Financial review

TfL's Investment Programme concluded its first year with a number of key achievements including the opening of the DLR extension to London City Airport, the modernisation of Wembley Park station and the introduction of the seventh carriage on the Jubilee line, boosting capacity by almost a fifth.

The start of the Investment Programme was reflected in a 54 per cent increase in TfL's capital expenditure to £1,785m for the year. In addition, strong passenger demand contributed to a better than budget operating margin, helped by additional efficiencies that were some £50m above target.

Financial review

During 2005/06, TfL continued to experience strong levels of demand for its services across all transport modes, despite the operational impact of the terrorist events in July 2005.

The recovery in demand was much quicker and stronger than anticipated, so that by year-end, demand was back to the levels seen before these events.

This recovery was reflected in the 2005/06 revenue result, which was up 7 per cent on the previous year to £2,738m. Operational spend increased by some 6 per cent to £4,434m, reflecting proportionately increased operational costs and payments under the PPP and PFIs.

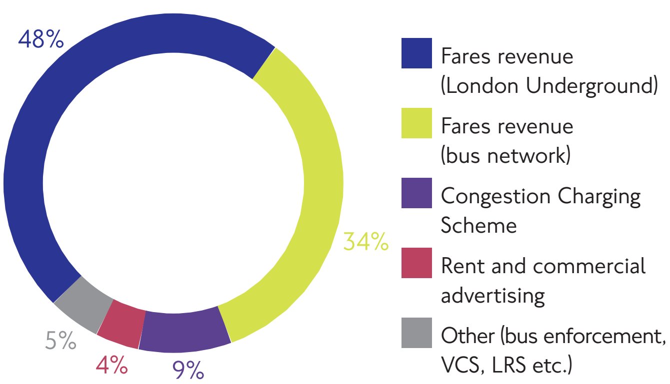
TfL Group financial highlights (£m)	2005/06	2004/05	Change (per cent)
Expenditure	4,433.8	4,189.9	5.8
Revenue	(2,737.6)	(2,554.5)	7.2
Net cost of services before depreciation	1,696.2	1,635.4	3.7
Depreciation net of release of deferred grants	215.4	213.8	0.7
Share of the operating result of joint venture company (Crossrail)	22.9	22.1	3.6
Net cost of services	1,934.5	1,871.3	3.4
Net financing charges	63.9	24.2	164.0
Loss on sale of fixed assets	3.9	5.5	(29.1)
Net operating expenditure	2,002.3	1,901.0	5.3
Grants and contributions to/(from) reserves	(1,999.3)	(1,925.5)	3.8
Deficit/(surplus)	3.0	(24.5)	
Capital expenditure	1,784.9	1,157.4	54.2

There was a marked increase in the level of capital works being undertaken during 2005/06, the first year of TfL's landmark Investment Programme. Capital expenditure during the year was up 54 per cent to £1,785m.

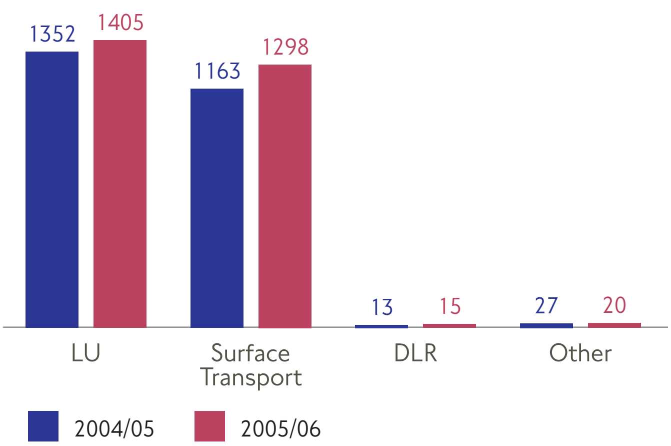
Operational performance

Fares on the London Underground and bus network, including revenue in respect of free travel for older and disabled people, continued to be TfL's main source of revenue, making up 82 per cent of all revenue generated in 2005/06. The continued high levels of passenger demand across the network, together with fare increases, resulted in a 5 per cent increase in fares revenue on the Tube to £1,297m, and an 8 per cent increase in fares revenue on the bus network to £941m.

