of pure or hybrid electric vehicles in the UK are registered in London and TfL is driving the revolution forward with a Capital-wide network of charge points.

The Source London scheme, launching in May 2011, will provide at least 1,300 charge points by 2013. Able to support many thousands of electric vehicles, the network will be accessed via a membership scheme for a £100 annual fee.

TfL has worked with London’s boroughs and private partners, including retailers, energy companies and vehicle manufacturers, to develop the scheme. A dedicated website (www.sourcelondon.net) provides information about electric vehicles as well as details of where and how to access the points.

Source London aims to change the way people drive. With charge points available in supermarkets, car parks and on-street, electric cars will become a genuine option. In addition, electric vehicles benefit from a 100 per cent discount from the Congestion Charge, potentially saving drivers over £2,200 a year.

Around 90 per cent of car trips in the Capital are less than 10km – well within the range of the electric vehicle models currently available – so London is ideally placed to become an electric vehicle world leader. The Mayor’s target is to get 100,000 electric cars on to London’s roads as soon as possible and make it the electric vehicle

capital of Europe. According to HSBC, the global electric vehicle market could be worth £440bn by 2020 with the EU the biggest market.

The Government’s Spending Review secured £400m to invest in promotion and development of ultra-low-emission vehicle technologies, and all major vehicle manufacturers have either launched or plan to launch more affordable, practical electric cars in the next 18 months.

To encourage drivers to take the green option, the Government is also offering grants of 25 per cent off the purchase price (up to £5,000) for those wanting to buy pure electric or plug-in hybrid cars.

The benefits

- Electric vehicles are 40 per cent less CO₂ intensive than equivalent petrol or diesel vehicles
- They do not emit any air pollutants such as particulate matter or oxides of nitrogen. Existing road traffic is a major source of these pollutants
- Lower maintenance and potentially cheaper running costs as petrol prices are expected to rise
- Discounted parking rates in some of the Capital’s boroughs
- No Congestion Charge for registered electric vehicles

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

Contents

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

- TfL assumed responsibility of key transport programmes for the Games from the Olympic Delivery Authority including 2012 Games Travel Demand Management, the Olympic and Paralympic Route Networks and Road Freight Management programmes
- Up to three million additional trips are expected in London on the busiest day of the Games. TfL's Travel Demand Management programme will ensure the smooth running of London and UK transport networks by influencing people's travel behaviour
- Walking and cycling infrastructure is being improved ahead of the Games to encourage more people to walk and cycle after the events. Plans include a number of Better Street projects and improving access to cycle greenways. Cycle hire is likely to play an important role in helping people get around London during the 2012 Games
- The Olympic Route Network (ORN) and the Paralympic Route Network (PRN) will provide specially managed routes, giving priority to the Olympic 'family' – an expected 24,000 athletes, 5,000 officials and 28,000 media professionals – ensuring they arrive at events on time
- To manage the ORN and PRN a new Transport Coordination Centre has been set up which will leave a legacy of improved journey planning and coordination across London, as well as new traffic signals and junction upgrades. After the 2012 Games, this new infrastructure will provide the opportunity to improve traffic management, giving Londoners more reliable journey times
- The extension of the East London line between Dalston Junction and West Croydon, which opened ahead of schedule on 23 May, has improved passenger options on London Overground (see page 40)
- Stratford station has been completely redeveloped to make it more spacious, with new ticket halls and entrances, new subways and concourses, lifts and new platforms



Spotlight: 2012 and beyond

Contents

The DLR is one of London's great transport success stories. Now reaching Bank, Beckton, Lewisham, London City Airport and Woolwich Arsenal, it has expanded faster than any other UK railway. It is on track for more success as the Capital prepares to host the 2012 Games.

TfL, with support from the London Organising Committee of the Olympic Games and Olympic Delivery Authority, has already overseen increases in capacity and construction of new lines. The delivery of 55 new railcars in 2010 is a further boost to the network – one which will provide a valuable infrastructure legacy beyond the Games.

Extra capacity

The DLR will be the focal point for transport in East London during the 2012 Games. It will serve four key competition venues – ExCeL, Olympic Park, Royal Artillery Barracks and Greenwich – and carry around seven million people. Therefore increased capacity on the network is vital.

A £325m two-and-a-half-year upgrade programme has taken place across the DLR network to allow longer trains to run. This includes: extended platforms, upgraded junctions and track, a remodelled Tower Gateway station and new South Quay station.

The upgrades on the Bank and Lewisham line in April, and the Stratford and Lewisham line in November, have seen passengers benefit from 50 per cent extra capacity during the morning peak. The addition of a third carriage on these lines means more than 1,000 additional passengers can travel every hour. And recent figures suggest service reliability on the network has reached an impressive 97.4 per cent.

Jonathon Fox, DLR Director, said 'This is an exciting time for DLR, with passenger numbers up by 5.1 per cent from last year and service reliability continuing to climb. Our recent successes are showing that we are on track to provide high quality services during the 2012 Olympic and Paralympic Games.'

The completion of work on the Beckton line – expected in May – will see the whole of the network three-car compatible in time for the Games.

Legacy

Regeneration is a key legacy of the Games: In Lower Lea Valley, east London, the DLR will bring new jobs, homes, shops and other leisure facilities. Other parts of London will also benefit from employment opportunities through direct connections to the Royal Docks and Woolwich Arsenal. New passengers to the DLR will also benefit from an environmentally friendly alternative to the car, while the provision of intermediate stations between Stratford and Canning Town will better serve existing and future communities.



'Increasing capacity on the Docklands Light Railway is part of the Mayor's continued commitment to improve the journeys of those using public transport across the city. We are improving the service for all Londoners who use the DLR on a regular basis and with the forthcoming Games we are determined to make sure everyone – visitors and residents – is able to travel to events quickly and comfortably.'
Kulveer Ranger, the Mayor of London's Environment Advisor (formerly Transport Advisor)

'As the Olympics approaches, the DLR has struck gold with a huge 50 per cent increase in capacity – the perfect example of the Olympic legacy already delivering real improvements for Londoners. This £325m boost is not only integral to preparations for ferrying spectators to the 2012 Games, but it will also benefit the many thousands of people who use this popular and handy railway.'
Boris Johnson, Mayor of London

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2010/11 was an important year for TfL. Major projects were progressed to improve and extend services across London. These included continued Crossrail construction works, the completion of the London Overground extension to Highbury & Islington, and the roll out of the Barclays Cycle Hire scheme. The PPP contractor Tube Lines was brought back in-house, in order to provide greater flexibility in the way the Tube is upgraded. A Government Spending Review took place, resulting in a revised TfL funding settlement.

As a response to this, TfL increased its efficiency and cost savings programme, resulting in forecast savings of £7.6bn to 2017/18. As part of this programme, TfL has commenced a fundamental review of its operating and management structure through Project Horizon.

Highlights

During 2010/11, passenger demand across the TfL network continued the recovery seen towards the end of 2009/10. Passenger journeys on the Underground increased by 3.9 per cent to 1.1bn. Service demand on the bus network rose by 1.3 per cent to 2.3bn passenger journeys for the year, and the Docklands Light Railway (DLR) carried 78 million passengers in the year, a rise of 13.5 per cent.

Fares decisions are taken annually by the Mayor. Fares increased at RPI plus two per cent in January 2011, in line with the Business Plan assumption. This resulted in an eight per cent increase in fares revenue to £3,193m. Gross expenditure before write off of goodwill decreased by 4.6 per cent to £5,825m.

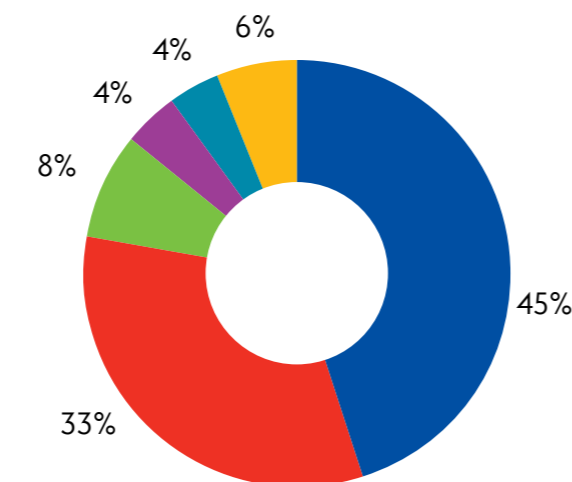
The level of capital works being undertaken during 2010/11 remained high, albeit fractionally below 2009/10 levels. Capital expenditure during the year was £2,906m, a 0.7 per cent reduction on the previous year.

Revenue

TfL's primary source of revenue remains fares on the London Underground and bus network. This represents 82.3 per cent of all revenue generated in 2010/11. Fares revenue on London Underground was £1,758m, 7.5 per cent up on 2009/10. This

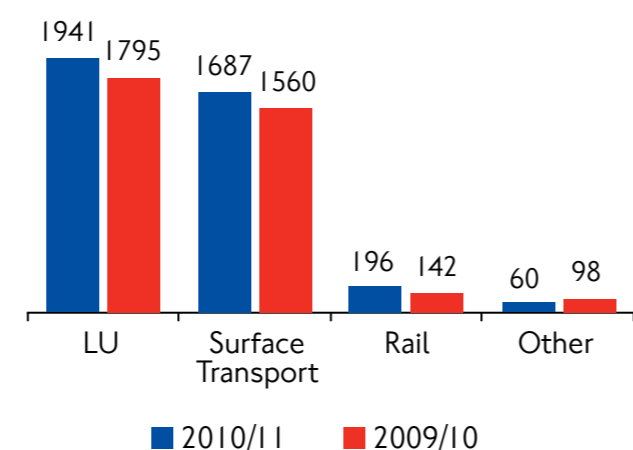
reflected a year-on-year increase in passenger journeys of four per cent and above inflation fares increases. On the bus network, a smaller increase in passenger journeys together with fare increases resulted in an increase in fares revenue of more than 10.6 per cent to £1,257m.

Revenue breakdown (2010/11)



- Fares revenue (London Underground)
- Fares revenue (bus network)
- Congestion Charging scheme
- Rent and commercial advertising
- Fares revenue (Rail)
- Other income

Total revenue by business unit (£m)



Over the course of 2010/11, the use of Oyster pay as you go stabilised on TfL services at around 38 per cent of all journeys on the Underground and 20 per cent on buses. However, pay as you go use

on National Rail services in London is continuing to increase strongly since its extension to all National Rail services in Greater London in January 2010. The Train Operating Companies' revenue share from PAYG rose from £3m per week at the end of 2009/10 to just under £5m per week at the end of 2010/11.

London Overground's revenue of £61m for last year was up 78 per cent compared to 2009/10. This growth was due to the opening of the East London Line in May 2010 and its extension to Highbury & Islington in February 2011, as well as strong year on year growth on the rest of the Overground network.

Total fares revenue on the DLR for 2010/11 was £89m compared with £76m for 2009/10, an increase of 17 per cent.

Congestion Charging revenue fell from £313m to £287m, largely as a result of the closure of the Western Extension zone on 24 December 2010 following consultation, the introduction of Auto Pay on 4 January 2011, and changes in the pricing structure for the remaining Congestion Charging zone.

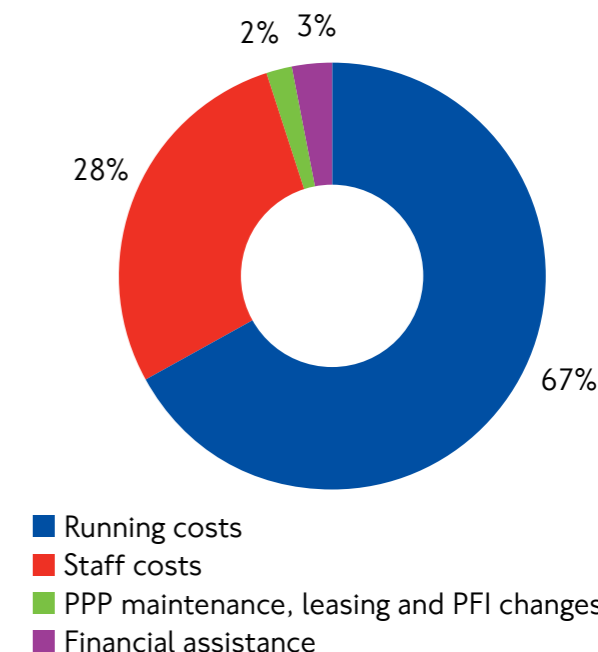
Operational expenditure

Operating expenditure on the Underground reduced by 10.5 per cent to £2,050m. Aside from ongoing efficiencies, Underground's expenditure benefited from the release of certain provisions and claims held against Tube Lines prior to its acquisition. Bus network costs increased overall by only £11m to £1,848m. Bus subsidy has decreased by nearly a quarter over the last three years from £563m in 2008/09 to £428m. 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 record service levels and passenger journeys.

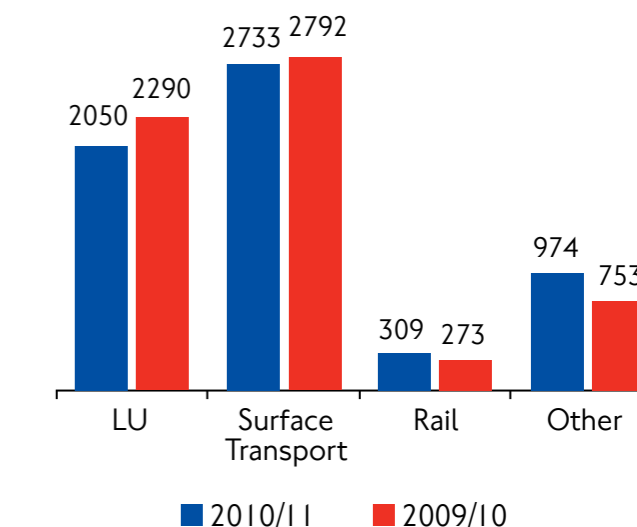
There was a decrease in expenditure on Congestion Charging mainly due to savings arising from the closure of the Western Extension of the scheme.

Expenditure on London Rail increased by five per cent following the opening of the East London line.

Expenditure breakdown (2010/11)



Expenditure breakdown by business area (£m)



TfL continued to support borough schemes that improve the quality, safety, accessibility and sustainability of the local travelling environment. The overall funding package for 2010/11 included £145m provided directly to the boroughs through the Local Implementation plan programme. Other financial assistance included payments related to Taxicard.

Interest and finance charges

Total financing and investment expenditure for the year was £813m, an increase of £52m on the previous year. The main reason for this increase was the higher expected interest cost of the defined benefit obligation of the pension scheme. This was as a result of higher liabilities at the start of the year, partially offset by applying a lower rate of interest.

Financing and investment income was £408m, an increase of £123m 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.

Balance sheet

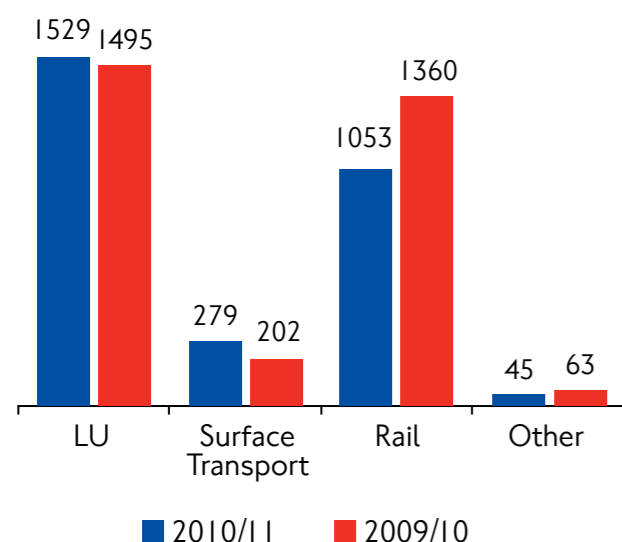
Net assets increased by £2,417m between 31 March 2010 and 31 March 2011, reflecting the decrease in the pension defined benefit obligation of £665m, as calculated under IAS19, and capital grants recognised in the year.

Long-term assets increased significantly, as a result of the continuing high levels of capital expenditure particularly in respect of the Crossrail project and line upgrade projects in London Underground.

Capital expenditure

Capital expenditure for the year was £2,906m.

Capital expenditure by business area (£m)



On the Underground, introduction of new trains on the Victoria line has continued, with the last of the old 1967 stock trains expected to be withdrawn from passenger service in the summer of 2011. Construction of a new purpose built Victoria Line service control centre at Osborne House in Northumberland Park Depot was completed during the year.

The Underground's first air-conditioned trains are in service on the Metropolitan line. By the end of the year, three were running on the routes north of Baker Street, and shortly afterwards the type made its first run in passenger service between Harrow-on-the-Hill and Aldgate; further off-peak runs are taking place before the route is included for timetabled service. As the year ended, the first 7-car version of the new stock was delivered; this train will be used for infrastructure testing and commissioning prior to introduction into passenger service on the Circle and Hammersmith & City line, in 2012.

Another major element of the programme to upgrade the sub-surface lines is resignalling, and shortly after the end of the year LU announced selection of the preferred bidder for the signalling upgrade contract. This contract provides for no weekend closures simply for signalling installation and testing work. There will still be a need for weekend closures to upgrade track and platforms, but these will be contained in much smaller geographical areas and will not mean closures to full lines as has been experienced during previous upgrade work on other lines.

Work on the upgrades of Victoria and Tottenham Court Road stations continued, and the contract for the £300m redevelopment of Bond Street station was let during the year. In September 2010, King's Cross St Pancras became the 62nd step-free station on the Underground when a lift providing step-free access to the Northern line platforms was commissioned. At Stratford station, a new platform has been opened, allowing train operators to open doors on both sides of westbound Central line trains providing more direct access to the Jubilee line, DLR services and the station exit. The

new mezzanine entrance at the station opened for customer service in March 2011.

Following the acquisition of Tube Lines, LU was able to take much closer control of the late-running upgrade of the Jubilee line, originally due for completion in December 2009. After further successful testing and trial operations over Christmas, the new Transmission Based Train Control signalling system was used in passenger service on weekdays for the first time from 29 December 2010, between Dollis Hill and Stratford. This period also saw trains running in service in Automatic Train Operation on the line for the first time. Despite some well-publicised incidents, reliability of the new systems improved steadily through to the end of the year. Work on extending the systems to the remaining northern section of the line is continuing with a view to introducing the first enhanced post-upgrade timetable in summer 2011.

As well as progress with the major line upgrades, the process of ongoing renewal of the Underground's core assets continued with the replacement during the year of 23 km of track, refurbishment or replacement of 18 escalators and lifts, and the completion of 13 station refurbishments and modernisations.

In Surface Transport, £249m was spent on capital works, including cycling initiatives such as the Barclays Cycle Hire scheme and the first of the Cycle Superhighways, the capital renewal works programme on the Transport for London Road Network (TLRN), safety and environmental improvements on the A406, including replacing the Hanger Lane bridges and the creation of a dual-carriageway at Bounds Green. There was also expenditure on safety improvements to bridges and tunnels such as the major project to refurbish the Blackwall Tunnel northbound, as well as traffic signal modernisation and improvements to associated communications infrastructure.

Capital expenditure of £1,053m was incurred by Rail, of which £178m relates to London Rail and £875m to the Crossrail project. The London

Rail expenditure includes DLR projects such as the Stratford International extension, capacity enhancement works to upgrade the railway to enable three car operation, and infrastructure improvements. Other projects included London Overground improvements for the North London line and the commencement of works on phase two of the East London line project.

During the year, £662m was spent on preparatory works for the Crossrail project, and the early stages of main construction. A further £213m was capitalised in respect of the acquisition of land and property interests, taking the total spend on the project since Royal Assent on 22 July 2008 to £1.8bn, including land and property. At the end of the financial year, the sponsors and HM Treasury's Major Project Review Group conducted their final planned review of the project, awarding Crossrail a positive project review notice. The passing of this review ('Review Point Four') means that the independent Crossrail Board now has authority to award contracts without recourse to the governance arrangements of either sponsor and is a significant vote of confidence in Crossrail's delivery strategy and organisational capabilities.

Financing

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

Set out below is a table summarising movements in borrowing 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 2010	4,118	
European Investment Bank loan – Crossrail	200	The second instalment of a total facility of £1bn drawn down over six years. The loan has an average fixed interest rate of 4.9 per cent. Repayment of the loan is between 2021 and 2058
Commercial paper	433	Borrowings with different maturities ranging between two and four months with a weighted average interest rate of 0.71 per cent
Tube Lines	1,592	Acquired debt
Closing borrowing at 31 March 2011	6,343	

The borrowing limit for the Corporation set by the Mayor for 2010/11 was £7.301bn.

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 2011 amounted to £2,067m. The average yield from TfL’s cash investments for 2010/11 was 0.52 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.

Pensions

As at 31 March 2011, the majority of TfL’s employees are members of the Public Sector Section of the TfL Pension Fund. Over the past year, the fair value of the assets of this Section has increased by £550m. There is a small reduction in the actuarial value of future liabilities of £52m, and as a consequence the deficit of pension scheme assets over future liabilities for the TfL Pension Fund has reduced by £603m.

In addition, at 31 March 2011 the Group had future liabilities under unfunded pension arrangements of £53m, an increase of £2m from 2010.

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.

Prospects and outlook

In March 2011, TfL approved its updated Business Plan for the years to 2014/15. This replaces the October 2009 plan, and covers a shorter period to reflect the revised Government settlement.