Revenue breakdown (2005/06)



Revenue by mode (£m)



The overall level of fares was increased in January 2006 in line with the Mayor's funding strategy and TfL's Business Plan. Fares were increased by around 4 per cent (RPI + 1 per cent) on the Underground and around 13 per cent (RPI + 10 per cent) on London buses.

The package of fare changes made, combined with marketing and operational improvements, have had the intended effect of reducing single/return ticket sales for use on the Underground by over 50 per cent and reducing cash ticket sales on buses to 5.6 per cent of journeys by the end of 2005/06.

Fares revenue on the DLR for 2005/06 was £48m. Of this, however, around £33m is collected by the franchise operator that manages the DLR network. The remaining £15m collected by TfL, which relates to the Lewisham extension, was up 19 per cent on the previous year and reflected increased passenger demand for the service.

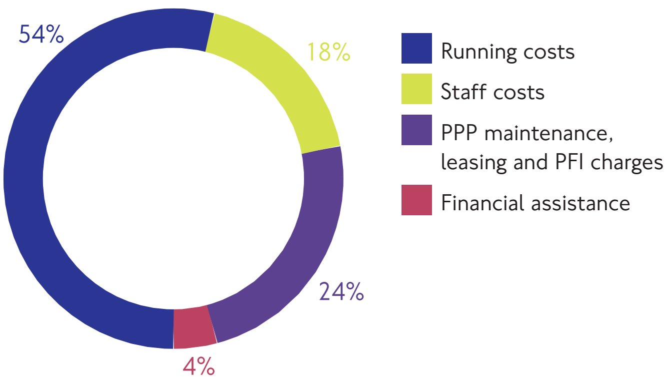
Operational expenditure

TfL's expenditure in 2005/06 reflected the Group's increased level of activity during the year.

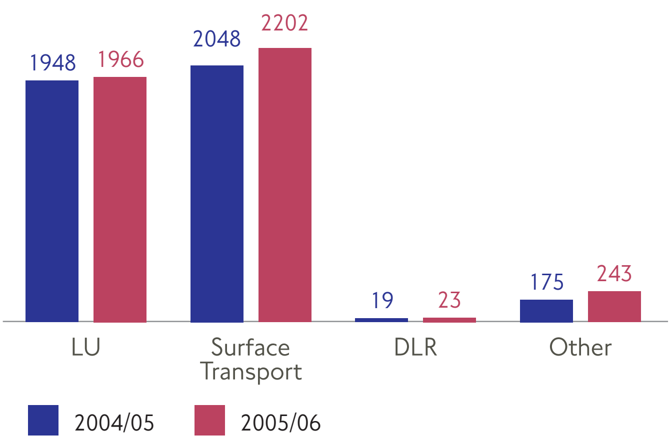
Operating expenditure on the Underground remained largely unchanged on the previous year, increasing around 1 per cent to £1,966m.

On the bus network expenditure was up 8 per cent on the previous year to £1,555m. This increase principally reflects contract price increases for further service and performance improvements. However, these increases were lower than anticipated due to savings achieved via the contract tendering regime and other savings.

Operating expenditure breakdown (2005/06)



Expenditure by mode (£m)



In Surface Transport, there was also an overall increase in expenditure on Congestion Charging activity of £26m, primarily driven by work on the western extension.

TfL continued its commitment to borough schemes that improved the quality, safety and accessibility of the local travelling environment by providing a total of £168m of financial support to the BSP, and other borough programmes. Other financial assistance included payments related to Taxicard and to TOCs in respect of passenger safety measures such as CCTV.

During 2005/06, TfL continued its commitment to providing value for money and ensuring that public resources were used efficiently by achieving efficiency gains of £220m, up from £119m achieved during 2004/05.

Interest and finance charges

Group interest payable, net of interest receivable, increased by £40m to £64m reflecting the £716m increase in finance lease creditors and a full year's interest on the first £200m bond issue in March 2005. Of the increase in the finance lease creditor, £569m reflects the recognition of assets completed under the PPP contracts; the remaining £147m relates to the Docklands Light Railway City Airport Extension, which is provided under a PFI contract and is recognised on the balance sheet as it became operational during the year.

The pensions interest cost, net of expected return on pensions assets, calculated in accordance with Financial Reporting Standard 17: Retirement Benefits, was down £6m to £8m, reflecting the change in value of the pension scheme assets and liabilities since 31 March 2005.