Financing of the Business Plan is from:

- Government grants
- TfL Prudential borrowing
- Fares income
- Congestion Charge income
- Secondary income such as advertising
- Third party funding for specific projects
- Sales of property and other assets

Passengers

The investment in the Business Plan is designed to support London’s projected growth – population growth of up to 1.25 million and employment growth of up to 0.75 million by 2031. This means there will be around three million extra trips a day in the Capital by 2031.

When complete, Crossrail will deliver a 10 per cent increase in rail-based network capacity in London and the Tube upgrades will provide more than a 30 per cent increase in capacity, catering for anticipated demand growth and addressing current overcrowding.

Fares policy

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. The fares package for 2011 was set on this basis so that, on average, bus and Tube fares rose by 6.8 per cent.

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 £7.6bn of efficiencies and other cost savings 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 and may have legislative requirements which would be subject to securing appropriate Parliamentary time
- 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 such as financial investments to limit TfL’s exposure.

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:

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 2010/11, TfL followed a conservative investment strategy, investing only with UK Government (via T-Bills and the Debt Management Office (DMO), the four main UK clearing banks and AAA rated money market funds. 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 2011 is set

out in Note 33 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 2010/11, TfL established a 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 93 per cent; the remaining seven per cent was 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.

During the year 2010/11, TfL entered into a programme of forward starting interest rate swaps for the purposes of risk mitigation. This programme has enabled TfL to lock in future borrowing costs at favourable rates and remove some of the uncertainty that was present in the Business Plan.

Cash investments at the year end reflected rates for maturities ranging from overnight to 183 days, with a weighted average maturity of 45 days.

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, the Public Carriage Office 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 2010/11 (the Code), which is based on International Financial Reporting Standards.

In 2007, the Government announced that the UK Public Sector would make the transition to IFRS based financial reporting, which was seen as best practice and would allow better international comparisons to be made. As a result of this, all local authorities are making the transition to reporting under IFRS for the year ended 31 March 2011.

TfL has prepared these financial statements in accordance with the IFRS-based Code. This has also necessitated a restatement of prior year comparative financial information. Further details of the adjustments made to the financial statements can be found in note 38.

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 also 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

Comprehensive Income and Expenditure Statement

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

The balance sheet

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

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

The cash flow statement

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

Movement in reserves statement

This statement shows the movement in the year on the different reserves held by TfL, analysed into usable reserves and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing TfL's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are 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.

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
29 June 2011

We have audited the financial statements of Transport for London and the Transport for London Group ('the Group') for the year ended 31 March 2011 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 87 to 183. 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 62, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts 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 financial statements

In our opinion the financial statements:

- give a true and fair view of the Group and the Corporation as at 31 March 2011 and of the Group's and the 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 2010/11.

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.

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 2010, 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 2011.

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 2010, 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 2011.

Certificate

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



W Southwood, for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
3 August 2011

Year ended 31 March	Note	2011 £m	Restated 2010 £m
Highways and Transport Services			
Gross income	1	3,884.2	3,595.0
Gross expenditure	3	(6,066.6)	(6,108.0)
Net cost of services	2	(2,182.4)	(2,513.0)
Other operating expenditure	6	(321.8)	(105.2)
Financing and investment income	7	408.0	285.3
Financing and investment expenditure	8	(813.0)	(761.0)
Non specific grant income	9	4,672.6	3,337.8
Surplus on the provision of services before tax	2	1,763.4	243.9
Taxation income	10	1.3	-
Surplus on the provision of services after tax		1,764.7	243.9
Other comprehensive income and expenditure:			
Surplus on the revaluation of property, plant and equipment		0.9	2.4
Movement in the fair value of derivative statements		4.4	-
Actuarial gain/ (loss) on defined benefit pension schemes	24	647.2	(1,001.9)
		652.5	(999.5)
Total comprehensive income and expenditure		2,417.2	(755.6)

	Note	31 March 2011 £m	Restated 31 March 2010 £m	Restated 1 April 2009 £m
Long-term assets				
Intangible assets	11	139.6	162.3	51.8
Property, plant and equipment	12	23,404.7	21,651.7	19,585.3
Investment properties	13	294.3	294.5	355.5
Derivative financial instruments	15	4.9	-	-
Long-term debtors	17	6.9	39.5	3.6
		23,850.4	22,148.0	19,996.2
Current assets				
Inventories	16	35.6	18.3	20.2
Short-term debtors	17	600.4	607.1	475.5
Current tax assets	32	14.5	-	-
Short-term investments	18	2,012.7	1,472.5	1,967.8
Cash and cash equivalents	19	54.1	36.9	34.1
		2,717.3	2,134.8	2,497.6
Current liabilities				
Short-term creditors	20	(1,956.8)	(1,720.0)	(1,788.9)
Short-term borrowings and overdrafts	21	(494.2)	-	-
Short-term finance lease liabilities	22	(69.2)	(398.0)	(356.4)
Short-term provisions	23	(254.1)	(294.9)	(46.3)
		(2,774.3)	(2,412.9)	(2,191.6)
Long-term liabilities				
Long-term creditors	20	(55.6)	(38.1)	(37.0)
Long-term borrowings	21	(5,892.5)	(4,117.8)	(3,017.6)
Long-term finance lease liabilities	22	(1,349.8)	(2,957.8)	(2,905.5)
Derivative financial instruments	15	(0.5)	-	-
Long-term provisions	23	(165.7)	(270.5)	(107.0)
Retirement benefit obligation	24	(1,620.1)	(2,193.7)	(1,187.5)
		(9,084.2)	(9,577.9)	(7,254.6)
Net assets		14,709.2	12,292.0	13,047.6
Reserves				
Usable reserves		1,870.0	1,041.5	1,318.9
Unusable reserves	25	12,839.2	11,250.5	11,728.7
Total reserves		14,709.2	12,292.0	13,047.6

The notes on pages 74 to 183 form part of these financial statements. These financial statements were approved by the Board on 29 June 2011 and signed on its behalf by:


Boris Johnson, Chair of TfL

	Note	General fund £m	Earmarked reserves £m	Capital grants unapplied account £m	Usable reserves £m	Unusable reserves £m	Total reserves £m
At 1 April 2009 (restated)		177.2	1,141.7	-	1,318.9	11,728.7	13,047.6
Movement in reserves during 2009/10							
Surplus/(deficit) on the provision of services after tax		(448.2)	-	-	(448.2)	692.1	243.9
Other comprehensive income and expenditure		-	-	-	-	(999.5)	(999.5)
Total comprehensive income and expenditure		(448.2)	-	-	(448.2)	(307.4)	(755.6)
Adjustments between accounting basis and funding basis under regulations	26	(1.2)	-	172.0	170.8	(170.8)	-
Net increase/(decrease) before transfers from earmarked reserves		(449.4)	-	172.0	(277.4)	(478.2)	(755.6)
Transfers from earmarked reserves		435.7	(435.7)	-	-	-	-
Increase/(decrease) in 2009/10		(13.7)	(435.7)	172.0	(277.4)	(478.2)	(755.6)
Balance at 31 March 2010 (restated)		163.5	706.0	172.0	1,041.5	11,250.5	12,292.0
Movement in reserves during 2010/11							
Surplus on the provision of services after tax		1,140.3	-	-	1,140.3	624.4	1,764.7
Other comprehensive income and expenditure		-	-	-	-	652.5	652.5
Total comprehensive income and expenditure		1,140.3	-	-	1,140.3	1,276.9	2,417.2
Adjustments between accounting basis and funding basis under regulations	26	(1,337.0)	-	1,025.2	(311.8)	311.8	-
Net increase/(decrease) before transfers from earmarked reserves		(196.7)	-	1,025.2	828.5	1,588.7	2,417.2
Transfers from earmarked reserves		187.6	(187.6)	-	-	-	-
Increase/(decrease) in 2010/11		(9.1)	(187.6)	1,025.2	828.5	1,588.7	2,417.2
Balance at 31 March 2011		154.4	518.4	1,197.2	1,870.0	12,839.2	14,709.2

Year ended 31 March	Note	2011 £m	Restated 2010 £m
Net surplus on the provision of services after tax		1,764.7	243.9
Adjustments to net surplus after tax for non-cash movements	29a	(1,760.1)	(988.1)
Net cash flows from operating activities		4.6	(744.2)
Investing activities	29b	47.9	308.8
Financing activities	29c	(35.3)	438.2
Net increase in cash and cash equivalents in the year		17.2	2.8
Cash and cash equivalents at the start of the year		36.9	34.1
Cash and cash equivalents at the end of the year		54.1	36.9

Year ended 31 March	Note	2011 £m	Restated 2010 £m
Highways and Transport Services			
Gross income		382.2	447.2
Gross expenditure	3	(1,023.7)	(1,106.1)
Net cost of services		(641.5)	(658.9)
Other operating expenditure	6	(39.2)	(2.8)
Financing and investment income	7	147.8	113.5
Financing and investment expenditure	8	(274.1)	(182.3)
Non specific grant income	9	4,553.6	3,187.2
Non specific grant funding of subsidiaries		(2,606.3)	(2,904.9)
Surplus/ (deficit) on the provision of services		1,140.3	(448.2)
Other comprehensive income and expenditure			
Actuarial gain/ (loss) on defined benefit pension schemes	24	16.6	(31.2)
Total comprehensive income and expenditure		1,156.9	(479.4)

	Note	31 March 2011 £m	Restated 31 March 2010 £m	Restated 1 April 2009 £m
Long-term assets				
Intangible assets	11	89.3	133.7	43.8
Property, plant and equipment	12	3,370.3	3,129.9	2,743.9
Investment properties	13	13.8	18.1	76.4
Long-term investments	14	472.5	22.5	22.5
Long-term debtors	17	5,285.3	3,095.8	2,184.9
		9,231.2	6,400.0	5,071.5
Current assets				
Inventories	16	3.2	2.3	2.7
Short-term debtors	17	331.7	333.4	210.4
Short-term investments	18	1,978.9	1,427.8	1,925.8
Cash and cash equivalents	19	-	7.0	11.2
		2,313.8	1,770.5	2,150.1
Current liabilities				
Short-term creditors	20	(514.9)	(387.5)	(480.5)
Short-term borrowings and overdrafts	21	(495.7)	-	-
Short-term finance lease liabilities	22	(7.4)	(6.8)	(5.7)
Short-term provisions	23	(224.3)	(265.8)	(29.1)
		(1,242.3)	(660.1)	(515.3)
Long-term liabilities				
Long-term creditors	20	(23.7)	(10.8)	(10.8)
Long-term borrowings	21	(5,848.1)	(4,117.8)	(3,017.6)
Long-term finance lease liabilities	22	(194.9)	(202.4)	(209.1)
Long-term provisions	23	(100.8)	(180.8)	(24.6)
Retirement benefit obligation	24	(54.4)	(74.7)	(40.9)
		(6,221.9)	(4,586.5)	(3,303.0)
Net assets		4,080.8	2,923.9	3,403.3
Reserves				
Usable reserves		1,870.0	1,041.5	1,318.9
Unusable reserves	25	2,210.8	1,882.4	2,084.4
Total Reserves		4,080.8	2,923.9	3,403.3

The notes on pages 74 to 183 form part of these financial statements. These financial statements were approved by the Board on 29 June 2011 and signed on its behalf by:



Boris Johnson, Chair of TfL

	Note	General fund £m	Earmarked reserves £m	Capital grants unapplied account £m	Usable reserves £m	Unusable reserves £m	Total reserves £m
At 1 April 2009 (restated)		177.2	1,141.7	-	1,318.9	2,084.4	3,403.3
Movement in reserves during 2009/10							
(Deficit) on the provision of services		(448.2)	-	-	(448.2)	-	(448.2)
Other comprehensive income and expenditure		-	-	-	-	(31.2)	(31.2)
Total comprehensive income and expenditure		(448.2)	-	-	(448.2)	(31.2)	(479.4)
Adjustments between accounting basis and funding basis under regulations	26	(1.2)	-	172.0	170.8	(170.8)	-
Net increase/(decrease) before transfers from earmarked reserves		(449.4)	-	172.0	(277.4)	(202.0)	(479.4)
Transfers from earmarked reserves		435.7	(435.7)	-	-	-	-
Increase/(decrease) in 2009/10		(13.7)	(435.7)	172.0	(277.4)	(202.0)	(479.4)
Balance at 31 March 2010 (restated)		163.5	706.0	172.0	1,041.5	1,882.4	2,923.9
Movement in reserves during 2010/11							
Surplus on the provision of services		1,140.3	-	-	1,140.3	-	1,140.3
Other comprehensive income and expenditure		-	-	-	-	16.6	16.6
Total comprehensive income and expenditure		1,140.3	-	-	1,140.3	16.6	1,156.9
Adjustments between accounting basis and funding basis under regulations	26	(1,337.0)	-	1,025.2	(311.8)	311.8	-
Net increase/(decrease) before transfers from earmarked reserves		(196.7)	-	1,025.2	828.5	328.4	1,156.9
Transfers from earmarked reserves		187.6	(187.6)	-	-	-	-
Increase/(decrease) in 2010/11		(9.1)	(187.6)	1,025.2	828.5	328.4	1,156.9
Balance at 31 March 2011		154.4	518.4	1,197.2	1,870.0	2,210.8	4,080.8

Year ended 31 March	Note	2011 £m	Restated 2010 £m
Net surplus/(deficit) on the provision of services		1,140.3	(448.2)
Adjustments to net (deficit) for non cash movements	29a	(1,056.2)	21.0
Net cash flows from operating activities		84.1	(427.2)
Investing activities	29b	(2,043.4)	(497.4)
Financing activities	29c	1,950.8	920.4
Net decrease in cash and cash equivalents in the year		(8.5)	(4.2)
Cash and cash equivalents at the start of the year		7.0	11.2
Cash and cash equivalents/ (overdrafts) at the end of the year		(1.5)	7.0

a) Code of practice

TfL is required to prepare an annual Statement of Accounts by the Accounts and Audit 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 2010/11 (the Code), developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board under the oversight of the Financial Reporting Advisory Board. The Code constitutes proper accounting practice for the purpose of the 2011 Regulations.

The Code for 2010/11 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.

IAS 24 Related Party Disclosures

The Code has been prepared based on IAS 24 Related Party Disclosures as revised in December 2003. In November 2009 a new version of IAS 24 was issued which becomes effective for entities with accounting periods commencing after 1 January 2011 with early adoption permitted. The Group has taken the option to early adopt the revised standard.

The Group has opted to take the following exemptions in accordance with IFRS 1 First time adoption of IFRS ('IFRS 1'):

- The Group has opted not to apply IFRS 3 Business Combinations ('IFRS 3') to business combinations that occurred before 1 April 2009;
- The Group has applied IFRIC 4 Determining whether an arrangement contains a lease ('IFRIC 4') from 1 April 2009 and therefore determined whether or not an arrangement contains a lease based on the facts and circumstances existing at that date;
- The Group has elected to use the previous UK-GAAP valuation for all property, plant and equipment and investment properties; and
- 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').

In 2009/10, the accounts were prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009 (the SORP). The SORP for 2009/10 was based on UK GAAP.

b) Basis of accounting

The adoption of the 2010/11 IFRS-based Code has required the Corporation and the Group to restate its 2009/10 accounts. An explanation of how the transition to the Code has affected the reported Balance sheet and Comprehensive Income and Expenditure Statement of the Corporation and the Group is provided in note 38.

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 and in preparing the Balance Sheets and Movements in Reserves Statements at 1 April 2009 and 31 March 2010

and the Comprehensive Income and Expenditure Statements and Statement of Cash Flows for the year ended 31 March 2010 which have been restated to comply with the Code.

The accounting convention adopted in the Statement of Accounts is principally historical cost, 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 preparation of group accounts

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

d) Going concern

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

e) New standards and interpretations not yet adopted

The provisions of FRS 30 Heritage Assets have been incorporated into the 2011/12 Code. Adoption of FRS 30 will result in a change in accounting policy in 2011/12. 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 will therefore apply to the collection at the London Transport Museum. Heritage assets will be carried at valuation where possible and additional disclosures will be required. It is not anticipated that the valuation of TfL's heritage assets will be material to the Corporation's or Group's balance sheets.

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:

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 defined benefit obligations. More details are given in note 24.

Derivative financial instruments

The Group manages the interest rate risk on borrowings by taking out interest rate swap derivative products. In making its assessment and judgements, the Group assesses the effectiveness of the interest rate swap and changes in its fair value. The interest rate profile of the Group's financial assets and liabilities is disclosed in note 33.

Determining whether an arrangement contains a lease

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

Classification of investment properties

IAS 40 Investment properties ('IAS 40') requires that properties are classified as investment properties where they are held for the purpose of capital appreciation or to earn rentals. The Group owns a number of commercial properties as part of its infrastructure where part of the property is leased out to third parties. To comply with IAS 40, 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.

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.

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 23.

Investment property

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

h) Revenue recognition

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

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

Fares revenue

Revenue from annual or periodic tickets and travel cards is recognised in the Comprehensive Income and Expenditure Statement on a straight

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

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

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

Congestion charging

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

Income from penalty charge notices is recognised, net of a provision, for 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.

i) Segmental reporting

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

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

- London Underground (including former Metronet businesses) – Provision of passenger rail services and refurbishment and maintenance of certain parts of the rail network
- Tube Lines – Refurbishment and maintenance certain parts of the rail network (Jubilee, Northern and Piccadilly lines)
- London Rail – Provision of passenger rail services
- Surface Transport – Provision of surface transport, and maintenance of London's roads
- Corporate items – Central functions

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, 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 fixed PPC is financed either wholly or partly by capital or non-specific grants or other contributions, the amount of the grant

applied is credited to the Capital Adjustment Account through the Movements in Reserves Statement. Amounts not utilised in the year are credited to the Capital Grants Unapplied Account, a usable reserve, for application in future periods.

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

k) Financing and investment income and expenses

Financing and investment income comprises interest income on funds invested and 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, finance lease liabilities and expected cost of pension scheme defined benefit obligation. 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 it relates to a business combination, or to items recognised directly in equity or in other comprehensive income.

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

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

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

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

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

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

m) 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 amortisation 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 three to five years and straight line respectively.

n) 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 which 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, assets under construction and rolling stock are measured at cost less accumulated depreciation and accumulated impairment losses.

Office buildings are valued at fair value (open market value on an existing use basis) by internal and external professionally qualified valuers. Movements in the fair value of the property are taken to the revaluation reserve.

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

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, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets for which the

commencement date for capitalisation is on or after 1 April 2009.

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 property, plant and equipment, 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

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.

o) 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.

A mix of internal and external professionally qualified valuers is used to measure fair value.

p) 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 inventory. 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.

q) Trade and other receivables

Trade and other receivables 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.

r) 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.

s) Trade and other payables

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

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.

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

u) Provisions

Provisions are recognised in the balance sheet when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. 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) 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.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

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.

w) 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.

x) 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.

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 arrangements accounted for as operating leases are dealt with as detailed in note w) above.

y) 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 for the purpose of generating cash flows but primarily 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.

z) Employee benefits

Defined benefit plans

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

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

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

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

Defined benefit plans – multi-employer exemption

For certain defined benefit schemes, the Corporation and/or the Group is unable to identify its share of the underlying assets and defined benefit obligations of the scheme on a consistent and reasonable basis. As permitted by the multi-employer exemption in 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 defined benefit obligations are provided for in the balance sheet.

Defined contribution plans

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

Other employee benefits

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

aa) 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 retained earnings reserve in subsidiaries and the fixed asset revaluation reserve.

ab) Financial instruments

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

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

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

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

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, do not qualify as trading assets and have not been designated

as either 'fair value through the Comprehensive Income and Expenditure Statement' or available for sale. Such assets are carried at amortised cost using the effective interest rate method if the time value of money is significant. Gains and losses are recognised in the Comprehensive Income and Expenditure Statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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.

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 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.

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 assets – other investments

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

Financial assets – trade and other receivables

Trade and other receivables are classified as loans and receivables financial instruments.

Financial liabilities – interest bearing loans and borrowings

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

Financial liabilities – obligations under finance leases and PFI arrangements

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

Financial liabilities – trade and other creditors

Trade and other creditors are measured at amortised cost.

Derivative financial instruments

The Group enters into derivative instruments to manage its exposure to interest rate risk arising from financing activities. An interest rate swap hedges the Group's exposure to movements in interest rates on borrowings. 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. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. 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.

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 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 caps.

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.

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.

I. Gross Income

a) Gross income

Year ended 31 March	2011 £m	% of Total	Restated 2010 £m	% of Total
Fares	2,942.3	75.8	2,662.8	74.1
Revenue in respect of free travel for the elderly and disabled	251.0	6.5	243.8	6.8
Congestion Charging	286.5	7.4	312.6	8.7
Charges to London boroughs	13.2	0.3	13.2	0.4
Charges to transport operators	8.3	0.2	7.3	0.2
Bus enforcement	41.7	1.1	32.3	0.9
Commercial advertising receipts	106.5	2.7	92.2	2.6
Rents receivable	59.2	1.5	57.3	1.6
Taxi licensing	20.6	0.5	18.5	0.5
Museum income	3.1	0.1	2.9	0.1
Other	151.8	3.9	152.1	4.1
	3,884.2	100.0	3,595.0	100.0

b) Congestion Charging

	Group and Corporation 2011 £m	Group and Corporation 2010 £m
Income	286.5	312.6
Toll facilities and traffic management	(102.6)	(144.4)
	183.9	168.2
Administration, support services and depreciation	(10.4)	(10.1)
Net income from Congestion Charging	173.5	158.1

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

The western extension scheme closed on 24 December 2010.

2. Segmental analysis

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

Year ended 31 March 2011

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

Year ended 31 March 2010

	London Underground £m	Tube Lines* £m	London Rail £m	Surface Transport £m	Corporate items £m	Total £m
Income	1,795.5	-	142.3	1,560.0	37.4	3,535.2
Expenditure	(2,499.9)	-	(287.9)	(2,631.5)	(376.7)	(5,796.0)
Net operating expenditure	(704.4)	-	(145.6)	(1,071.5)	(339.3)	(2,260.8)

* Tube Lines was acquired on 27 June 2011

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 have not been included in the segmental analysis
- The cost of retirement benefits in the management reports is based on cash flows rather than the current service costs of benefits accrued in the year
- The capital elements (i.e. capital repayment and financing costs) relating to PPP and PFI contracts are included in the management reports in net operating expenditure but they are not included in net cost of services in the Comprehensive Income and Expenditure Statement
- Some interest income and debt servicing costs in the subsidiaries are included in net operating expenditure in the management reports but they are not included in net cost of services in the Comprehensive Income and Expenditure Statement

2. Segmental analysis (continued)

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

	£m
Net operating expenditure per the segmental analysis	(1,345.9)
Net expenditure of services not included in the segmental analysis	
Group items	9.0
Museum net revenue cost	(4.8)
	4.2
Amounts included in the Comprehensive Income and Expenditure Statement not reported to management in the segmental analysis	
Depreciation	(882.5)
Amortisation	456.2
Goodwill write off	(242.9)
Pension service costs (note 24)	(205.1)
IFRS adjustments	(428.2)
	(1,302.5)
Amounts included in the segmental analysis not included in the Comprehensive Income and Expenditure Statement	
Capital and interest payments under the PPP and PFI schemes	198.5
Pension payments charged to operating costs	251.7
Interest charged to operating costs	5.6
Grant funding of Museum	6.0
	461.8
Net cost of services	(2,182.4)

2. Segmental analysis (continued)

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

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

2. Segmental analysis (continued)

Reconciliation of net operating expenditure per the segmental analysis to net cost of services for the year ended 31 March 2010

	£m
Net revenue cost per the segmental analysis	(2,260.8)
Net expenditure of services not included in the segmental analysis	
Group items	50.0
Crossrail operating costs	1.0
Museum net revenue cost	(3.5)
Items reported as capital for the segmental analysis but included as revenue in the statutory financial statements	1.3
	48.8
Amounts included in the Comprehensive Income and Expenditure Statement not reported to management in the segmental analysis	
Depreciation	(801.4)
Amortisation of deferred capital grants	398.6
FRS 17 Pension service cost under TfL scheme (Note 24)	(127.5)
IFRS adjustments (Note 38)	(430.8)
	(961.1)
Amounts included in the segmental analysis not included in the Comprehensive Income and Expenditure Statement	
Capital and interest payments under the PPP and PFI schemes	428.3
Cash payments under the TfL pension scheme	226.6
Interest income	(0.4)
Grant funding of Museum	5.6
	660.1
Net cost of services	(2,513.0)

2. Segmental analysis (continued)

Reconciliation of segmental analysis to subjective analysis for the year ended 31 March 2010

	Net revenue cost per the segmental analysis £m	Net expenditure of services not included in the segmental analysis £m	Amounts included in the Income and Expenditure Statement not reported in the segmental analysis £m	Amounts included in the segmental analysis not included in the Income and Expenditure Statement £m	Total £m
Income	3,535.2	59.1	0.7	-	3,595.0
Staff costs	(1,399.7)	-	(120.9)	222.6	(1,298.0)
Other service expenses	(4,396.3)	(12.3)	(5.5)	439.5	(3,974.6)
Depreciation, amortisation and impairment	-	-	(835.4)	-	(835.4)
Total cost	(5,796.0)	(12.3)	(961.8)	662.1	(6,108.0)
Net cost of services	(2,260.8)	46.8	(961.1)	662.1	(2,513.0)
Loss on disposal of assets					(105.2)
Interest income					285.3
Interest payable					(761.0)
Non-specific grant income					3,337.8
Surplus on the provision of services before tax					243.9

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

3. Gross expenditure

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

	Group 2011 £m	Restated Group 2010 £m	Corporation 2011 £m	Restated Corporation 2010 £m
Staff costs:				
Wages and salaries	1,141.6	1,078.2	161.5	159.1
Social security costs	96.8	87.9	14.2	13.3
Pension costs	217.2	131.9	31.4	43.1
	1,455.6	1,298.0	207.1	215.5
Other service expenditure	3,475.8	3,974.7	622.0	707.8
Depreciation	849.7	813.8	159.8	163.7
Amortisation	42.6	21.5	34.8	19.1
Impairment	242.9	-	-	-
	6,066.6	6,108.0	1,023.7	1,106.1

Included in the Corporation's other service expenditure is £193.2m (2009/2010 £181.7m) relating to financial assistance to London Boroughs and other third parties (see note 28 for detailed analysis).

The average number of persons employed in the year was:

	Group 2011 Number	Group 2010 Number	Corporation 2011 Number	Corporation 2010 Number
Permanent staff (including fixed term contracts)	26,653	25,126	3,547	3,508
Agency staff	1,814	2,290	290	385
	28,467	27,416	3,837	3,893

	Group 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
Cost of terminating contracts of employees	23.6	9.2	2.8	1.4
	Number	Number	Number	Number
Number of employees	767	389	120	63

Organisational and operational efficiencies resulted in 767 employees leaving the Group, by mutual agreement, in 2010/11 (389 in 2009/10), which involved the Group making payments of £23.6m (2009/10 £9.2m). 328 employees left as a result of a review of support services in London Underground and 200 as a result of operational changes in London Underground. The remaining 239 individuals left as a result of a number of other smaller reorganisations.

4. External audit fees

External audit fees are made up as follows:

	Group 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
Auditors' remuneration:				
for statutory audit services	2.1	1.6	0.6	0.4
for non-statutory audit services	0.1	-	0.1	-
for non-audit services	0.1	0.4	0.1	0.2
	2.3	2.0	0.8	0.6

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. Consequently, an additional voluntary disclosure for the Group is provided that shows the combined employee bands for TfL and its subsidiaries.

The Group's remuneration disclosure for 2010/11 includes the employees of the Tube Lines companies for the first time. The remuneration for these employees has been included for a full year, even though they were only employees of the Group from 27 June 2010, in order to facilitate comparison with future years. Those individuals who left the employment of Tube Lines prior to 27 June 2010, or as a result of the acquisition of Tube Lines by TfL, are not included in the Group salary bandings.

The impact of the acquisition of Tube Lines is to increase the number of employees with total remuneration of £50,000 or more by 1,024. The increase in those earning £100,000 or more is 68 (37 of these staff have since left the organisation).

The remuneration disclosure is also affected by the Crossrail project moving into the delivery phase. The number of employees of Crossrail Limited receiving total remuneration of £50,000 or more has increased from 106 in 2009/10 to 131 in 2010/11. The corresponding figures for those receiving total remuneration of more than £100,000 are 23 for 2009/10 and 31 for 2010/11.

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, 99 have seen their total remuneration for the year exceed £50,000 due to termination payments (2009/10 55). Of those disclosed as having received total remuneration of £100,000 or more, 84 have seen their total remuneration for the year exceed £100,000 due to termination payments (2009/10 34).

Excluding the changes referred to above, the number of staff earning over £100,000 is 196 (2010 – 194).

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

5. Remuneration (continued)

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

£	Group 2011 Number	Group 2010 Number	Corporation 2011 Number	Corporation 2010 Number
50,000 – 54,999	1,845	1,406	224	157
55,000 – 59,999	1,125	901	164	128
60,000 – 64,999	837	572	146	106
65,000 – 69,999	549	403	103	80
70,000 – 74,999	383	249	69	66
75,000 – 79,999	241	205	49	43
80,000 – 84,999	195	124	47	27
85,000 – 89,999	122	116	22	30
90,000 – 94,999	106	84	25	25
95,000 – 99,999	76	59	16	12
100,000 – 104,999	64	35	13	11
105,000 – 109,999	50	43	8	11
110,000 – 114,999	60	29	12	6
115,000 – 119,999	26	17	5	5
120,000 – 124,999	19	11	4	3
125,000 – 129,999	24	10	4	5
130,000 – 134,999	27	20	5	5
135,000 – 139,999	11	9	5	2
140,000 – 144,999	10	9	1	2
145,000 – 149,999	14	10	2	3
150,000 – 154,999	11	9	3	1
155,000 – 159,999	8	3	1	-
160,000 – 164,999	9	6	1	1
165,000 – 169,999	7	2	2	1
170,000 – 174,999	4	7	-	3
175,000 – 179,999	5	4	3	2
180,000 – 184,999	1	4	1	1
185,000 – 189,999	3	1	-	-
190,000 – 194,999	2	-	1	-
195,000 – 199,999	-	1	-	-
200,000 – 204,999	3	-	-	-

£	Group 2011 Number	Group 2010 Number	Corporation 2011 Number	Corporation 2010 Number
205,000 – 209,999	1	5	-	2
210,000 – 214,999	1	1	-	1
215,000 – 219,999	2	1	1	-
220,000 – 224,999	1	-	1	-
225,000 – 229,999	-	2	-	1
230,000 – 234,999	3	3	1	-
250,000 – 254,999	2	-	-	-
255,000 – 259,999	-	1	-	-
265,000 – 269,999	2	2	1	1
270,000 – 274,999	1	-	-	-
280,000 – 284,999	1	1	-	1
285,000 – 289,999	1	-	1	-
305,000 – 309,999	1	-	-	-
310,000 – 314,999	-	1	-	1
320,000 – 324,999	-	1	-	-
325,000 – 329,999	1	-	-	-
330,000 – 334,999	1	-	1	-
365,000 – 369,999	1	-	-	-
385,000 – 389,999	1	-	-	-
390,000 – 394,999	-	1	-	1
515,000 – 519,999	-	1	-	1
550,000 – 554,999	-	1	-	-
855,000 – 859,999	1	-	-	-
Total	5,858	4,370	942	745

b) Remuneration for senior employees

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

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

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.

5. Remuneration (continued)

	Note	Salary (including fees and allowances) 2010/11 £	Performance related pay for 2009/10 paid in year 2010/11 £	Compensation for loss of employment 2010/11 £	Benefits in kind 2010/11 £	Total remuneration excluding pension contributions 2010/11 £	Employer's contribution to pension 2010/11 £	Salary (including fees and allowances) 2009/10 £	Performance related pay for 2008/09 paid in year 2009/10 £
Current employees excluding Crossrail									
Peter Hendy, Commissioner	a	330,201	-	-	2,075	332,276	-	330,198	61,466
Steve Allen, Managing Director, Finance		268,327	-	-	655	268,982	44,432	253,436	56,592
Mike Brown, Managing Director, London Underground	b	283,155	-	-	2,075	285,230	43,408	60,556	-
Howard Carter, General Counsel		217,081	-	-	2,075	219,156	41,304	217,081	49,588
Leon Daniels, Managing Director, Surface Transport	c	97,000	-	-	-	97,000	-	-	-
Michèle Dix, Managing Director, Planning	d	145,740	-	-	2,026	147,766	37,285	145,740	32,660
Vernon Everitt, Managing Director, Group Marketing and Communications		228,235	-	-	2,075	230,310	22,244	228,235	53,797
Sarah Atkins, Commercial Director, Tube Lines	e	155,615	31,230	-	1,631	188,476	37,278	155,615	27,000
Ian Campbell, Chief Information Officer	f	164,434	-	-	1,631	166,065	38,179	18,973	-
Howard Collins, Chief Operating Officer, London Underground		174,400	26,250	-	1,631	202,281	45,676	194,186	24,000
Stephen Critchley, Chief Finance Officer		159,488	20,000	-	-	179,488	37,163	159,488	20,000
Frank Douglas, Group Human Resources Director	g	192,338	-	-	49	192,387	22,237	24,795	-
Robert Doyle, Head of Track and Signals, London Underground	h	173,488	-	-	1,631	175,119	35,262	172,739	9,389
Gerald Duffy, Director of Employee Relations, London Underground		150,921	22,540	-	606	174,067	36,700	150,913	22,000
Garrett Emmerson, Chief Operating Officer Streets, Surface Transport		162,069	20,000	-	606	182,675	37,997	160,403	12,090
David Hendry, Finance Director, Surface Transport		152,717	25,000	-	1,631	179,348	36,666	151,139	20,000
Jon Lamonte, Chief Executive, Tube Lines	i	-	-	-	-	-	-	-	-
Philip Hufton, Asset Performance Director, London Underground		249,626	35,000	-	-	284,626	22,235	232,891	35,000
Richard Parry, Strategy and Commercial Director, London Underground	j	186,506	31,353	-	-	217,859	60,809	184,709	-
Ben Plowden, Director of Better Routes and Places, Surface Transport		155,777	21,000	-	-	176,777	40,012	174,522	35,100
Peter Regan, Corporate Finance Director	k	161,496	58,776	-	605	220,877	35,672	154,469	71,153
Geoff Virrels, Director of Projects, Tube Lines	l	129,464	-	-	1,631	131,095	27,915	130,886	-
David Waboso, Director of Capital Programmes, London Underground	m	186,616	15,345	-	1,631	203,592	56,339	177,888	27,500

5. Remuneration (continued)

	Note	Salary (including fees and allowances) 2010/11 £	Performance related pay for 2009/10 paid in year 2010/11 £	Compensation for loss of employment 2010/11 £	Benefits in kind 2010/11 £	Total remuneration excluding pension contributions 2010/11 £	Employer's contribution to pension 2010/11 £	Salary (including fees and allowances) 2009/10 £	Performance related pay for 2008/09 paid in year 2009/10 £
Crossrail current office holders/employees									
Terry Morgan, Non-executive Chairman	n	250,000	-	-	1,632	251,632	-	208,333	-
Rob Holden, Chief Executive		570,502	285,000	-	1,632	857,134	20,419	553,000	-
David Allen, Finance Director		206,010	61,200	-	1,632	268,842	29,830	180,125	-
Neil Farmer, IT Director	o	153,060	14,875	-	1,632	169,567	30,220	90,029	-
Andy Mitchell, Programme Director	p	281,599	43,750	-	1,632	326,981	30,220	164,266	-
Chris Sexton, Technical Director	q	167,205	-	-	-	167,205	30,220	41,250	-
Valerie Todd, Talent and Resources Director	r	191,925	38,517	-	2,026	232,468	40,909	191,925	41,078
Former employees									
David Brown, Managing Director, Surface Transport	s	269,265	-	-	2,048	271,313	43,536	271,353	43,415
Ian Brown, Managing Director, London Rail	t	205,719	-	-	1,658	207,377	40,290	205,719	48,664
David Bennett, Implementation Director, Crossrail	u	117,750	32,250	215,000	1,350	366,350	61,463	152,561	-
Keith Berryman, Land and Property Director, Crossrail	v	124,120	9,600	-	-	133,720	23,863	145,075	6,750

a salary sacrificed for pension of £17,130 (2009/10 £17,132)

b entered service 22 March 2010

c entered service 20 April 2011, payment received in year includes recompense for loss of benefits from previous employers and/or to comply with TfL's policies

d part-time, three days per week

e formerly Director of Reviews and Legal, London Underground, on secondment to Tube Lines since 28 June 2010

f entered service 1 February 2010

g entered service 15 February 2010. Left service after 31 March 2011

h performance related pay of £13,023 (2009/10 nil) sacrificed to pension fund

i entered service 14 March 2011, no salary received in 2010/11

j Interim Managing Director, London Underground from 1 May 2009 to 22 March 2010. Performance related pay of £21,280 (2009/10 nil) sacrificed to pension fund

k left service after 31 March 2011

l 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. Performance related pay of nil (2009/10 £27,500) sacrificed to pension fund

m performance related pay of £15,960 (2009/10 nil) sacrificed to pension fund

n entered service 1 June 2009. Paid for providing services three days a week

o entered service 24 August 2009

p entered service 1 August 2009

q entered service 4 January 2010

r employed by TfL but on secondment to Crossrail since January 2008

s left service 31 March 2011. Performance related pay of £nil (2009/10 £12,000) sacrificed to pension fund

t left service 31 March 2011

u entered service 20 July 2009, left service 15 October 2010

v part-time four days per week from 1 January 2010, left service 31 March 2011

6. Other operating expenditure

	Group 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
Net loss on disposal of property, plant and equipment	321.8	105.2	39.2	2.8

7. Financing and investment income

Note	Group 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
Interest income on bank deposits	9.4	13.9	8.8	13.2
Interest income on loans to subsidiaries	-	-	136.1	97.8
Change in fair value of investment properties	13	25.8	0.5	0.2
Net gain on disposal of investment properties	7.7	13.4	-	-
Expected return on pension assets	24	232.2	2.4	2.3
	408.0	285.3	147.8	113.5

8. Financing and Investment expenditure

Note	Group 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
Interest payable on loans	258.1	164.3	188.2	164.1
Interest payable on loans to subsidiaries	-	-	68.3	-
Interest payable on finance lease liabilities	137.4	246.6	9.1	9.3
Contingent rentals on PFI contracts	12.0	10.0	2.6	2.0
Other interest payable	6.1	0.3	-	0.2
Net loss on disposal of investment properties	-	-	0.2	1.5
Expected cost of pension scheme liabilities	24	339.8	5.7	5.2
	813.0	761.0	274.1	182.3

9. Grant income

Note	Group 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
Non ring-fenced grant from the DfT used to fund operations	1,162.7	1,081.8	1,162.7	1,081.8
Other revenue grant received	107.6	101.8	107.6	101.8
Council tax precept	12.0	12.0	12.0	12.0
Total grants allocated to revenue	1,282.3	1,195.6	1,282.3	1,195.6
Non ring-fenced grant from the DfT used to fund capital	2,022.2	1,805.6	2,022.2	1,805.6
Ring-fenced grant to fund capital expenditure relating to Crossrail	1,020.0	172.0	1,020.0	172.0
Business Rates Supplement levied to fund capital expenditure relating to Crossrail	27	-	202.0	-
Other capital grants and contributions received	146.1	164.6	27.1	14.0
Total grants allocated to capital	3,390.3	2,142.2	3,271.3	1,991.6
Total grants	4,672.6	3,337.8	4,553.6	3,187.2

Allocation of capital grants

Note	Group 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
Capital grant funding of subsidiaries	-	-	1,704.9	1,805.6
Applied capital grants	25	1,970.2	541.2	14.0
Unapplied capital grants	1,025.2	172.0	1,025.2	172.0
Total capital grants	3,390.3	2,142.2	3,271.3	1,991.6

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. The prior period current tax credit relates 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 28% (2010: 28%), comprised:

	Group 2011 £m	Group 2010 £m
Current tax		
UK corporation tax	-	-
Adjustments in respect of prior years	(1.3)	-
Total current tax credit	(1.3)	-
Deferred tax	-	-
Total tax credit for the year	(1.3)	-

Reconciliation of tax credit

	Group 2011 £m	Group 2010 £m
Surplus on the provision of services before tax	1,763.4	243.9
Surplus on the provision of services before tax multiplied by standard rate of corporation tax in the UK of 28 % (2010: 28 %)	493.8	68.3
Effects of:		
Non-deductible expenses	(264.6)	(415.5)
Permanent difference in TfL Corporation	(319.3)	125.5
Amount charged to the current tax computation for which no deferred tax was recognised	(487.7)	26.5
Tax losses carried forward for which no deferred tax was recognised	578.9	196.0
Overseas earnings	(1.1)	(0.8)
Adjustments in respect of prior years	(1.3)	-
Total tax credit for the year	(1.3)	-

10. Taxation (continued)

b) Unrecognised deferred tax assets

The Group has a potential net deferred tax asset of £1,946.8m (2010: £1,737.7m). No deferred tax asset has been recognised as it is not considered probable that there will be future taxable profit 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.

The potential net deferred tax asset can be attributed to the following:

	Assets	
	2011 £m	2010 £m
Property, plant and equipment	720.6	470.7
Investment properties	-	-
Retirement benefit obligations	19.0	6.5
Provisions	17.0	16.1
Finance leases	-	527.0
Other	0.6	0.9
Tax value of losses carried forward	1,263.1	791.2
Deferred tax asset	2,020.3	1,812.4

	Liabilities	
	2011 £m	2010 £m
Property, plant and equipment	-	-
Investment properties	(70.8)	(74.3)
Retirement benefit obligations	-	-
Provisions	-	-
Finance leases	-	-
Other	(2.7)	(0.4)
Tax value of losses carried forward	-	-
Deferred tax (liability)	(73.5)	(74.7)

10. Taxation (continued)

b) Deferred tax (continued)

	Net asset/(liability)	
	2011 £m	2010 £m
Property, plant and equipment	720.6	470.7
Investment properties	(70.8)	(74.3)
Retirement benefit obligations	19.0	6.5
Provisions	17.0	16.1
Finance leases	-	527.0
Other	(2.1)	0.5
Tax value of losses carried forward	1,263.1	791.2
Deferred tax asset/(liability)	1,946.8	1,737.7

At 31 March 2011 the Group had tax losses carried forward of £4,858.1m (2010: £2,825.7m) on which a deferred tax asset of £1,263.1m (2010: £791.2m) has not been recognised.

c) Movement in unrecognised deferred tax assets during the year

Deferred tax assets and their movements during the year, have not been recognised in respect of the following items:

	Balance 31 March 2010 £m	Increase/ (decrease) £m	Balance 31 March 2011 £m
Deductible temporary differences	946.5	(262.8)	683.7
Tax losses	791.2	471.9	1,263.1
Total	1,737.7	209.1	1,946.8

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

- Retirement benefit obligations: the movement of £12.5m relates to the assumption of retirement benefit obligations in relation to the Tube Lines Group, as recognised in Other Comprehensive Income.
- Property, plant and equipment: the movement on Property, plant and equipment relates to assets acquired in the year. Included in this is the revaluation of £0.9m recognised in Other Comprehensive Income.
- Finance leases: the unrecognised deferred tax asset relating to the finance lease creditor in respect of the PPP contract with Tube Lines was eliminated following the acquisition of Tube Lines in June 2010.

The corporation tax rate has reduced from 28% to 26% from 1 April 2011 and there will be three further annual 1% cuts to 23% by 1 April 2014. As the decrease in tax rate to 26% was substantively enacted on 29 March 2011 the closing deferred tax balances have been calculated using this rate.

Other than the enacted change to 26%, the effects of the announced changes are not reflected in the financial statements for the year ended 31 March 2011. The impact of the change in corporation tax rate is not material.

11. Intangible assets

a) Group intangible assets

	Note	Software costs £m	Assets under construction £m	Goodwill £m	Total £m
Cost					
At 1 April 2009		78.0	14.2	-	92.2
Additions		101.0	31.0	-	132.0
Transfers between asset classes		3.5	(3.5)	-	-
At 31 March 2010		182.5	41.7	-	224.2
Additions		13.8	14.3	-	28.1
Acquisitions	32	2.0	1.5	242.9	246.4
Transfers between asset classes		36.5	(36.5)	-	-
Disposals		(27.8)	-	-	(27.8)
At 31 March 2011		207.0	21.0	242.9	470.9
Amortisation and impairment					
At 1 April 2009		40.4	-	-	40.4
Amortisation charge for the year		21.5	-	-	21.5
At 31 March 2010		61.9	-	-	61.9
Amortisation charge for the year		42.6	-	-	42.6
Impairment		-	-	242.9	242.9
Disposals		(16.1)	-	-	(16.1)
At 31 March 2011		88.4	-	242.9	331.3
Net book value at 31 March 2011		118.6	21.0	-	139.6
Net book value at 31 March 2010		120.6	41.7	-	162.3
Net book value at 1 April 2009		37.6	14.2	-	51.8

11. Intangible assets (continued)

b) Corporation intangible assets

	Note	Software costs £m	Assets under construction £m	Goodwill £m	Total £m
Cost					
At 1 April 2009		66.9	9.2	-	76.1
Additions		87.7	21.3	-	109.0
At 31 March 2010		154.6	30.5	-	185.1
Additions		1.5	6.5	-	8.0
Transfers between asset classes		29.3	(29.3)	-	-
Disposals		(33.6)	-	-	(33.6)
At 31 March 2011		151.8	7.7	-	159.5
Amortisation and impairment					
At 1 April 2009		32.3	-	-	32.3
Amortisation charge for the year		19.1	-	-	19.1
At 31 March 2010		51.4	-	-	51.4
Amortisation charge for the year		34.8	-	-	34.8
Disposals		(16.0)	-	-	(16.0)
At 31 March 2011		70.2	-	-	70.2
Net book value at 31 March 2011		81.6	7.7	-	89.3
Net book value at 31 March 2010		103.2	30.5	-	133.7
Net book value at 1 April 2009		34.6	9.2	-	43.8

12. Property, plant and equipment

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

	Note	Infrastructure and office buildings £m	Rolling stock £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost or valuation						
At 1 April 2010		23,268.4	3,645.7	1,329.5	5,575.9	33,819.5
Additions		276.8	2.6	32.3	2,566.4	2,878.1
Acquisitions	32	10.9	23.7	6.9	6.9	48.4
Transfers to investment property		-	-	-	(2.3)	(2.3)
Disposals		(455.4)	(214.0)	(104.8)	-	(774.2)
Reclassifications		2,559.0	399.2	67.7	(3,025.9)	-
Revaluation		(0.8)	-	-	-	(0.8)
At 31 March 2011		25,658.9	3,857.2	1,331.6	5,121.0	35,968.7
Depreciation						
At 1 April 2010		9,109.9	2,267.0	790.9	-	12,167.8
Depreciation charge for the year	3	615.8	104.7	129.2	-	849.7
Disposals		(172.8)	(202.0)	(77.0)	-	(451.8)
Reclassifications		-	(0.8)	0.8	-	-
Revaluation		(1.7)	-	-	-	(1.7)
At 31 March 2011		9,551.2	2,168.9	843.9	-	12,564.0
Net book value 31 March 2011		16,107.7	1,688.3	487.7	5,121.0	23,404.7
31 March 2010		14,158.5	1,378.7	538.6	5,575.9	21,651.7

12. Property, plant and equipment (continued)

b) Group property, plant and equipment at 31 March 2010 comprised the following elements:

	Infrastructure and office buildings	Rolling stock	Plant and equipment	Assets under construction	Total
Note	£m	£m	£m	£m	£m
Cost or valuation					
At 1 April 2009	22,043.0	3,588.5	1,241.5	4,286.4	31,159.4
Additions	111.4	38.8	43.5	2,794.2	2,987.9
Disposals	(201.3)	(12.5)	(108.7)	(6.3)	(328.8)
Reclassifications	1,314.3	30.9	153.2	(1,498.4)	-
Revaluation	1.0	-	-	-	1.0
At 31 March 2010	23,268.4	3,645.7	1,329.5	5,575.9	33,819.5
Depreciation					
At 1 April 2009	8,669.1	2,174.5	730.5	-	11,574.1
Depreciation charge for the year	3 550.5	104.9	158.4	-	813.8
Disposals	(108.3)	(12.4)	(98.0)	-	(218.7)
Revaluation	(1.4)	-	-	-	(1.4)
At 31 March 2010	9,109.9	2,267.0	790.9	-	12,167.8
Net book value					
1 April 2009	13,373.9	1,414.0	511.0	4,286.4	19,585.3

12. Property, plant and equipment (continued)

b) Group property, plant and equipment at 31 March 2010 (continued)

Borrowing costs are included in the costs of qualifying assets to the extent that the asset is funded by borrowings. However, as explained in accounting policy note a), 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 was £nil (2009/10 £nil). The cumulative borrowing costs capitalised are also £nil (2009/10 £nil).

At 31 March 2011, the Group had capital commitments which are contracted for but not provided for in the financial statements amounting to £4,764.0m (2009/10 £2,579.6m).

c) Group PFI assets and other leased assets

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

	Infrastructure and office buildings	Rolling stock	Plant and equipment	Assets under construction	Total
	£m	£m	£m	£m	£m
Gross cost					
PFI assets	1,405.7	45.3	37.7	-	1,488.7
Other leased assets	-	407.7	-	-	407.7
	1,405.7	453.0	37.7	-	1,896.4
Depreciation					
PFI assets	252.9	25.5	15.5	-	293.9
Other leased assets	-	85.7	-	-	85.7
	252.9	111.2	15.5	-	379.6
Net book value at 31 March 2011	1,152.8	341.8	22.2	-	1,516.8
Net book value at 31 March 2010	1,211.5	355.8	25.5	-	1,592.8

12. Property, plant and equipment (continued)

d) Depreciation charge

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

	2011 £m	2010 £m
Depreciation of owned assets	775.7	739.7
Depreciation of assets held under PFI	64.2	64.3
Depreciation of assets held under other leases	9.8	9.8
Total depreciation	849.7	813.8

e) Group office buildings

The Group holds its office buildings at fair value. The value of these buildings at 31 March 2011 was £104.7m (2010 £106.2m) and the historic cost was £52.5m (2010 £52.5m).

12. Property, plant and equipment (continued)

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

	Infrastructure and office buildings	Plant and equipment	Assets under construction	Total £m	
	Note	£m	£m	£m	
Cost or valuation					
At 1 April 2010		4,555.2	262.2	591.6	5,409.0
Additions		113.2	8.2	302.8	424.2
Transfers to investment property		-	-	(2.3)	(2.3)
Disposals		(19.3)	(80.4)	-	(99.7)
Reclassifications		63.7	1.7	(65.4)	-
At 31 March 2011		4,712.8	191.7	826.7	5,731.2
Depreciation					
At 1 April 2010		2,125.5	153.6	-	2,279.1
Depreciation charge for the year	3	126.6	33.2	-	159.8
Disposals		(12.9)	(65.1)	-	(78.0)
At 31 March 2011		2,239.2	121.7	-	2,360.9
Net book value					
31 March 2011		2,473.6	70.0	826.7	3,370.3
31 March 2010		2,429.7	108.6	591.6	3,129.9

12. Property, plant and equipment (continued)

g) Corporation property, plant and equipment at 31 March 2010 comprised the following elements:

	Note	Infrastructure and office buildings £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2009		4,458.6	277.2	181.2	4,917.0
Additions		46.6	18.2	487.8	552.6
Disposals		(14.0)	(46.6)	-	(60.6)
Reclassifications		64.0	13.4	(77.4)	-
At 31 March 2010		4,555.2	262.2	591.6	5,409.0
Depreciation					
At 1 April 2009		2,004.4	168.7	-	2,173.1
Depreciation charge for the year	3	132.2	31.5	-	163.7
Disposals		(11.1)	(46.6)	-	(57.7)
At 31 March 2010		2,125.5	153.6	-	2,279.1
Net book value					
1 April 2009		2,454.2	108.5	181.2	2,743.9

12. Property, plant and equipment (continued)

g) Corporation property, plant and equipment at 31 March 2010 comprised the following elements: (continued)

Borrowing costs are included in the costs of qualifying assets to the extent that the asset is funded by borrowings. However, as explained in accounting policy note a), 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 was £nil (2009/10 £nil). The cumulative borrowing costs capitalised are also £nil (2009/10 £nil).

At 31 March 2011, the Corporation had capital commitments which are contracted for but not provided for in the financial statements amounting to £69.1m (2010 £73.9m).

h) Corporation PFI assets and other leased assets

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

	Infrastructure and office buildings £m	Plant and Equipment £m	Total £m
Gross cost	209.1	16.7	225.8
Depreciation	50.1	10.9	61.0
Net book value at 31 March 2011	159.0	5.8	164.8
Net book value at 31 March 2010	166.7	7.5	174.2

12. Property, plant and equipment (continued)

i) The total depreciation charge for the Corporation for the year comprised of the following:

	2011 £m	2010 £m
Depreciation of owned assets	150.4	154.3
Depreciation of assets held under PFI	9.4	9.4
Total depreciation	159.8	163.7

j) Corporation office buildings

The Corporation did not have any office buildings.

13. Investment properties

Valuation	Note	Group £m	Corporation £m
At 1 April 2009		355.5	76.4
Disposals		(86.8)	(58.5)
Fair value adjustments	7	25.8	0.2
At 31 March 2010		294.5	18.1
Transfers from property, plant and equipment		2.3	2.3
Disposals		(31.6)	(7.1)
Fair value adjustments	7	29.1	0.5
At 31 March 2011		294.3	13.8

The fair value of the Group's investment properties at 31 March 2011 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 (sixth 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 2011 £m	Corporation 2010 £m	Corporation 2009 £m
At 1 April	22.5	22.5	22.5
Investment in year	450.0	-	-
At 31 March	472.5	22.5	22.5

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

14. Investments (continued)

The Group's principal subsidiaries are:

Subsidiaries	Principal activity
Transport Trading Limited	Holding company
London Underground Limited	Passenger transport by underground train
LUL Nominee BCV Limited	Maintenance of underground lines
LUL Nominee SSL Limited	Maintenance of underground lines
Tube Lines (Holdings) Limited	Holding company
Tube Lines Limited	Maintenance of Underground lines
Tube Lines (Finance) Plc	Financing company
UIC Transport (JNP) Limited	Financing company
Rail for London Limited	Passenger transport by rail
Docklands Light Railway Limited	Passenger transport by rail
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 statutory financial statements for the subsidiary companies for the period ended 31 March 2011 all received unqualified audit opinions.

15. Derivative financial instruments

Cash flow hedges	Group 2011	Group 2011	Group 2010	Group 2010
	Fair value £m	Notional amount £m	Fair value £m	Notional amount £m
Non-current assets				
Interest rate swaps	4.9	350.0	-	-
Non-current liabilities				
Interest rate swaps	0.5	150.0	-	-

The Group had not entered into any derivative financial instruments at 31 March 2009.

The Corporation has not entered into any derivative financial instruments.

16. Inventories

	Group 2011 £m	Group 2010 £m	Group 2009 £m
Raw materials and consumables	35.1	17.8	19.5
Goods held for resale	0.5	0.5	0.7
	35.6	18.3	20.2

	Corporation 2011 £m	Corporation 2010 £m	Corporation 2009 £m
Raw materials and consumables	3.2	2.3	2.7
Goods held for resale	-	-	-
	3.2	2.3	2.7

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

The movement on inventories was as follows:

	Group £m	Corporation £m
Balance at 1 April 2009	20.2	2.7
Purchases in the year	19.2	6.4
Recognised as an expense in the year:		
Consumed in the year	(17.2)	(6.6)
Goods sold in the year	(1.6)	
Write-offs in the year	(2.3)	(0.2)
Balance at 31 March 2010	18.3	2.3
Acquisitions (see note 32)	7.9	-
Purchases in the year	48.4	5.0
Recognised as an expense in the year:		
Consumed in the year	(35.4)	(4.1)
Goods sold in the year	(1.6)	-
Write-offs in the year	(2.0)	-
Balance at 31 March 2011	35.6	3.2

17. Debtors

	Group 2011 £m	Group 2010 £m	Group 2009 £m
Short-term			
Trade debtors	95.9	68.4	126.1
Capital debtors	12.4	208.8	30.1
Other debtors	16.4	39.3	26.0
Other tax and social security	77.0	83.1	52.6
Grant debtors	242.0	82.2	63.9
Amounts due relating to sale of non-current assets	47.4	10.4	-
Interest debtors	2.3	0.8	27.0
Prepayments and accrued income	107.0	114.1	149.8
	600.4	607.1	475.5

	Group 2011 £m	Group 2010 £m	Group 2009 £m
Long-term			
Amounts due relating to sale of non-current assets	-	34.9	-
Prepayments for goods and services	6.9	4.6	3.6
	6.9	39.5	3.6

	Corporation 2011 £m	Corporation 2010 £m	Corporation 2009 £m
Short-term			
Trade debtors	17.9	14.4	23.3
Capital debtors	12.4	208.8	30.1
Amounts due from subsidiary companies	15.4	1.5	3.6
Other debtors	2.1	7.3	-
Other tax and social security	2.0	23.8	13.6
Grant debtors	227.3	53.9	30.6
Amounts due relating to sale of non-current assets	39.1	10.4	-
Interest debtors	2.0	0.7	26.6
Prepayments and accrued income	13.5	12.6	82.6
	331.7	333.4	210.4

	Corporation 2011 £m	Corporation 2010 £m	Corporation 2009 £m
Long-term			
Loans made to subsidiary companies	5,284.8	3,059.9	2,184.9
Amounts due relating to sale of non-current assets	-	34.9	-
Prepayments for goods and services	0.5	1.0	-
	5,285.3	3,095.8	2,184.9

18. Short-term investments

	2011 £m	2010 £m	2009 £m
Group	2,012.7	1,472.5	1,967.8
	2011 £m	2010 £m	2009 £m
Corporation	1,978.9	1,427.8	1,925.8

Short-term investments relate to investments in UK Treasury bills and deposits with UK clearing banks, and also to Money Market Fund investments. In the previous years, there were no investments in UK Treasury bills.

19. Cash and cash equivalents

	Group 2011 £m	Group 2010 £m	Group 2009 £m
Cash at bank	33.5	17.4	13.8
Cash in hand and in transit	20.6	19.5	20.3
	54.1	36.9	34.1
	Corporation 2011 £m	Corporation 2010 £m	Corporation 2009 £m
Cash at bank	-	7.0	11.2

20. Creditors

	Note	Group 2011 £m	Group 2010 £m	Group 2009 £m
Short-term				
Trade creditors		219.0	182.0	260.4
Interest accruals		13.4	6.2	4.8
Capital works		593.4	565.7	443.5
Retentions on capital contracts		2.1	6.5	4.3
Capital grants received in advance		10.8	8.6	4.0
Wages and salaries		81.5	76.6	76.7
Other taxation and social security creditors		30.5	23.8	23.3
Receipts in advance for travel cards, bus passes and Oyster cards		224.4	188.0	191.5
Other deferred income		55.9	78.8	69.4
Deferred consideration payable in relation to acquisitions	32	155.1	-	-
Accruals and other payables		570.7	583.8	711.0
		1,956.8	1,720.0	1,788.9
Long-term				
Trade creditors		14.3	15.4	16.6
Capital grants received in advance		3.0	3.1	3.7
Retentions on capital contracts		12.6	7.0	3.0
Other deferred income		25.5	12.1	13.3
Accruals and other payables		0.2	0.5	0.4
		55.6	38.1	37.0

20. Creditors (continued)

	Corporation 2011 £m	Corporation 2010 £m	Corporation 2009 £m
Short-term			
Trade creditors	27.5	33.2	53.8
Interest accruals	7.5	6.2	4.8
Capital works	46.3	51.9	66.8
Retentions on capital contracts	1.7	3.1	4.1
Capital grants received in advance	10.8	8.6	4.0
Amounts due to subsidiary companies	236.1	75.4	130.3
Wages and salaries	13.7	13.9	11.6
Other taxation and social security creditors	0.9	0.7	0.6
Other deferred income	14.5	25.6	17.6
Accruals and other payables	155.9	168.9	186.9
	514.9	387.5	480.5
Long-term			
Retentions on capital contracts	1.6	1.3	0.8
Capital grants received in advance	3.0	3.1	3.7
Other deferred income	18.9	5.9	5.9
Accruals and other payables	0.2	0.5	0.4
	23.7	10.8	10.8

21. Borrowings and overdrafts

	Group 2011 £m	Group 2010 £m	Group 2009 £m
Borrowings			
Short-term	494.2	-	-
Long-term	5,892.5	4,117.8	3,017.6
	6,386.7	4,117.8	3,017.6
	Corporation 2011 £m	Corporation 2010 £m	Corporation 2009 £m
Short-term			
Borrowings	494.2	-	-
Bank overdraft	1.5	-	-
Total	495.7	-	-
Long-term			
Borrowings	5,848.1	4,117.8	3,017.6

See note 33 (Funding and Financial risk management) for further information about the maturity and interest rate profiles of the Group and Corporation's borrowings.

22. Finance lease liabilities

a) Group finance lease liabilities

The Group has finance lease liabilities that are payable as follows:

	Minimum lease payments £m	Interest £m	Principal £m
At 31 March 2011			
Not later than one year	170.1	(100.9)	69.2
Later than one year but not later than five years	685.9	(355.5)	330.4
Later than five years	1,651.1	(631.7)	1,019.4
	2,507.1	(1,088.1)	1,419.0
At 31 March 2010			
Not later than one year	640.2	(242.2)	398.0
Later than one year but not later than five years	2,424.3	(581.2)	1,843.1
Later than five years	1,827.2	(712.5)	1,114.7
	4,891.7	(1,535.9)	3,355.8
At 1 April 2009			
Not later than one year	596.5	(240.1)	356.4
Later than one year but not later than five years	2,420.5	(695.5)	1,725.0
Later than five years	1,970.0	(789.5)	1,180.5
	4,987.0	(1,725.1)	3,261.9
	2011 £m	2010 £m	2009 £m
Current	69.2	398.0	356.4
Non-current	1,349.8	2,957.8	2,905.5
	1,419.0	3,355.8	3,261.9

22. Finance lease liabilities (continued)

b) Corporation finance lease liabilities

The Corporation has finance lease liabilities that are payable as follows:

	Minimum lease payments £m	Interest £m	Principal £m
At 31 March 2011			
Not later than one year	16.2	(8.8)	7.4
Later than one year but not later than five years	64.1	(31.9)	32.2
Later than five years	216.7	(54.0)	162.7
	297.0	(94.7)	202.3
At 31 March 2010			
Not later than one year	16.0	(9.2)	6.8
Later than one year but not later than five years	62.9	(33.1)	29.8
Later than five years	234.1	(61.5)	172.6
	313.0	(103.8)	209.2
At 1 April 2009			
Not later than one year	14.9	(9.2)	5.7
Later than one year but not later than five years	64.3	(34.6)	29.7
Later than five years	248.7	(69.3)	179.4
	327.9	(113.1)	214.8
	2011 £m	2010 £m	2009 £m
Current	7.4	6.8	5.7
Non-current	194.9	202.4	209.1
	202.3	209.2	214.8

23. Provisions

a) Group provisions

	At 1 April 2010 £m	Payments in the year £m	Charge for the year £m	Releases in the year £m	At 31 March 2011 £m
Compensation	37.3	(6.7)	60.2	(13.0)	77.8
Capital investment activities	425.1	(143.0)	116.6	(100.3)	298.4
Environmental harm	47.6	(11.4)	-	(33.7)	2.5
Other	55.4	(14.6)	25.1	(24.8)	41.1
	565.4	(175.7)	201.9	(171.8)	419.8

	At 1 April 2009 £m	Payments in the year £m	Charge for the year £m	Releases in the year £m	At 31 March 2010 £m
Compensation	66.6	(13.1)	19.6	(35.8)	37.3
Capital investment activities	5.2	-	421.1	(1.2)	425.1
Environmental harm	51.5	(3.9)	-	-	47.6
Other	30.0	(9.1)	50.5	(16.0)	55.4
	153.3	(26.1)	491.2	(53.0)	565.4

Due:

	2011 £m	2010 £m	2009 £m
Current	254.1	294.9	46.3
Non-current	165.7	270.5	107.0
	419.8	565.4	153.3

23. Provisions (continued)

b) Corporation provisions

	At 1 April 2010 £m	Payments in the year £m	Charge for the year £m	Releases in the year £m	At 31 March 2011 £m
Compensation	18.1	(5.7)	18.3	(7.2)	23.5
Capital investment activities	425.1	(143.0)	116.7	(100.4)	298.4
Other	3.4	(1.3)	2.3	(1.2)	3.2
	446.6	(150.0)	137.3	(108.8)	325.1

	At 1 April 2009 £m	Payments in the year £m	Charge for the year £m	Releases in the year £m	At 31 March 2010 £m
Compensation	47.0	(12.3)	15.8	(32.4)	18.1
Capital investment activities	5.2	-	421.1	(1.2)	425.1
Other	1.5	(0.6)	4.0	(1.5)	3.4
	53.7	(12.9)	440.9	(35.1)	446.6

Due:

	2011 £m	2010 £m	2009 £m
Current	224.3	265.8	29.1
Non-current	100.8	180.8	24.6
	325.1	446.6	53.7

23. 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 environmental as a result of actions taken in the past.

Capital investment activities

Capital investment activities includes the 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.

24. Pensions

The majority of the Group's staff are members of two sections of the TfL Pension Fund, namely the Public Sector Section and the Tube Lines Section. The latter section transferred to the Group with the Tube Lines business on 27 June 2010. 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 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
TfL Pension Fund		205.7	120.9	-	-
Local Government Pension Scheme		(4.1)	3.8	(4.1)	3.8
Unfunded schemes provision		3.5	2.8	1.1	0.5
Schemes accounted for as defined benefit		205.1	127.5	(3.0)	4.3
TfL Pension Fund		-	-	32.8	34.5
Principal Civil Service Pension Scheme		1.0	0.9	0.9	0.9
Other schemes		11.1	3.5	0.7	3.4
Amount included in net cost of services	3	217.2	131.9	31.4	43.1

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

b) Defined benefit schemes

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

TfL Pension Fund

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

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.

24. Pensions (continued)

b) Defined benefit schemes (continued) TfL Pension Fund (continued)

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 2011. 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 have been calculated using the mortality assumptions adopted for the latest funding valuation as at 31 March 2009. Standard mortality tables were used, adjusted to reflect the recent mortality experience of the Fund's pensioners at that date. An allowance was made for future mortality improvements in line with the medium cohort projections.

Local Government Pension Scheme

The Local Government Pension Scheme is a funded multi-employer defined benefit scheme. The Corporation is able to identify its share of the assets and defined benefit obligation of the scheme and this scheme has therefore been accounted for as a defined benefit scheme under IAS 19. Employer's contributions were payable at the rate of 15.8 per cent (2009/10 15.8 per cent) of pensionable pay. The Corporation's share of the underlying assets and defined benefit obligation resulted in a deficit of £26.3m (2009/10 £46.9m). 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).

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; and
- 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 2011 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 2011 was £52.8m, (2010 £51.1m) and is fully provided for in these financial statements.

24. Pensions (continued)

b) Defined benefit schemes (continued) Assumptions for defined benefit sections

The main actuarial assumptions used for the TfL Pension Fund (Public Sector and Tube Lines sections), the Local Government Pension Scheme, and unfunded arrangements (together 'the Schemes') were:

	IAS 19 valuation at 31 March 2011 %	IAS 19 valuation at 31 March 2010 %	IAS 19 valuation at 31 March 2009 %
RPI Inflation	3.35-3.5	3.8-3.9	2.2-3.1
CPI Inflation	2.7	n/a	n/a
Rate of increase in salaries	4.1-4.5	4.5-5.4	2.95-4.6
Rate of increase of pensions in payment and deferred pensions	2.7-3.5	3.8-3.9	2.9-3.1
Discount rate	5.5-5.65	5.5	6.9
Investment return	6.7-7.4	6.8-7.4	6.3-6.4

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 has affected the Local Government Pension Scheme, which is now using CPI rather than RPI. The lower CPI has resulted in a £6.0m past service credit being taken to the Comprehensive Income and Expenditure Statement (2009/10 £nil). The Group's other pension arrangements are not affected by the change.

24. Pensions (continued)

c) Accounting

The total assets and the expected rate of return were:

	Expected return	Value at 31 March 2011	Expected return	Value at 31 March 2010	Expected return	Value at 31 March 2009
	%	£m	%	£m	%	£m
Equities and alternatives	7.8	3,912.3	8.0	3,136.0	7.9	2,191.6
Bonds	5.0	1,679.8	5.0	1,658.0	4.2	1,270.1
Cash and other	4.0	18.2	4.2	120.4	3.7	295.5
Total fair value of assets		5,610.3		4,914.4		3,757.2

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 2011	31 March 2010	31 March 2009
	%	%	%
Equities	70	64	58
Bonds	30	34	34
Cash, property and other assets	-	2	8
	100	100	100

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

Total pension deficit at end of year

Group	2011	2010	2009
	£m	£m	£m
Fair value of scheme assets	5,610.3	4,914.4	3,757.2
Actuarial valuation of defined benefit obligation	(7,230.4)	(7,108.1)	(4,944.7)
Deficit recognised as a liability in the balance sheet	(1,620.1)	(2,193.7)	(1,187.5)

Group	2011	2010	2009
	£m	£m	£m
TfL Pension Fund – Public Sector section	(1,492.6)	(2,095.7)	(1,020.4)
TfL Pension Fund – LUL BCV and LUL SSL Sections	-	-	(109.8)
TfL Pension Fund – Tube Lines section	(48.4)	-	-
Local Government Pension Scheme	(26.3)	(46.9)	(17.3)
Unfunded schemes provision	(52.8)	(51.1)	(40.0)
Deficit recognised as a liability in the balance sheet	(1,620.1)	(2,193.7)	(1,187.5)

24. Pensions (continued)

c) Accounting (continued)

Corporation	2011	2010	2009
	£m	£m	£m
Fair value of scheme assets	23.8	44.7	38.2
Actuarial valuation of defined benefit obligation	(78.2)	(119.4)	(79.1)
Deficit recognised as a liability in the balance sheet	(54.4)	(74.7)	(40.9)

Corporation	2011	2010	2009
	£m	£m	£m
Local Government Pension Scheme	(26.3)	(46.9)	(17.3)
Unfunded schemes provision	(28.1)	(27.8)	(23.6)
Deficit recognised as a liability in the balance sheet	(54.4)	(74.7)	(40.9)

Analysis of amounts included in the Comprehensive Income and Expenditure Statement

Amount charged to net cost of services

	Group 2011	Group 2010	Corporation 2011	Corporation 2010
	£m	£m	£m	£m
Current service cost	207.6	122.2	1.9	1.3
Past service cost	(2.5)	0.4	(4.9)	0.4
Curtailed and settlements	-	4.9	-	2.6
	205.1	127.5	(3.0)	4.3

Amounts charged to financing and investment income and expenditure

	Group 2011	Group 2010	Corporation 2011	Corporation 2010
	£m	£m	£m	£m
Interest on Schemes' defined benefit obligations	399.4	339.8	5.7	5.2
Expected return on Schemes' assets	(361.8)	(232.2)	(2.4)	(2.3)
	37.6	107.6	3.3	2.9

Amount recognised in other comprehensive income and expenditure

	Group 2011	Group 2010	Corporation 2011	Corporation 2010
	£m	£m	£m	£m
Actuarial loss/(gain) recognised in year	(647.2)	1,001.9	(16.6)	31.2
Cumulative loss recognised at end of the year	1,156.5	1,803.7	31.5	48.1

24. Pensions (continued)

c) Accounting (continued)

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

	Group 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
Wholly unfunded schemes	52.8	51.1	28.1	27.8
Wholly or partly funded schemes	7,177.6	7,057.0	50.1	91.6
Total scheme defined benefit obligation	7,230.4	7,108.1	78.2	119.4

Reconciliation of defined benefit obligation:

	Group 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
Actuarial value of defined benefit obligation at start of year	7,108.1	4,944.7	119.4	79.1
Defined benefit obligation acquired in the year	241.6	-	-	-
Current service cost	207.6	122.2	1.9	1.3
Interest cost	399.4	339.8	5.7	5.2
Employee contributions	40.8	39.3	0.5	0.8
Actuarial (gain)/loss	(540.3)	1,863.0	(11.8)	39.7
Actual benefit payments	(224.3)	(204.0)	(32.6)	(7.6)
Past service cost	(2.5)	0.4	(4.9)	0.4
Settlements and curtailments	-	2.7	-	0.5
Actuarial value of defined benefit obligation at end of year	7,230.4	7,108.1	78.2	119.4

Reconciliation of fair value of the scheme assets:

	Group 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
Fair value of assets at start of year	4,914.4	3,757.2	44.7	38.2
Assets acquired in the year	150.5	-	-	-
Expected return on assets net of expenses	361.8	232.2	2.4	2.3
Actuarial gain/(loss)	106.9	86.1	4.8	8.5
Actual employer contributions	256.6	227.0	1.8	2.1
Employee contributions	40.8	39.3	0.5	0.8
Actual benefits paid	(220.7)	(200.2)	(30.4)	(5.1)
Settlements and curtailments	-	(2.2)	-	(2.1)
	5,610.3	4,914.4	23.8	44.7

24. Pensions (continued)

c) Accounting (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				
	2011	2010	2009	2008	2007
Difference between the expected and actual return on assets gain/ (loss)					
amount (£m)	106.8	852.3	(1,162.0)	(321.9)	72.3
percentage of scheme assets	1.9%	17.3%	30.9%	7.8%	1.7%
Differences between actuarial assumptions about defined benefit obligation and actual experience gain/(loss)					
amount (£m)	70.0	380.0	(71.7)	(156.2)	(179.7)
percentage of the present value of the scheme defined benefit obligation	1.0%	5.3%	1.4%	3.3%	3.5%
Changes in the demographic and financial assumptions used to estimate defined benefit obligation gain/(loss)					
amount (£m)	457.7	(2,234.2)	703.2	789.4	(97.9)
percentage of the present value of the scheme defined benefit obligation	6.3%	31.4%	14.2%	16.5%	1.9%
(Deficit) at year end					
Fair value of assets at year end	5,610.3	4,914.4	3,757.2	4,124.7	4,137.9
Actuarial value of defined benefit obligation at year end	(7,230.4)	(7,108.1)	(4,944.7)	(4,774.3)	(5,127.9)
(Deficit) at year end	(1,620.1)	(2,193.7)	(1,187.5)	(649.6)	(990.0)

24. Pensions (continued)

d) Other pension arrangements

Principal Civil Service Pension Scheme

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

Employers' contributions were payable to the PCSPS at one of four rates in the range 17.1 per cent to 25.5 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 and 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.

An actuarial valuation was carried out on the Omnibus Section of the scheme at 31 December 2007. The actuarial report showed that there was a surplus between the assets and defined benefit obligation of £6.2m for the total Omnibus Section. The results of the 31 December 2010 actuarial valuation will be published later this year.

The current level of total contribution is 31 per cent, effective from 1 July 2009. The Trustee believes that it would not be prudent to use the surplus disclosed by the valuation to reduce contributions to less than the future service joint contribution rate.

Defined contribution schemes

The Group contributes to a number of defined contribution schemes, with contributions amounting to £11.1m (2009/10 £3.5m). The Tube Lines defined contribution scheme is one such scheme with contributions amounting to £2.5m (2009/10 £ nil).

25. Unusable reserves

Group	2011 £m	2010 £m	2009 £m
Capital adjustment account	12,435.4	10,974.5	9,621.5
Pension reserve	(1,547.0)	(2,170.4)	(1,061.2)
Accumulated absences reserve	(4.5)	(4.9)	(4.1)
Retained earnings reserve in subsidiaries	1,437.1	1,935.6	2,658.5
Revaluation reserve	47.7	49.6	47.9
Hedging reserve	4.4	-	-
Merger reserve	466.1	466.1	466.1
At 31 March	12,839.2	11,250.5	11,728.7

Corporation	2011 £m	2010 £m	2009 £m
Capital adjustment account	2,269.7	1,962.0	2,129.4
Pension reserve	(54.4)	(74.7)	(40.9)
Accumulated absences reserve	(4.5)	(4.9)	(4.1)
At 31 March	2,210.8	1,882.4	2,084.4

25. 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 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
Balance at 1 April	10,974.5	9,621.5	1,962.0	2,129.4
Charges for depreciation and impairment of non-current assets	(194.6)	(182.8)	(194.6)	(182.8)
Loss on sale of investment properties	(0.2)	(1.5)	(0.2)	(1.5)
Movements in the market value of investment properties	0.5	0.2	0.5	0.2
Capital grants and contributions	2,365.1	1,970.2	541.2	14.0
Profit or loss on disposal of non current assets	(26.0)	(2.8)	(39.2)	(2.8)
Statutory provision for the financing of capital investment	-	5.5	-	5.5
Adjustments between Group and Corporation financial statements	(683.9)	(435.8)	-	-
Balance at 31 March	12,435.4	10,974.5	2,269.7	1,962.0

*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 Comprehensive Income and Expenditure Statement. TfL's subsidiary companies account under 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.

25. Unusable reserves (continued)

Pension reserve

The Pensions 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 pensions 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 Corporation accounts 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 Corporation makes employer's contributions to pension funds or eventually pay any pensions for which it is 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 the Corporation has 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.

Note	Group 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
Balance at 1 April	(2,170.4)	(1,061.2)	(74.7)	(40.9)
Actuarial gains and losses on pension assets and defined benefit obligations	609.4	(1,019.1)	16.6	(31.2)
Reversal of charges relating to retirement benefits	(229.2)	(282.9)	(0.3)	(7.2)
Employer's pension contributions and direct payments to pensioners payable in the year	243.2	192.8	4.0	4.6
Balance at 31 March	(1,547.0)	(2,170.4)	(54.4)	(74.7)

Accumulated absences reserve

The Accumulated Absences Account 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 Account.

Note	Group 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
Balance at 1 April	(4.9)	(4.1)	(4.9)	(4.1)
Settlement or cancellation of accrual made at the end of the preceding year	4.9	4.1	4.9	4.1
Amounts accrued at the end of the current year	(4.5)	(4.9)	(4.5)	(4.9)
Balance at 31 March	(4.5)	(4.9)	(4.5)	(4.9)

25. Unusable reserves (continued)

Retained earnings reserve in subsidiaries

The retained earnings reserve in subsidiaries represents the retained earnings in the Group's subsidiary companies. These are disclosed as unusable reserves, as they are not backed by cash and are therefore not available to fund the expenditure of the Corporation

	Group 2011 £m	Group 2010 £m
Balance at 1 April	1,935.6	2,658.5
Loss for the year	(539.2)	(740.8)
Actuarial gain	37.8	17.2
Release of revaluation reserve relating to the difference between fair value depreciation and historical cost depreciation	2.4	0.7
Release of revaluation reserve relating to the difference between historic cost of disposal and fair value cost of disposal	0.5	-
Balance at 31 March	1,437.1	1,935.6

Revaluation reserve

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

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

	Group 2011 £m	Group 2010 £m
Balance at 1 April	49.6	47.9
Revaluation of assets	1.0	2.4
Release of revaluation reserve relating to the difference between fair value depreciation and historical cost depreciation	(2.4)	(0.7)
Release of revaluation reserve relating to the difference between historic cost of disposal and fair value cost of disposal	(0.5)	-
Balance at 31 March	47.7	49.6

The Corporation does not have a revaluation reserve as it has no plant, property or equipment subject to valuation.

25. Unusable reserves (continued)

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 2011 £m	Group 2010 £m
Balance at 1 April	-	-
Net change in fair value of cash flow hedges	4.4	-
Balance at 31 March	4.4	-

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

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, 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.

	Group 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
Balance at 1 April and 31 March	466.1	466.1	-	-

26. 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.

Corporation 2011

	Note	General fund £m	Capital adjustment account £m	Pension reserve £m	Accumulated absences reserve £m
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement					
Charges for depreciation and impairment of non-current assets		159.8	(159.8)	-	-
Loss on sale of investment property	12	0.2	(0.2)	-	-
Amortisation of intangible assets	8	34.8	(34.8)	-	-
Movements in the market value of investment properties	11	(0.5)	0.5	-	-
Capital grants and contributions	7	(541.2)	541.2	-	-
Unapplied capital grants	9	(1,025.2)	-	-	-
Loss on disposal of non-current assets		39.2	(39.2)	-	-
Reversal of items relating to retirement benefits	6	0.3	-	(0.3)	-
Difference between the remuneration charged on an accruals basis and the remuneration chargeable in accordance with statutory requirements		(0.4)	-	-	0.4
Inclusion of items not debited or credited to the Comprehensive Income and Expenditure Statement which are required to be charged in accordance with statutory requirements					
Employers' pension contributions and direct payments to pensioners payable in the year		(4.0)	-	4.0	-
		(1,337.0)	307.7	3.7	0.4

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

Corporation 2010

	Note	General fund £m	Capital adjustment account £m	Pension reserve £m	Accumulated absences reserve £m
Reversal of items debited or credited to the Comprehensive income and Expenditure Statement					
Charges for depreciation and impairment of non-current assets	12	163.7	(163.7)	-	-
Loss on sale of investment property	8	1.5	(1.5)	-	-
Amortisation of intangible assets		19.1	(19.1)	-	-
Movements in the market value of investment properties	7	(0.2)	0.2	-	-
Capital grants and contributions	9	(14.0)	14.0	-	-
Unapplied capital grants		(172.0)	-	-	-
Loss on disposal of non-current assets	6	2.8	(2.8)	-	-
Reversal of items relating to retirement benefits		7.2	-	(7.2)	-
Difference between the remuneration charged on an accruals basis and the remuneration chargeable in accordance with statutory requirements		0.8	-	-	(0.8)
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					
Statutory provision for the financing of capital investment		(5.5)	5.5	-	-
Employers pension contributions and direct payments to pensioners payable in the year		(4.6)	-	4.6	-
		(1.2)	(167.4)	(2.6)	(0.8)

27. Business rates 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.

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, TfL became the first recipient of BRS funding to support the delivery of the Crossrail Project. TfL recognised £202.0m of BRS income in its Income and Expenditure Statement in 2010/11 (see note 9) of which £32.4m was received and £169.6m was held as a debtor on the Corporation and Group’s balance sheets.

	Corporation 2011 £m	Corporation 2010 £m
Opening Balance on BRS Account	-	-
Transfer to Capital Adjustment Account in respect of BRS capital expenditure	(202.0)	-
Transfer from General Fund to clear BRS account deficit	202.0	-
Closing Balance on BRS Account	-	-

28. Financial assistance

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

Note	Corporation 2011 £m	Corporation 2010 £m
Financial assistance to subsidiaries		
	141.2	189.6
Transport Trading Limited		
	3,666.1	1,886.4
London Underground Limited		
	606.1	705.0
London Bus Services Limited		
	-	0.3
London Buses Limited		
	0.3	0.6
London River Services Limited		
	126.7	208.3
Docklands Light Railway Limited		
	243.8	492.0
Rail for London Limited		
	13.6	7.9
Tramtrack Croydon Limited		
	6.0	5.6
London Transport Museum Limited		
	477.4	284.2
Crossrail Limited		
	5,281.2	3,779.9
Financial assistance to London Boroughs and other third parties		
	145.3	153.1
London Investment Programme		
	13.8	12.5
Taxicard		
	5.6	5.2
Safety schemes		
	7.3	4.7
Cycle network		
	6.7	-
Cycle hire scheme		
	14.5	6.2
Other schemes		
	3	193.2
		181.7

29. Cash flow notes

a. Adjustments to net surplus/(deficit) for non cash movements

	Group 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
Depreciation of property, plant and equipment and amortisation of intangibles	892.3	835.3	194.6	182.8
Impairment of goodwill	242.9	-	-	-
Loss on sale of property, plant and equipment	321.8	105.2	39.2	2.8
(Gain)/loss on sale of investment property	(7.7)	(13.4)	0.2	1.5
Movements in the value of investment properties	(29.1)	(25.8)	(0.5)	(0.2)
Reversal of impairment losses on property plant and equipment	(0.1)	-	-	-
Financing income	(371.2)	(246.1)	(147.3)	(113.3)
Financing expense	813.0	761.0	273.9	180.8
Capital goods received	(3,390.3)	(2,142.2)	(3,271.3)	(1,991.6)
Capital grants paid to subsidiaries	-	-	1,704.9	1,805.6
Reversal of pension service costs and interest	(260.2)	(230.7)	(4.0)	(4.6)
Reversal of taxation credit	(1.3)	-	-	-
Cash flow from operating activities before movements in working capital	(1,789.9)	(956.7)	(1,210.3)	63.8
Increase/(decrease) in creditors	(191.9)	(201.5)	143.6	(83.0)
Decrease in debtors	45.7	48.5	9.2	62.5
(Increase)/decrease in inventories	(9.5)	1.9	(0.9)	0.4
Increase/(decrease) in provisions	(21.0)	(7.8)	5.2	(27.0)
Cash flow utilised by operations	(1,966.6)	(1,115.6)	(1,053.2)	16.7
Cash payments for employers' contributions to pension funds and direct payments to pensioners	205.1	127.5	(3.0)	4.3
Taxation refund received	1.4	-	-	-
Net cash utilised by operating activities	(1,760.1)	(988.1)	(1,056.2)	21.0

29. Cash flow notes (continued)

b. Investing activities

	Group 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
Interest received	7.9	40.1	143.6	137.0
Capital grants received	3,232.6	2,127.9	3,100.0	1,972.3
Capital grants paid to subsidiaries	-	-	(1,704.9)	(1,805.6)
Purchase of property, plant and equipment and investment property	(2,699.3)	(2,282.1)	(361.2)	(326.7)
Purchase of intangible assets	(28.1)	(132.0)	(8.0)	(109.1)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	12.4	4.8	-	-
(Purchases) of short-term investments/Proceeds from sale of short-term investments	(434.0)	495.3	(551.1)	498.0
Loans to subsidiaries	-	-	(2,224.9)	(875.0)
Proceeds from sale of investment property	37.3	54.8	13.1	11.7
Loan notes acquired (Note 32)	(90.0)	-	-	-
Payments to acquire subsidiaries/ investments in subsidiaries (Note 32/14)	(65.1)	-	(450.0)	-
Cash acquired with subsidiaries	74.2	-	-	-
Net cash flows from investing activities	47.9	308.8	(2,043.4)	(497.4)

c. Financing activities

	Group 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
Loans from subsidiaries	-	-	1,592.3	-
Cash payments for reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI arrangements	(83.7)	(242.3)	(6.9)	(5.6)
Proceeds from new borrowing	651.2	1,100.0	632.3	1,100.0
Repayments of borrowings	(161.2)	-	-	-
Interest paid	(441.6)	(419.5)	(266.9)	(174.0)
Net cash flows from financing activities	(35.3)	438.2	1,950.8	920.4

30. Sources of finance

Capital expenditure analysed by source of finance:

	Corporation 2011 £m	Corporation 2010 £m
Capital expenditure		
Intangible asset additions	8.0	109.0
Property, plant and equipment additions	424.2	552.6
Investments in year	450.0	-
Loans made to subsidiaries in year	2,224.9	875.0
Capital grants allocated to subsidiaries in year	1,704.9	1805.6
Total capital expenditure	4,812.0	3,342.2
Sources of finance		
Transport grants used to fund capital	2,014.6	1,805.6
Business rates supplement	202.0	-
Crossrail specific grant	2.4	-
Prudential borrowing	2,589.4	1,152.6
Third party contributions	27.1	14.0
Capital receipts	6.9	57.1
Repayments of finance leases	(6.9)	(5.6)
Working capital	(23.5)	318.5
Total sources of finance	4,812.0	3,342.2

31. Minimum revenue provision

The Local Government and Housing Act 1989 required 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.

32. Acquisitions

Tube Lines Group

On 27 June 2010, the acquisition of Tube Lines (Holdings) Limited (TLHL) was completed, with 100 per cent of the shares acquired for a consideration of £220.2m.

The Tube Lines group of companies consists of TLHL (a holding company), Tube Lines Limited (TLL, which maintains the underground network), Tube Lines (Finance) Plc (TLF, a financing company) and Tube Lines Pension Scheme Trustees Limited (the pension scheme trustee company).

Of the total consideration, £65.1m was paid in cash on the date of acquisition with the remaining £155.1m being deferred until 6 April 2011. As part of the sale and purchase agreement, the Group also acquired £90.0m of shareholder loan notes. This amount entitled the Group to receive payment of the loan notes from Tube Lines 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 company 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 £22.7m which resulted in goodwill of £242.9m. 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 Tube Lines' activities and concluded that there are no further intangible assets above the £3.5m of software already recognised by Tube Lines at 27 June 2011.

On 5 July 2010, TLL received early repayment of its contract debtor from London Underground, and in turn repaid its loans from TLF. In order to reflect the now debt-free status of Tube Lines, London Underground and Tube Lines management agreed to amend the Infrastructure Service Charge (ISC). The ISC has been reduced to a level such as to ensure TLL breaks even. Accordingly, the Group has impaired this goodwill down to £nil as it is unlikely that this amount is recoverable through the operations of the acquired business.

32. Acquisitions (continued)

The assets and liabilities acquired are set out below:

	27 June 2010 Book value £m	27 June 2010 Fair value adjustments £m	27 June 2010 Fair value total £m
Intangible assets	3.5	-	3.5
Property, plant, and equipment	48.4	-	48.4
Inventories	7.9	-	7.9
Debtors	2,341.5	(39.7)	2,301.8
Tax assets	14.5	-	14.5
Investments	106.2	-	106.2
Cash and cash equivalents	74.2	-	74.2
Creditors	(290.5)	-	(290.5)
Borrowings	(1,790.7)	(78.2)	(1,868.9)
Finance lease liabilities	(326.5)	-	(326.5)
Provisions	(2.2)	-	(2.2)
Retirement benefit obligation	(91.1)	-	(91.1)
Net assets/(liabilities)	95.2	(117.9)	(22.7)
Purchase consideration			(220.2)
Goodwill			242.9

The fair value exercise that was completed on the assets and liabilities of TLHL on the acquisition date resulted in two fair value adjustments. The first of the fair value adjustments was to write the amounts recoverable on contracts down by £39.7m to management's best estimate of the recoverable amount. The second was an adjustment to increase the value of borrowings by £78.2m after calculating the fair value of borrowings on the acquisition date using valuation techniques including discounted cash flows.

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

The majority of Tube Lines revenue derives from London Underground Limited and hence when Tube Lines Group is consolidated into the TfL Group it has only a small effect on Group revenue. Tube Lines contribution to the Group's surplus or deficit on the provision of services was £nil.

In the nine month period ended 31 March 2011, the Tube Lines Group contributed revenue of £8.3m and profit of £nil. If the acquisition had occurred on 1 April 2010, the impact on the consolidated revenue of the TfL Group would have been £11.1m and the impact on the consolidated profit would have been £nil.

For the six month period ended 27 June 2010, Tube Lines Group recorded revenue of £287.8m and a loss before tax of £76.4m.

33. 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 (Fully Revised Second Edition) (the Treasury Management Code) issued in 2009 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 2009, 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).

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'.

33. Funding and financial risk management (continued)

Financial risks

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 Treasury Management Strategy.

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.

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.

Investments

All cash balances are invested in accordance with the Treasury Management Code and with regard to 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 i) the UK Government and its executive agency, the Debt Management Office; ii) UK Government Guaranteed investments; iii) UK financial institutions with high (investment grade) credit ratings from a credit rating agency; or iv) Supranational agencies with AAA credit ratings.

Non-UK Government investments are made only with banks and financial institutions if placed on TfL's Approved Investment List. In determining whether to place an institution on the Approved Investment List, TfL considers the 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) from at least two credit rating agencies (at the time of making the deposit).

33. Funding and financial risk management (continued)

Financial Instruments

The TfL Board authorises the policy for setting counterparty limits. The Group and Corporation spread their 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 each bank to a threshold, which if breached, allows TfL to require the bank to post collateral in cash or eligible securities in the event that the financial strength of the institution has deteriorated from when the limits were approved.

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 and, subject to meeting the relevant criteria, borrow at competitive interest rates from the European Investment Bank. There is therefore no significant risk that it will be unable to raise finance to meet its planned capital commitments.

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

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income, expenditure or the value of its holdings of financial instruments.

Foreign exchange risk

The Group has no 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 2010/11, the broad policy on managing transactional foreign exchange risk related to contractual obligations with overseas providers was to pass the exchange risk to the vendor.

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.

Interest rate risk

As at 31 March 2011, 93 per cent of the Group's borrowings were at fixed rates of interest. The remaining seven per cent was Commercial Paper which, although has 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

33. Funding and financial risk management (continued)

business plan, it is important to ensure future borrowing costs do not exceed business planning assumptions. Section 49 of the TfL Act 2008 confers upon TfL the powers to use financial instruments for risk management purposes only.

In the year to 31 March 2011, the Group through its wholly owned subsidiary Transport for London Finance Limited entered into 11 forward fixing contracts at a total notional value of £500m. The net fair value of these contracts at 31 March 2011 was £4.4m. 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.

Sensitivity analysis on interest rate risk Fair value sensitivity analysis for fixed interest instruments

Changes in the market interest rates of non-derivative financial instruments with fixed interest rates only affect income if these are measured at their fair value. As such, all financial instruments with fixed rates of interest that are accounted for at amortised cost are not subject to interest rate risk as defined in IFRS 7 Financial Instruments: Disclosures ('IFRS 7').

Fair value sensitivity analysis for derivative instruments

The group holds derivative contracts with a nominal value of £500m as at 31 March 2011 (2010 £nil) 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 £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.

Risk management

The Group, through its wholly owned subsidiary Transport for London Finance Limited, uses interest rate swaps (the hedging instrument) to reduce exposure to interest rates movements (the hedged risk) on highly probable future borrowings (the hedged item) that will be issued in the period from 20 October 2011 to 30 May 2023. The Group does not use derivative financial instruments for speculative purposes.

The amounts held in the hedging reserve are expected to impact the Comprehensive Income and Expenditure Statement over the period 20 October 2011 to 30 May 2023.

All derivatives held during the year are designated in a highly effective hedge relationship. If a derivative should no longer satisfy the hedging criteria in accordance with IAS 39 it is no longer hedge accounted for and is fair valued immediately through the Comprehensive Income and Expenditure Statement.

All derivatives are designated as hedges. Those derivatives that do not satisfy the hedging criteria in accordance with adopted IAS 39 Financial Instruments: Recognition and measurement ('IAS 39') are not hedge accounted for and are fair valued immediately through the Comprehensive Income and Expenditure Statement.

The Group has a comprehensive risk management process. The Board of Transport for London, through a sub-committee (the Finance and Policy Committee) has approved and monitors the risk management processes, including documented treasury policies, counterparty limits, controlling and reporting structures.

33. Funding and financial risk management (continued)

The use of derivative instruments can 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 will principally be offset by changes in the cash flows of the transactions being hedged.

For the year ended 31 March 2011, no ineffectiveness has been recognised and all derivatives have been assessed as highly effective. Accordingly, the movement in the fair value of the derivatives has been taken to reserves.

Maturity profile of Interest rate swaps

The interest rate derivatives have the following maturities:

	2011		2010	
	Fair Value £m	Notional amount £m	Fair value £m	Notional amount £m
Less than one year	-	-	-	-
Between two and five years	-	-	-	-
After five years	4.4	500.0	-	-
	4.4	500.0	-	-

TfL was conferred the legal powers to enter into derivatives for the purpose of risk mitigation via a qualifying subsidiary, Transport for London Finance Limited. The Corporation does not have the legal powers to enter into derivative transactions.

The following table details the Group's remaining contractual maturities for its interest rate swaps. The table has been drawn up on the undiscounted cash inflows/(outflows) of the net payments for the interest rate swaps.

	2011	2010
	£m	£m
Less than one year	(0.2)	-
Between two and five years	(3.7)	-
After five years	10.7	-
	6.8	-

The total asset or liability due to TfL under the interest rate swaps is the fair value, as this represents the cost to terminate. At 31 March 2011, the fair value of the interest rate swaps was an asset of £4.4m (2010 £nil).

33. 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 its financial liabilities (excluding derivatives). The table has been drawn up on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group 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 two and five years £m	More than five years £m	Total £m
Group – 2011				
Trade and other creditors	1,956.8	55.6	-	2,012.4
Borrowings - principal	494.9	419.7	5,436.1	6,350.7
Borrowings - interest	281.8	1,075.9	4,343.6	5,701.3
Finance lease liabilities	170.1	685.9	1,651.1	2,507.1
	2,903.6	2,237.1	11,430.8	16,571.5
Group – 2010				
Trade and other creditors	1,720.0	38.1	-	1,758.1
Borrowings - principal	-	-	4,125.5	4,125.5
Borrowings - interest	183.6	734.5	3,976.1	4,894.2
Finance lease liabilities	640.2	2,424.3	1,827.2	4,891.7
	2,543.8	3,196.9	9,928.8	15,669.5
Corporation – 2011				
Trade and other payables	514.9	23.7	-	538.6
Overdraft	1.5	-	-	1.5
Borrowings - principal	494.9	419.7	5,436.1	6,350.7
Borrowings - interest	281.8	1,075.9	4,343.6	5,701.3
Finance lease liabilities	16.2	64.1	216.7	297.0
	1,309.3	1,583.4	9,996.4	12,889.1
Corporation – 2010				
Trade and other payables	387.5	10.8	-	398.3
Overdraft	-	-	-	-
Borrowings - principal	-	-	4,125.5	4,125.5
Borrowings - interest	183.6	734.5	3,976.1	4,894.2
Finance lease liabilities	15.9	63.0	234.1	313.0
	587.0	808.3	8,335.7	9,731.0

33. Funding and Financial risk management (continued)

Fair values

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

	2011 Carrying value £m	2011 Fair value £m	2010 Carrying value £m	2010 Fair value £m
Cash and cash equivalents	54.1	54.1	36.9	36.9
Short term investments	2,012.7	2,012.7	1,472.5	1,472.5
Trade and other debtors	607.3	607.3	646.6	646.6
Derivative financial instruments	4.9	4.9	-	-
Total financial assets	2,679.0	2,679.0	2,156.0	2,156.0
Trade and other creditors	2,012.4	2,012.4	1,758.1	1,758.1
Borrowings	6,386.7	6,170.6	4,117.8	4,079.0
Finance lease liabilities	1,419.0	1,419.0	3,355.8	3,355.8
Derivative financial instruments	0.5	0.5	-	-
Total financial liabilities	9,818.6	9,602.5	9,231.7	9,192.9
Net financial liabilities	(7,139.6)	(6,923.5)	(7,075.7)	(7,036.9)

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:

	2011 Carrying value £m	2011 Fair value £m	2010 Carrying value £m	2010 Fair value £m
Cash and cash equivalents	-	-	-	-
Short term investments	1,978.9	1,978.9	1,427.8	1,427.8
Trade and other debtors	5,617.0	5,617.0	3,429.2	3,429.2
Total financial assets	7,595.9	7,595.9	4,857.0	4,857.0
Trade and other creditors	538.6	538.6	398.3	398.3
Borrowings and overdraft	6,343.8	6,053.5	4,117.8	4,079.0
Finance lease liabilities	202.3	202.3	209.2	209.2
Total financial liabilities	7,084.7	6,794.4	4,725.3	4,686.5
Net financial assets	511.2	801.5	131.7	170.5

34. Financial commitments

a) Operating leases – The Group as lessee

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

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

	Land and buildings £m	Rail access £m	Motor vehicles £m	Other £m	Total £m
At 31 March 2011					
Within one year	53.5	7.8	5.4	15.5	82.2
Between one and five years	178.7	15.2	4.3	64.8	263.0
Later than five years	519.2	36.4	-	182.1	737.7
	751.4	59.4	9.7	262.4	1,082.9
At 31 March 2010					
Within one year	52.9	8.3	1.9	15.2	78.3
Between one and five years	173.4	20.2	2.9	65.9	262.4
Later than five years	551.8	27.2	-	201.7	780.7
	778.1	55.7	4.8	282.8	1,121.4

34. 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
At 31 March 2011				
Within one year	40.8	4.3	0.2	45.3
Between one and five years	118.5	9.3	0.2	128.0
Later than five years	454.8	27.3	-	482.1
	614.1	40.9	0.4	655.4
At 31 March 2010				
Within one year	38.6	6.9	0.7	46.2
Between one and five years	114.9	12.2	1.1	128.2
Later than five years	453.7	32.0	-	485.7
	607.2	51.1	1.8	660.1

34. 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 2011:

	Land and buildings £m	Motor vehicles £m	Total £m
At 31 March 2011			
Within one year	23.4	0.2	23.6
Between one and five years	78.5	0.2	78.7
Later than five years	206.1	-	206.1
	308.0	0.4	308.4
At 31 March 2010			
Within one year	25.6	0.2	25.8
Between one and five years	83.9	0.2	84.1
Later than five years	224.0	-	224.0
	333.5	0.4	333.9

34. Financial commitments and contingencies (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
At 31 March 2011		
Within one year	3.1	3.1
Between one and five years	11.4	11.4
Later than five years	17.6	17.6
	32.1	32.1
At 31 March 2010		
Within one year	2.9	2.9
Between one and five years	10.6	10.6
Later than five years	19.7	19.7
	33.2	33.2

35. 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.

36. 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. 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.

Connect

The Connect contract is for the provision of network wide, integrated radio and transmission communication services to London Underground Limited ('LUL'). The contract started on 22 November 1999 and will end on 22 November 2019.

The contract required the design and installation of a new integrated digital radio system using a

high speed data transmission system which achieved system live on 28 December 2008. The contract also includes the ongoing management and maintenance of the system during the contract period.

LUL retains ownership of the assets constructed on this contract.

The contract requires LUL to make an annual unitary payment which is adjusted for indexation and performance as specified in the contract. LUL has a voluntary break option subject to at least 12 months written notice.

Power

The Power contract is for the maintenance, management and procurement of the electricity supply services for the London Underground. The contract started on 13 August 1998 and is due to end on 13 August 2028.

The contract required the completion of capital works on the Emergency Supply Plan and the Northern Line Power Upgrade. It took approximately five years for this work to be completed at which point the assets were transferred to LUL. The contract also included management and maintenance of the infrastructure and the procurement of services.

LUL retains ownership of the assets constructed on this contract.

The contract requires LUL to make an annual unitary payment. It is charged monthly and adjusted for any penalties relating to adverse performance against output measures describing all relevant aspects of the contract.

36. Private Finance Initiative contracts (continued)

British Transport Police (London Underground)

The British Transport Police ('BTP') contract is to provide improved operational infrastructure to support efficient policing of the Jubilee Line Extension and the delivery of the long-term policing strategy for LUL. The contract also includes the ongoing management and maintenance during the contract period. The contract started on 26 March 1999 and is due to end on 26 March 2021.

LUL retains ownership of the assets constructed on this contract.

The contract requires LUL to make a base annual unitary payment which is adjusted for indexation and performance as specified in the contract. LUL has a voluntary break option subject to at least 12 months written notice.

Docklands Light Railway contracts for Woolwich, Greenwich and City Airport

The Docklands Light Railway Limited ('DLR') contracts are for the design, construction and maintenance of the three extensions to the Docklands Light Railway ('DLR') being Woolwich, Greenwich and City Airport.

The Woolwich contract commenced on 31 May 2005 and is 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 Greenwich contract commenced on 1 October 1996 and is due to terminate on 1 April 2021. The construction of the extension was completed on 20 November 1999, which is when the line became operational.

The City Airport contract commenced on 25 February 2003 and is 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.

DLR retains ownership of the assets constructed on these contracts.

DLR has voluntary break options for the Woolwich and City Airport contracts, but not the City Greenwich contract. The notice period for Woolwich and City Airport is 30 days and for Woolwich there is also the ability to terminate the agreement on two specific dates.

The contracts require 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.

A13 Thames Gateway contract

The A13 Thames Gateway Design Build Finance and Operate ('DBFO') contract is for the design and construction of improvements to the A13. In addition to major improvements the contract included the operation and maintenance of the A13 between Butcher Row and Wennington and the design and construction of a communications system and a traffic signals system for the A13 between Butcher Row and Wennington. The contract started on 20 April 2000 and is due to end on 20 April 2030.

The contract requires TfL to make an annual unitary payment. It is charged monthly and is calculated according to the service provided by the DBFO Company and the payment mechanisms defined in the contract.

36. Private Finance Initiative contracts (continued)

Assets held under PFI arrangements

	Group 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
Cost or valuation At 1 April	1,488.7	1,699.2	225.8	225.8
Disposals	-	(210.5)	-	-
At 31 March	1,488.7	1,488.7	225.8	225.8
Depreciation				
At 1 April	229.7	313.4	51.6	42.2
Charge for the year	64.2	64.3	9.4	9.4
Disposals	-	(148.0)	-	-
At 31 March	293.9	229.7	61.0	51.6
Net book value				
At 31 March 2011	1,194.8		164.8	
At 31 March 2010	1,259.0		174.2	
At 1 April 2009	1,385.8		183.6	

PFI finance lease liabilities

	Group 2011 £m	Group 2010 £m	Corporation 2011 £m	Corporation 2010 £m
At 1 April	1,099.0	1,267.9	209.1	214.8
Payments	(124.7)	(257.4)	(15.8)	(15.0)
Interest	75.6	88.5	9.1	9.3
At 31 March	1,049.9	1,099.0	202.4	209.1

36. 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:

Repayment of capital

	2011 £m	2010 £m	2009 £m
Less than 1 year	53.5	49.1	168.9
Between 1 to 5 years	271.2	247.8	226.4
Between 5 to 10 years	298.2	351.0	361.9
Between 10 to 15 years	159.3	142.4	163.2
Between 15 to 20 years	187.0	199.7	208.2
Between 20 to 25 years	80.7	109.0	139.3
	1,049.9	1,099.0	1,267.9

Payments of interest

	2011 £m	2010 £m	2009 £m
Less than 1 year	72.6	75.7	88.7
Between 1 to 5 years	254.1	269.5	283.4
Between 5 to 10 years	217.5	239.2	261.8
Between 10 to 15 years	150.4	160.7	171.6
Between 15 to 20 years	77.9	93.5	109.6
Between 20 to 25 years	16.6	26.2	38.4
	789.1	864.8	953.5

Payments for service charges

	2011 £m	2010 £m	2009 £m
Less than 1 year	111.9	106.4	228.8
Between 1 to 5 years	470.2	457.6	446.8
Between 5 to 10 years	591.3	630.9	625.3
Between 10 to 15 years	440.8	436.3	472.4
Between 15 to 20 years	284.1	357.7	411.1
Between 20 to 25 years	44.2	60.0	93.4
	1,942.5	2,048.9	2,277.8

36. Private Finance Initiative contracts (continued)

Total amount payable under non-cancellable PFI arrangements:

	Group 2011 £m	Group 2010 £m	Group 2009 £m
Less than 1 year	238.0	231.2	486.4
Between 1 to 5 years	995.5	974.9	956.6
Between 5 to 10 years	1,107.0	1,221.1	1,249.0
Between 10 to 15 years	750.5	739.4	807.2
Between 15 to 20 years	549.0	650.9	728.9
Between 20 to 25 years	141.5	195.2	271.1
	3,781.5	4,012.7	4,499.2

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:

Repayment of capital

	2011 £m	2010 £m	2009 £m
Less than 1 year	7.5	6.8	5.7
Between 1 to 5 years	32.3	29.8	29.7
Between 5 to 10 years	51.4	52.3	48.1
Between 10 to 15 years	65.4	59.0	54.6
Between 15 to 20 years	45.8	60.4	71.7
Between 20 to 25 years	-	0.8	5.0
	202.4	209.1	214.8

Payments of interest

	2011 £m	2010 £m	2009 £m
Less than 1 year	8.8	9.1	9.3
Within 1 to 5 years	31.9	33.2	34.5
Within 5 to 10 years	30.8	33.1	35.2
Within 10 to 15 years	19.2	21.8	24.1
Within 15 to 20 years	3.9	6.6	9.7
Within 20 to 25 years	-	-	0.3
	94.6	103.8	113.1

36. Private Finance Initiative contracts (continued)

Payments for service charges

	2011 £m	2010 £m	2009 £m
Less than 1 year	9.9	9.9	10.3
Between 1 to 5 years	53.1	46.6	43.1
Between 5 to 10 years	101.9	95.6	86.4
Between 10 to 15 years	152.6	143.7	134.8
Between 15 to 20 years	110.3	140.1	149.9
Between 20 to 25 years	-	1.8	23.4
	427.8	437.7	447.9

Total amount payable under non-cancellable PFI arrangements:

	2011 £m	2010 £m	2009 £m
Less than 1 year	26.2	25.8	25.3
Within 1 to 5 years	117.3	109.6	107.3
Within 5 to 10 years	184.1	181.0	169.7
Within 10 to 15 years	237.2	224.5	213.5
Within 15 to 20 years	160.0	207.1	231.3
Within 20 to 25 years	-	2.6	28.7
	724.8	750.6	775.8

37. 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 and the Mayor of London and the TfL Pension Fund.

37. Related parties (continued)

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.

Most of the transactions between these parties are reported elsewhere in the Statement of Accounts.

The Accounts of the TfL Pension Fund are prepared separately and are subject to a separate audit opinion.

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 and in note nine and are therefore not included in this note.

During 2010/11 there were no other material related party transactions except as disclosed below.

	Total income during the year £m	Total expenditure during the year £m	Outstanding balance at 31 March 2011 £m
Greater London Authority (GLA)	2.7	5.2	167.0
Metropolitan Police Authority (MPA)	0.3	89.0	(15.7)
London Development Agency (LDA)	5.3	0.2	(3.2)
London Fire and Emergency Planning Authority (LFEPA)	0.3	-	0.1

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

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 (2009/10 none).

38. Conversion to International Financial Reporting Standards

As stated in the accounting policies, these are both the Corporation's and the Group's first financial statements prepared in accordance with the Code.

The accounting policies have been applied in preparing the financial statements for the year ended 31 March 2011, the comparative information presented in these financial statements for the year ended 31 March 2010 and in the preparation of an opening IFRS balance

sheet at 1 April 2009 (both the Corporation's and Group's date of transition).

In preparing their opening IFRS balance sheet, both the Corporation and the Group have adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP. An explanation of how the transition from the Statement of Recommended Practice for Local Authorities 2009/10 to the IFRS based Code for 2010/11 has affected both the Corporation and the Group's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

38. Conversion to International Financial Reporting Standards (continued)

a) Explanation of transition to IFRS-based Code - Group

Reconciliation of net assets as at 1 April 2009 (date of transition to IFRS)

	note	UK GAAP £m	Reclassified £m	IFRS transition effect £m	IFRS-based Code £m
Non-current assets					
Intangible assets	i	-	-	51.8	51.8
Property, plant and equipment	i, ii, iii	19,456.0	-	129.3	19,585.3
Investment properties	iii	-	-	355.5	355.5
Long-term debtors		-	3.6	-	3.6
		19,456.0	3.6	536.6	19,996.2
Current assets					
Inventories		20.2	-	-	20.2
Short-term debtors	ii	488.4	(3.6)	(9.3)	475.5
Cash and cash equivalents		34.1	-	-	34.1
Short-term investments		1,967.8	-	-	1,967.8
		2,510.5	(3.6)	(9.3)	2,497.6
Current liabilities					
Short-term creditors	ii, iv	(2,079.2)	368.7	(78.4)	(1,788.9)
Short-term finance lease liabilities	ii	-	(368.7)	12.3	(356.4)
Short-term provisions		-	(46.3)	-	(46.3)
		(2,079.2)	(46.3)	(66.1)	(2,191.6)
Non-current liabilities					
Long-term creditors	ii	(2,519.5)	2,488.2	(5.7)	(37.0)
Long-term borrowings		(3,017.6)	-	-	(3,017.6)
Long-term finance lease liabilities	ii	-	(2,488.7)	(416.8)	(2,905.5)
Long-term provisions		(193.8)	86.8	-	(107.0)
Deferred grants	v	(8,216.2)	-	8,216.2	-
Retirement benefit obligation		(1,147.5)	(40.0)	-	(1,187.5)
		(15,094.6)	46.3	7,793.7	(7,254.6)
Net assets		4,792.7	-	8,254.9	13,047.6
Reserves					
Usable reserves	iv	1,308.0	12.5	(1.6)	1,318.9
Unusable reserves	i, ii, iii, iv, v	3,484.7	(12.5)	8,256.5	11,728.7
Total reserves		4,792.7	-	8,254.9	13,047.6

38. Conversion to International Financial Reporting Standards (continued)

a) Explanation of transition to IFRS-based Code - Group

Reconciliation of net assets as at 31 March 2010 (last date of UK GAAP financial statements)

	note	UK GAAP £m	Reclassified £m	IFRS transition effect £m	IFRS-based code £m
Non-current assets					
Intangible assets	i	-	-	162.3	162.3
Property, plant and equipment	i, ii, iii	21,629.1	-	22.6	21,651.7
Investment properties	iii	-	-	294.5	294.5
Long-term debtors		-	39.5	-	39.5
		21,629.1	39.5	479.4	22,148.0
Current assets					
Inventories		18.3	-	-	18.3
Short-term debtors	ii	698.6	(39.4)	(52.1)	607.1
Cash and cash equivalents		36.9	-	-	36.9
Short-term investments		1,472.5	-	-	1,472.5
		2,226.3	(39.4)	(52.1)	2,134.8
Current liabilities					
Short-term creditors	ii, iv	(2,067.1)	388.5	(41.4)	(1,720.0)
Short-term finance lease liabilities	ii	-	(389.0)	(9.0)	(398.0)
Short-term provisions		-	(294.9)	-	(294.9)
		(2,067.1)	(295.4)	(50.4)	(2,412.9)
Non-current liabilities					
Long-term creditors	ii	(2,581.2)	2,549.7	(6.6)	(38.1)
Long-term borrowings		(4,117.8)	-	-	(4,117.8)
Long-term finance lease liabilities	ii	-	(2,550.0)	(407.8)	(2,957.8)
Long-term provisions		(617.2)	346.7	-	(270.5)
Deferred grants	v	(9,710.5)	-	9,710.5	-
Retirement benefit obligation		(2,142.6)	(51.1)	-	(2,193.7)
		(19,169.3)	295.3	9,296.1	(9,577.9)
Net assets		2,619.0	-	9,673.0	12,292.0
Reserves					
Usable reserves	iv	1,031.8	11.1	(1.4)	1,041.5
Unusable reserves	i, ii, iii, iv, v	1,587.2	(11.1)	9,674.4	11,250.5
Total reserves		2,619.0	-	9,673.0	12,292.0

38. Conversion to International Financial Reporting Standards (continued)

a) Explanation of transition to IFRS-based Code – Group

Reconciliation of the Comprehensive Income and Expenditure Statement for the year ended 31 March 2010

	Note	UK GAAP £m	Reclassified £m	IFRS transition Effect £m	IFRS-based Code £m
Gross income	ii	3,594.3	-	0.7	3,595.0
Gross expenditure	i, ii, iii, iv, v	(5,676.5)	-	(431.5)	(6,108.0)
Net cost of services		(2,082.2)	-	(430.8)	(2,513.0)
Other operating expenditure	iii, v	(14.5)	-	(90.7)	(105.2)
Financing and investment income	iii, iv	13.9	241.1	30.3	285.3
Financing and investment expenditure	ii	(390.7)	(339.8)	(30.5)	(761.0)
Pensions interest cost and expected return on pension assets		(98.7)	98.7	-	-
Non-specific grant income	v	1,367.6	-	1,970.2	3,337.8
Surplus/(deficit) on the provision of services		(1,204.6)	-	1,448.5	243.9
Surplus/(deficit) on revaluation of property, plant and equipment	iii	32.8	-	(30.4)	2.4
Actuarial losses on defined benefit pension schemes		(1,001.9)	-	-	(1,001.9)
		(2,173.7)	-	1,418.1	(755.6)
Prior year adjustments	ii, iii, iv, v	-	-	8,254.9	8,254.9
Total comprehensive income and expenditure		(2,173.7)	-	9,673.0	7,499.3

38. Conversion to International Financial Reporting Standards (continued)

b) Explanation of transition to IFRS-based Code - Corporation

Reconciliation of equity as at 1 April 2009 (date of transition to IFRS)

	Note	UK GAAP £m	Reclassified £m	IFRS transition effect £m	IFRS-based Code £m
Non-current assets					
Intangible assets	i	-	-	43.8	43.8
Property, plant and equipment	i, ii, iii	2,866.4	-	(122.5)	2,743.9
Investment properties	iii	-	-	76.4	76.4
Other investments		22.5	-	-	22.5
Long-term debtors		2,184.9	-	-	2,184.9
		5,073.8	-	(2.3)	5,071.5
Current assets					
Inventories		2.7	-	-	2.7
Short-term debtors		206.9	3.5	-	210.4
Cash and cash equivalents		11.2	-	-	11.2
Short-term investments		1,925.8	-	-	1,925.8
		2,146.6	3.5	-	2,150.1
Current liabilities					
Short-term creditors	iv	(476.2)	1.4	(5.7)	(480.5)
Short-term finance lease liabilities		-	(5.7)	-	(5.7)
Short-term provisions		-	(29.1)	-	(29.1)
		(476.2)	(33.4)	(5.7)	(515.3)
Non-current liabilities					
Long-term creditors		(220.2)	209.4	-	(10.8)
Long-term borrowings		(3,017.6)	-	-	(3,017.6)
Long-term finance lease liabilities		-	(209.1)	-	(209.1)
Long-term provisions		(77.8)	53.2	-	(24.6)
Deferred grants	v	(724.0)	-	724.0	-
Retirement benefit obligation		(17.3)	(23.6)	-	(40.9)
		(4,056.9)	29.9	724.0	(3,303.0)
Net assets		2,687.3	-	716.0	3,403.3
Reserves					
Usable reserves	iv	1,308.0	12.5	(1.6)	1,318.9
Unusable reserves	iv, v	1,379.3	(12.5)	717.6	2,084.4
Total reserves		2,687.3	-	716.0	3,403.3

38. Conversion to International Financial Reporting Standards (continued)

b) Explanation of transition to IFRS-based Code - Corporation (continued)
Reconciliation of equity as at 31 March 2010 (last date of UK GAAP financial statements)

	Note	UK GAAP £m	Reclassified £m	IFRS Transition Effect £m	IFRS-based Code £m
Non-current assets					
Intangible assets	i	-	-	133.7	133.7
Property, plant and equipment	i, ii, iii	3,285.2	-	(155.3)	3,129.9
Investment properties	iii	-	-	18.1	18.1
Other investments		22.5	-	-	22.5
Long-term debtors		3,083.5	12.3	-	3,095.8
		6,391.2	12.3	(3.5)	6,400.0
Current assets					
Inventories		2.3	-	-	2.3
Short term debtors		368.7	(35.3)	-	333.4
Short term investments		1,427.8	-	-	1,427.8
Cash and cash equivalents		7.0	-	-	7.0
		1,805.8	(35.3)	-	1,770.5
Current liabilities					
Short-term creditors	iv	(410.6)	29.5	(6.4)	(387.5)
Short-term finance lease liabilities		-	(6.8)	-	(6.8)
Short-term provisions		-	(265.8)	-	(265.8)
		(410.6)	(243.1)	(6.4)	(660.1)
Non-current liabilities					
Long-term creditors		(212.7)	201.9	-	(10.8)
Long-term borrowings		(4,117.8)	-	-	(4,117.8)
Long-term finance lease liabilities		-	(202.4)	-	(202.4)
Long-term provisions		(475.2)	294.4	-	(180.8)
Deferred grants	v	(698.0)	-	698.0	-
Retirement benefit obligation		(46.9)	(27.8)	-	(74.7)
		(5,550.6)	266.1	698.0	(4,586.5)
Net assets		2,235.8	-	688.1	2,923.9
Reserves					
Usable reserves	iv	1,031.8	11.1	(1.4)	1,041.5
Unusable reserves	iv, v	1,204.0	(11.1)	689.5	1,882.4
Total reserves		2,235.8	-	688.1	2,923.9

38. Conversion to International Financial Reporting Standards (continued)

b) Explanation of transition to IFRS-based Code – Corporation (continued)
Reconciliation of the Comprehensive Income and Expenditure Statement for the year ended 31 March 2010

	Note	UK GAAP £m	Reclassified £m	IFRS transition effect £m	IFRS-based Code £m
Gross income		447.2	-	-	447.2
Gross expenditure	iv, v	(1,065.6)	-	(40.5)	(1,106.1)
Net cost of services		(618.4)	-	(40.5)	(658.9)
Other operating expenditure	iii	(4.3)	-	1.5	(2.8)
Financing and investment income	iii	111.0	2.3	0.2	113.5
Financing and investment expenditure	iii	(175.6)	(5.2)	(1.5)	(182.3)
Pensions interest cost and expected return on pension assets		(2.9)	2.9	-	-
Non-specific grant income	v	1,367.6	-	1,819.6	3,187.2
Non-specific grant expense	v	(1,099.3)	-	(1,805.6)	(2,904.9)
(Deficit) on the provision of services		(421.9)	-	(26.3)	(448.2)
Surplus/(deficit) on revaluation of property, plant and equipment	iii	1.6	-	(1.6)	-
Actuarial losses on defined benefit pension schemes		(31.2)	-	-	(31.2)
		(451.5)	-	(27.9)	(479.4)
Prior year adjustments	iv, v	-	-	716.0	716.0
Total comprehensive income and expenditure		(451.5)	-	688.1	(236.6)

38. Conversion to International Financial Reporting Standards (continued)

c) Reclassifications

Some of the adjustments to the Group and Corporation Balance Sheets and Comprehensive Income and Expenditure Statements have been disclosed under the heading 'Reclassified'. This heading has been used where the IFRS based Code simply requires a different presentation of items in the balance sheet or Comprehensive Income and Expenditure Statement rather than there being a change in the value of the underlying asset or liability as a result of a difference between an IFRS standard and the UK GAAP standard. Examples of such items are:

- disclosure of long term debtors separately on the face of the balance sheet
- disclosure of finance lease creditors separately on the face of the balance sheet,
- disclosure of pension interest amounts in the financing income and expense lines rather than their own line in the Comprehensive Income and Expenditure Statement,
- ageing of provisions between short term and long term.

In addition, the Group also used the transition to the IFRS based Code to completely review the presentation of every item in its balance sheet and in one or two cases presentational improvements have been made. Examples of such items are:

- unfunded pension defined benefit obligation which were disclosed within provisions are now shown with the funded pension defined benefit obligation so that the total pension defined benefit obligation can be seen more clearly. This also resulted in a change to the pension reserve (reclassification from earmarked reserves).

- in the case of the Corporation, the presentation of balances with subsidiaries has been reviewed and in some cases changed where further netting was appropriate.

d) Explanation of transition to IFRS-based Code – Corporation and Group

i) Intangible assets

IAS 38 Intangible Assets ('IAS 38') requires certain assets that would be classified as tangible fixed assets under UK GAAP (for example computer software costs), to be separately disclosed as intangible assets. This reclassification does not affect the measurement of the assets (including amortisation over their useful economic lives).

In the Group, this has resulted in £51.8m of software costs being reclassified as intangible assets at 1 April 2009 and £161.3m of software costs being reclassified at 31 March 2010. These costs were previously recorded as property, plant and equipment.

In the Corporation, this has resulted in £43.8m of software costs being reclassified as intangible assets at 1 April 2009 and £133.7m of software costs being reclassified at 31 March 2010. These costs were previously recorded as property, plant and equipment.

Under UK GAAP, the purchased Oyster brand was expensed to the Income and Expenditure Statement but in accordance with IAS 38 the Oyster brand has been capitalised as an intangible asset. This has resulted in an additional intangible asset of £1.0m for the Group at 31 March 2010 (£nil in the Corporation).

38. Conversion to International Financial Reporting Standards (continued)

ii) Leases

Determining whether an arrangement contains a lease

IFRIC 4 Determining whether an arrangement contains a lease ('IFRIC 4') states that when an entity enters into an arrangement that does not have the legal form of a lease but conveys the right to use an asset, then the entity should treat the asset as if it has been separately leased.

A review of the Group's arrangements identified that there was an arrangement for the provision of rail transport services on the Northern line of the London Underground where the Group had the right to use rolling stock conveyed to them.

In accordance with IAS 17 Leases ('IAS 17') a review of this arrangement was completed to determine whether the arrangement to use the rolling stock should be classified as a finance lease or an operating lease.

This review determined that the arrangement to use the rolling stock was a finance lease and an asset of £295.0m and finance lease creditor of £338.1m was recognised at 1 April 2009. The value of the asset at 31 March 2010 was £285.2m and the finance lease creditor was £329.2m.

Recognising this lease as a finance lease resulted in a £0.9m credit to the Comprehensive Income and Expenditure Statement for the year to 31 March 2010 because capital repayments reclassified to the balance sheet were £0.9m higher than the depreciation charge on the newly recognised assets. £28.2m of costs were also reclassified from operating costs to financing costs during the year to 31 March 2010 representing interest charges on the finance lease.

The review of the Group's arrangements further identified an arrangement for the construction and maintenance of the extension of the Piccadilly line to Heathrow airport where the Group had the right to the use of the extension conveyed to them. The review required under IAS 17 determined that the arrangement to use the extension was a finance lease.

The payments relating to this arrangement were entirely contingent on passenger numbers which meant that the present value of the future minimum lease payments was £nil. No asset or finance lease liability was recorded on the Balance Sheet in relation to these assets.

The review of the Corporation's arrangements did not identify any assets that were under the scope of IFRIC 4.

Lease incentives

Under UK GAAP, lease incentives such as rent free periods are spread over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

SIC 15 Lease incentives ('SIC 15') requires that lease incentives are spread on a straight line basis over the full lease term.

The impact at 1 April 2009 on the Group balance sheet where the Group is the lessee was a decrease in opening reserves of £3.0m and an increase of £3.0m to short-term creditors. In the year ended 31 March 2010 there was a £1.6m increase to gross expenditure which resulted in an increase of £4.6m in short-term creditors at 31 March 2010 compared to UK GAAP.

38. Conversion to International Financial Reporting Standards (continued)

The impact at 1 April 2009 on the Group balance sheet where the Group is the lessor was an increase in opening reserves of £1.6m and an increase of £1.6m to short-term debtors. In the year ended 31 March 2010 there was a £0.7m increase to gross income which resulted in an increase of £2.3m in short-term debtors at 31 March 2010 compared to UK GAAP.

In the Corporation there were no differences between the accounting treatment for lease incentives under UK GAAP and SIC 15.

iii) Investment properties

IAS 40 Investment properties ('IAS 40') requires investment properties to be disclosed separately and accounted for at fair value.

In the Group this has resulted in £262.7m of property, plant and equipment being reclassified as investment properties at 1 April 2009 and £207.6m of property, plant and equipment being reclassified as investment properties at 31 March 2010. In addition, a review of the whole property portfolio was performed and certain properties (generally attached to underground stations) were identified which had not been revalued in the past and which met the new definition of investment property. Valuations for these properties were obtained for both years and this resulted in £92.7m of additional investment properties being recognised in 2009 and £87.0m in 2010. This resulted in a £92.7m increase in Group reserves at 1 April 2009 and £87.0m at 31 March 2010.

In the Corporation this has resulted in £76.4m of property, plant and equipment being reclassified as investment properties at 1 April 2009 and £18.1m of property, plant and equipment being reclassified as investment properties at 31 March 2010.

Gains or losses on revaluation of investment property are required to be recorded in the Comprehensive Income and Expenditure Statement. For the year ended 31 March 2010, the Group recognised gains on revaluation of investment property of £25.8m and the Corporation recognised gains of £0.2m.

iv) Employee benefits

IAS 19 Employee Benefits ('IAS 19') requires the cost of short-term compensated absences to be recognised when employees render the services that increase their entitlement.

In the Group this resulted in an accrual of £33.3m being recorded at 1 April 2009. An increase of £2.5m in the accrual was recorded in the Comprehensive Income and Expenditure Statement for the year ended 31 March 2010 resulting in an accrual of £35.8m being recorded at 31 March 2010.

In the Corporation this resulted in an accrual of £4.1m being recorded at 1 April 2009. An increase of £0.9m in the accrual was recorded in the Comprehensive Income and Expenditure Statement for the year ended 31 March 2010 resulting in an accrual of £4.9m being recorded at 31 March 2010.

38. Conversion to International Financial Reporting Standards (continued)

The main difference between IAS 19 and FRS 17 Retirement benefits ('FRS 17') is in relation to the classification of expenses. This resulted in service costs decreasing by £8.9m and interest receivable decreasing by £8.9m.

v) Grants

Under UK GAAP and IAS 20 Accounting for Government Grants ('IAS 20') capital grants and other contributions received towards the cost of capital expenditure are recorded as deferred grant on the Balance Sheet and released to the Comprehensive Income and Expenditure Statement over the estimated useful economic life of the asset to which the grant relates.

The Code makes a departure from IFRS and IAS 20 by requiring a policy to be adopted whereby 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. Because, there are no deferred grants on the balance sheet, there can be no grant releases (amortisation or grant disposals) through the Comprehensive Income and Expenditure Statement under the Code.

In the Group, this resulted in £8,216.2m of deferred grant being transferred to reserves on 1 April 2009 and £9,710.5m being transferred at 31 March 2010.

In the Corporation, this resulted in £724.0m of deferred grant being transferred to reserves on 1 April 2009 and £698.0m being transferred at 31 March 2010.

The changes to grant recognition results in a £1,494.3m net credit to the Comprehensive Income and Expenditure Statement in 2010. This is a result of recognising grant income of £1,970.2m but removing grant amortisation of £398.6m and grant disposals of £77.3m which were recognised in the Comprehensive Income and Expenditure Statement under UK GAAP.

The effect on the Comprehensive Income and Expenditure Statement in 2010 was a net expense of £26.0m resulting from the recognition of £14.0m of capital grants in the Comprehensive Income and Expenditure Statement and the removal of £40.0m of grant amortisation.

39. 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 a 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 WARE	218
Agreement with PADCo and EDF Energy Powerlink Ltd	168
Agreement with CARE	164
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 £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.

40. 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.

Scope of responsibility

Transport for London (TfL) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. TfL also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, TfL is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

TfL has approved and adopted a Code of Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.

A copy of the TfL Code of Governance is on our website at www.tfl.gov.uk or can be obtained from TfL Secretariat, Windsor House, 42-50 Victoria Street, London, SW1H 0TL. This statement explains how TfL has complied with the Code and also meets the requirements of the Accounts and Audit (England) Regulations 2011 in relation to the publication of a statement on internal control.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which

TfL is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables TfL to monitor the achievement of its strategic objectives and the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk and provide reasonable although not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of TfL's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at TfL since the year ended 31 March 2001. It remains in place at the date of approval of the 2010/11 Statement of Accounts.

The governance framework

The Mayor, who serves as its Chair, appoints the TfL Board members. The Board determines and agrees TfL's strategic direction and oversees the performance of the executive team.

The Board has four committees:

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

There are three panels, made up of Board members, which provide strategic advice to

the Board on the development and execution of policy:

- Rail and Underground
- Surface Transport
- Environment, Corporate and Planning

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

The Commissioner of TfL, advised by his Chief Officers, is responsible and accountable for the delivery of the day to day operations of TfL. The General Counsel has the overall responsibility for the operation of the Code and for ensuring that it is integral to the routine functioning of TfL. In addition, the Director of Internal Audit annually comments on the adequacy and effectiveness of the Code and the extent of TfL's compliance with it.

TfL is working to ensure that good governance is fully incorporated into the culture of the organisation and is applied consistently and transparently.

TfL identifies and communicates its vision of its purpose and intended outcomes for citizens and service users by:

- The Mayor developing and publishing a Transport Strategy reflecting national and local priorities

- The Budget and Business Plan reflecting the Transport Strategy and allocating resources accordingly
- Reviewing on a regular basis the implications of the Transport Strategy for its governance arrangements
- Ensuring that those making decisions are provided with information that is fit for purpose – relevant, timely and gives clear explanations of technical issues and their implications
- Conducting its business on an open basis, subject only to the requirements of appropriate levels of individual and commercial confidentiality and security

TfL measures the quality of services for users, ensures they are delivered in accordance with TfL's objectives and ensures that they represent the best use of resources by:

- Having in place sound systems for providing management information for performance measurement purposes
- Ensuring performance information is collected at appropriate intervals across all activities
- Having comprehensive and understandable performance plans in place
- Monitoring and reporting performance against agreed targets
- Maximising its resources and allocating them according to priorities
- Having in place effective arrangements to identify and deal with failure in service delivery

- Developing and maintaining an effective scrutiny function for its Investment Programme that encourages constructive challenge and enhances TfL's performance overall

TfL defines and documents the roles and responsibilities of the Board, Committees Panels and officers with clear delegation arrangements and protocols by:

- Having a documented scheme of delegation that reserves appropriate responsibilities to the Board and provides officers with the authority to conduct routine business
- Having the roles and responsibilities of Board members and senior officers clearly documented

TfL has developed and communicates the requirements of the Code of Conduct, defining the standards of behaviour for members and staff by:

- Ensuring it is an organisation that has a climate of openness, support and respect
- Ensuring that standards of conduct and personal behaviour expected of members and staff, between members and staff and between TfL, its partners and the community are defined and communicated through codes of conduct and protocols
- Putting in place arrangements to ensure that members and officers of TfL are not influenced by prejudice, bias or conflicts of interest
- Ensuring that an effective process, which includes an effective Remuneration Committee, is in place to set the terms and conditions for remuneration of the Commissioner and Chief Officers

- Developing and maintaining shared values including leadership values for both the organisation and staff reflecting public expectations and communicating these to members, staff, the community and partners
- Putting in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice
- Setting targets for performance in the delivery of services to ensure equality for all
- Using its shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within TfL

TfL reviews and updates standing orders, standing financial instructions, its scheme of delegation and supporting procedures that clearly define how decisions are taken and the processes and controls required to manage risks by:

- Having a clear hierarchy of governance documentation whose components are regularly reviewed
- Maintaining robust systems for identifying and evaluating all significant risks
- Maintaining an effective risk management system
- Ensuring that risk management is embedded into its culture, with members and staff at all levels recognising that risk management is part of their jobs

TfL ensures that the core functions of the Audit Committee are delivered by:

- Having an effective, independent Audit Committee
- Having the Audit Committee develop and maintain an effective standard of conduct overview
- Having an internal audit department which complies with relevant professional standards
- Having an internal audit plan that is driven by an annual evidenced assessment of the key business risks facing TfL
- Substantially completing the internal audit plan. Divergence from the plan is due to changes in business requirements

TfL ensures compliance with relevant laws, internal policies and procedures, and that expenditure is lawful by:

- Ensuring that all activities are legally correct, fully documented, appropriately authorised and carried on in a planned manner
- Making a senior officer responsible for ensuring that appropriate advice is given in all financial matters, for keeping proper financial records and accounts and for maintaining an effective system of internal financial control
- Maintaining proper records to ensure that the annual accounts show a true and fair view and that expenditure has been properly authorised and allocated in an appropriate manner

- Ensuring that a senior officer is responsible for all activities being legally correct, fully documented and appropriately authorised
- Developing and maintaining open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based
- Putting in place arrangements to safeguard against conflicts of interest
- Ensuring that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately
- Actively recognising the limits of lawful activity placed on it but also striving to utilise its powers to the full benefit of the public
- Observing all legal requirements placed upon it and integrating the key principles of good public law – rationality, legality and natural justice – into its procedures and decision-making processes

TfL has made arrangements for whistle-blowing and for receiving and investigating complaints from the public by:

- Ensuring that effective, transparent and accessible arrangements are in place for making, receiving and dealing with complaints
- Ensuring that arrangements are in place for whistle-blowing to which staff and all those contracting with TfL have access

TfL identifies the development needs of members and officers in relation to their strategic roles, supported by appropriate training by:

- Ensuring that its Board members and officers are provided with the necessary training to perform their roles
- Ensuring that its staff are competent to perform their roles
- Ensuring that the Chief Finance Officer has the skills, resources and support necessary to perform effectively in his role and that this role is properly understood throughout TfL
- Assessing the skills required by members and officers and committing to develop those skills to enable roles to be carried out effectively
- Developing skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed

TfL establishes clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation by:

- Having in place proper arrangements designed to encourage individuals and groups from all sections of the community to engage with, contribute to, and participate in the work of TfL
- Making clear to staff and the public what it is accountable for and to whom
- Publishing, publicising and making generally available an annual report as soon as practicable after the end of the financial year

- The annual report presenting an objective and understandable account of its activities and achievements and its financial position and performance
- Co-operating with appropriate organisations to ensure there is independent scrutiny of its financial and operational reporting processes
- Having a clear policy on the types of issues it will consult on or engage with the public and service users about, including a feedback mechanism for those consultees to demonstrate what has changed as a result

TfL incorporates good governance arrangements in respect of partnerships and other group working by:

- Fostering effective delivery relationships and partnerships with other public sector agencies, the private and voluntary sectors
- Establishing appropriate arrangements to engage with all sections of the public effectively
- Establishing appropriate arrangements to engage with interest groups such as financial institutions, businesses and voluntary groups to ensure they are able to interact with TfL on matters of mutual interest

The Chief Finance Officer (CFO) plays an active part in TfL strategic decision making. The CFO is appointed and removed by the Board, reviews all papers relating to financial management for the Chief Officers, Committees or Board in advance, attends all Board meetings and has unrestricted access to the Commissioner.

Review of effectiveness

TfL has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior officers within TfL who have responsibility for the development and maintenance of the governance environment, the Director of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

TfL's General Counsel has the responsibility for overseeing the implementation and monitoring the operation of the Code and reporting annually to the Audit Committee on compliance with the Code and any changes that may be necessary to maintain it and ensure its effectiveness in practice.

In addition, the Director of Internal Audit annually comments on the adequacy and effectiveness of the Code and the extent of TfL's compliance with it.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee, and a plan to ensure continuous improvement of the system is in place.

Significant governance issues

Balancing the need to manage within the Government settlement and deliver the Mayor's priorities is the most significant issue facing TfL and one that will continue to present a challenge to its management. Effective governance arrangements and senior officer oversight will be maintained to ensure appropriate and timely responses to such issues that arise.

Other issues to be addressed during the year relate to maintaining continued effective project delivery. One recent development that has provided a significant improvement in our oversight and delivery capability is the extended remit of the Independent Investment Programme Advisory Group (IIPAG). This group provides independent and impartial advice to the Board on all aspects of the delivery of the TfL Investment Programme, including maintenance, renewal, upgrades and major projects.

As a result of a major organisational review, more streamlined governance arrangements will be implemented. These include better integrated project approval arrangements within the overall TfL governance framework.

We propose over the coming year to continue to improve and develop our governance arrangements. We are confident that the current governance processes and planned developments will enable us to meet the challenges identified above.



Signed:

Chair of TfL Board



Signed:

Commissioner

Chief Officers



Peter Hendy CBE
Commissioner



David Brown*
Managing Director
Surface Transport



Mike Brown MVO***
Managing Director
London Underground
and Managing Director
London Rail



Leon Daniels*
Managing Director
Surface Transport



Vernon Everitt
Managing Director
Group Marketing
and Communications



Steve Allen
Managing Director
Finance



Ian Brown CBE**
Managing Director
London Rail



Howard Carter
General Counsel



Michèle Dix
Managing Director
Planning

Members of TfL

Contents



Boris Johnson
Chairman



Peter Anderson



Charles Belcher



**Baroness Tanni
Grey-Thompson**



Judith Hunt OBE



Daniel Moylan
Deputy Chairman



Claudia Arney



Christopher Garnett



Sir Mike Hodgkinson



Eva Lindholm

Chief Officer changes

*David Brown left TfL on 31 March 2011. Leon Daniels was appointed Managing Director of Surface Transport in February 2011

**Ian Brown retired as Managing Director of London Rail on 4 November 2010

***Mike Brown became Managing Director of London Rail alongside his role of Managing Director of London Underground following Ian Brown's retirement

Members of TfL



Steven Norris



Patrick O'Keefe



Tony West



Steve Wright MBE



Bob Oddy



Kulveer Ranger



Keith Williams

Directors of Crossrail Ltd

Contents



Terry Morgan CBE
Chairman



Michael Cassidy CBE



Sir Joe Dwyer



Rob Holden CBE



Andy Mitchell



David Allen



Patrick Crawford



Sir Mike Hodgkinson



Robert Jennings CBE



Heather Rabbatts CBE

Membership of TfL panels and committees

(as at 31 March 2011)

Contents

Members of TfL

Boris Johnson – [Chairman](#)
Daniel Moylan – [Deputy Chairman](#)
Peter Anderson
Claudia Arney
Charles Belcher
Christopher Garnett
Baroness Tanni Grey-Thompson
Sir Mike Hodgkinson
Judith Hunt
Eva Lindholm
Steven Norris
Bob Oddy
Patrick O’Keeffe
Kulveer Ranger
Tony West
Keith Williams
Steve Wright

Committees of TfL

Audit Committee

Judith Hunt – [Chair](#)
Keith Williams – [Vice Chair](#)
Charles Belcher
Bob Oddy
Patrick O’Keeffe
Steve Wright

Finance and Policy Committee

Peter Anderson – [Chair](#)
Daniel Moylan – [Vice Chair](#)
Claudia Arney
Christopher Garnett
Sir Mike Hodgkinson
Judith Hunt
Eva Lindholm
Steven Norris
Kulveer Ranger
Tony West

Remuneration Committee

Daniel Moylan – [Chair](#)
Christopher Garnett
Sir Mike Hodgkinson
Judith Hunt
Boris Johnson

Safety, Health and Environment Assurance Committee

Tony West – [Chair](#)
Christopher Garnett – [Vice Chair](#)
Claudia Arney
Charles Belcher
Baroness Tanni Grey-Thompson
Bob Oddy
Patrick O’Keeffe

Panels

Environment, Corporate and Planning Panel

Baroness Tanni Grey-Thompson – [Chair](#)
Sir Mike Hodgkinson – [Vice Chair](#)
Peter Anderson
Judith Hunt
Eva Lindholm
Steven Norris
Patrick O’Keeffe
Tony West

Rail and Underground Panel

Christopher Garnett – [Chair](#)
Steve Wright – [Vice Chair](#)
Peter Anderson
Charles Belcher
Sir Mike Hodgkinson
Daniel Moylan
Tony West

Surface Transport Panel

Steven Norris – [Chair](#)
Charles Belcher – [Vice Chair](#)
Baroness Tanni Grey-Thompson
Daniel Moylan
Bob Oddy
Patrick O’Keeffe
Keith Williams
Steve Wright

This report outlines TfL's policy regarding the remuneration of its Members and the Commissioner and Chief Officers, who are responsible for directing the affairs of the organisation.

Policy for Members

Members are appointed by the Mayor and are non-executive. Remuneration payable for 2010/11 for each Member (with the exception of the Deputy Chairman) related directly to the number of panels and committees on which each member served. Remuneration also took into account those members who served as Chair of the committees and panels, up to a capped maximum.

Remuneration levels are set for each Mayoral term, but are reviewed periodically to reflect the responsibilities and accountabilities of the role. With effect from 1 August 2004, the basic fee has been £18,000 per annum. Members who act as Chair, or as a member of a committee or panel, receive additional fees of £4,000 per annum (as a Chair) and £2,000 per annum (as a Member) for each appointment. The maximum payment in aggregate is set at £24,000 per annum, except for the position of Deputy Chairman. The annual fee payable to him was at the rate of £60,000 per annum. Since the end of the financial year this has increased to £115,000 per annum to reflect an increase in the days worked a week from two to four. Most Members also received free travel for themselves and a nominee valid on TfL transport business areas.

The remuneration for each Member for the year ending 31 March 2011 is shown on page 199.

Policy for Chief Officers Remuneration Committee

The Remuneration Committee currently consists of five Members of TfL. The terms of reference of the Remuneration Committee include reviewing the remuneration of the Commissioner and Chief Officers.

The remuneration of the Chief Executive of Crossrail is determined by the Crossrail Remuneration Committee. Crossrail is a wholly owned subsidiary of TfL with its own governance arrangements. These include a board comprising executive and independent non-executive directors as well as two non-executive directors appointed by TfL and DfT. The Crossrail Remuneration Committee operates to a set of contractually agreed Remuneration Principles and a Remuneration Framework.

Remuneration policy

The policy of TfL is to provide remuneration packages for Chief Officers which attract, retain and motivate individuals of the high calibre required to manage such a large, complex organisation.

Remuneration packages reflect their responsibilities, experience and performance and the market from which TfL recruits. The Remuneration Committee has established a reward structure commensurate with this policy, which includes a base salary and a performance award scheme against the achievement of a range of financial and operational service performance targets.

TfL engaged Towers Watson, one of the leading remuneration consultancies, to benchmark the remuneration of Chief Officers against a peer group of transport, infrastructure and engineering companies with which TfL competes for senior staff.

This concluded that TfL executives are paid at the lower end of the remuneration paid in comparator organisations; the total compensation paid to TfL's Chief Officers is generally below the lower quartile of the market and significantly below the lower quartile for the Commissioner and the Managing Director, Finance.

Remuneration of senior staff

In recognition of the continuing difficult economic climate and financial constraints on TfL, in 2010/11 the base pay of the Commissioner, Chief Officers, and Directors was frozen for a second year, apart from the Managing Director, Finance whose base pay was reviewed in recognition of taking on a broader range of responsibilities. In addition, all the Chief Officers and the Commissioner decided to waive in their entirety the performance awards made to them in respect of delivery in 2009/10. The combined sum in performance awards waived by the Commissioner and Chief Officers amounted to around £500,000. The Commissioner's salary was £348,444.

In relation to the Directors, a deferred incentive plan was introduced to incentivise the delivery of medium term objectives such as the successful delivery of the transport improvements for the 2012 Games. Therefore 25 per cent of the performance award opportunity previously available to Directors has been deferred until 2012.

The total number of TfL staff receiving total remuneration of over £50,000 is on page 96 and the remuneration of senior employees with a base salary of over £150,000 is on page 98.

As a result of pay awards only made to a few of our high performers, some leavers and reductions in performance awards, the underlying number of TfL staff (excluding Tube Lines) earning total remuneration of more than £100,000 was 196 (194 last year). There has been an increase in the number of staff at Crossrail earning total remuneration of more than £100,000 (from 23 to 31) due to the recruitment of senior staff to take the project into its delivery phase. There was also an increase in the number of severance payments (from 34 to 84) made to those who would have earned total remuneration of less than £100,000 excluding the severance payment. The total number of Tube Lines staff earning more than £100,000 was 68 (37 of these staff have since left the organisation). This figure has not previously been reported as Tube Lines only became part of the TfL Group in June 2010. Furthermore, TfL is also reducing the number of Director level positions by 25 per cent, or 13 posts, as it restructures the organisation.

Other benefits

Senior officers are eligible to receive the following:

- Private medical insurance
- Annual health check-ups
- Subscriptions to professional organisations
- Pension

- Where appropriate, recompense for loss of benefits from previous employers and/or to comply with TfL's policies
- As with all TfL employees, the Commissioner and Chief Officers are provided with a free travel pass for themselves and a nominee valid on TfL transport modes. Chief Officers who joined after 1 April 1996 are eligible to receive reimbursement of 75 per cent of the cost of an annual season ticket on National Rail. Chief Officers employed by predecessor organisations prior to April 1996 receive National Rail facilities in line with the policy of the predecessor organisation

Pension arrangements

Chief Officers are eligible for the following pension benefits:

- Membership of the TfL Pension Fund, a 'defined benefit' scheme which provides for a pension payable from age 65, based on 1/60th of pensionable salary for each year of service
- Pensionable salary is capped for joiners from 1 June 1989. For 2010/11, the cap was £123,600
- Up to 25 per cent of the value of the pension can be taken as a cash sum (under current legislation)
- Lump sum death benefit of four times salary on death in service
- Dependant's pension and children's pensions are paid on death in service and after retirement
- Member contributions payable at the rate of five per cent of pensionable salary

- Pension payable in the event of retirement due to ill-health
- An employer contribution of up to 10 per cent of salary to the TfL Supplementary Pension Scheme, a 'defined contribution' scheme which provides additional benefits for those earning above the cap

The Commissioner is entitled to a pension based on TfL service equal to what would be due under the TfL Pension Fund if the cap did not apply.

Members' remuneration	For the year ended 31/03/11 £
Boris Johnson	Not remunerated by TfL
Daniel Moylan	60,000
Peter Anderson	24,000
Claudia Arney	21,500
Charles Belcher	24,000
Christopher Garnett	24,000
Baroness Tanni Grey-Thompson	24,000
Sir Mike Hodgkinson	24,000
Judith Hunt	24,000
Eva Lindholm	22,000
Steven Norris	Not remunerated by TfL
Bob Oddy	23,500
Patrick O'Keeffe	24,000
Kulveer Ranger	Not remunerated by TfL
Tony West	24,000
Keith Williams	22,000
Steve Wright	24,000

Members receive reimbursement of travel and subsistence expenses. The expenses claimed for all Members in 2010/11 was less than £500 in total.

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