TfL Group balance sheet

Net assets increased by £247m between 31 March 2005 and 31 March 2006, largely due to actuarial gains on the TfL Pension Fund (described in more detail on page 84 and 85) and revaluation of non-operational properties.

Fixed assets increased significantly, reflecting the record levels of capital expenditure during the year. As explained further below, £1,035m of fixed assets were provided under either the PPP contracts or the Docklands Light Railway City Airport Extension PFI. This resulted in an increase in finance lease creditors over one year, included in the 'other liabilities' category.

TfL Group balance sheet (£m)	31 March 2006	31 March 2005
Fixed assets	14,072	12,836
Net current assets	294	236
Borrowings	(746)	(196)
Other liabilities more than one year	(1,528)	(854)
Deferred capital grant	(6,695)	(6,681)
Pension liabilities	(770)	(961)
Total net assets	4,627	4,380
General fund	148	151
Earmarked reserves	1,199	973
Other reserves	3,280	3,256
Total capital employed	4,627	4,380

Capital expenditure

Capital expenditure during 2005/06 amounted to £1,785m, an increase of 54 per cent over the previous year. Over 71 per cent of TfL's capital expenditure during 2005/06 related to capital works being undertaken on LU's infrastructure.

In turn, the expenditure of £1,268m included some £888m of capital works undertaken by the infracos through PPP contracts. Capital works undertaken by the infracos included the refurbishment of 12 stations; the enhanced refurbishment of nine stations; the modernisation of five stations; the renewal of 30km of track; and the refurbishment or replacement of 20 escalators and two lifts.

LU successfully introduced seven-car trains into passenger service on the Jubilee line ahead of schedule on 29 December 2005. This increased capacity by nearly a fifth across the whole line. Additionally, the modernised Wembley Park station came into operation on 31 December 2005 and was formally opened on 27 March 2006.

The refurbishment of D stock trains on the District line also continued.

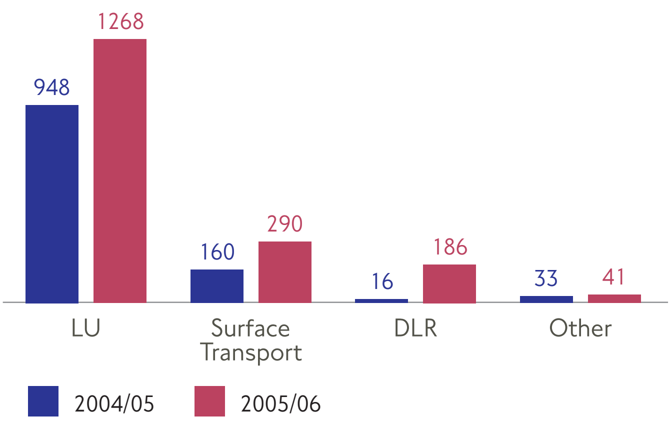
Other works undertaken by LU during the year included station planning works, including station upgrades, congestion relief works and accessibility improvements.

Capital expenditure was incurred on the installation of communications equipment to bring forward the benefits of the Connect PFI, providing a state-of-the-art, fully integrated radio system that will allow effective and flexible communication across all 12,000 operational staff, and will improve information to the three million customers who use the system each day. In addition, extensive works continued at King's Cross in preparation for the Channel Tunnel Rail Link (CTRL). The new Western Ticket Hall opened in May 2006.

In Surface Transport, £290m was spent on capital works, including a significantly increased renewal works programme on the TLRN; developing bus priority systems; Congestion Charging, including the Western Extension Zone; work on introducing the iBus radio and information system; improving the Blackwall Tunnel southbound; the Coulsdon Relief Road Project; implementing walking and cycling initiatives; and improvements to road safety.

The capital expenditure of £186m for the DLR includes £147m in respect of the London City Airport extension, provided under a PFI, which

Capital expenditure by mode (£m)



opened at the end of 2005. Preliminary work on the Stratford International DLR extension started, along with design for capacity enhancements on the DLR by increasing two-car trains to three-car trains on additional lines. Good progress was achieved on the East London Line extension.

Financing

During the year, TfL raised further funds to support its Investment Programme from a variety of sources.

Set out below is a table summarising movements in long-term borrowing in the year. In addition to the sources of financing in the table below, other sources of financing include the PPP and PFIs (see also Note 19 to the accounts).

Cash and short-term investments

Total cash and short-term investments (364 days or less) at 31 March 2006 amounted to £1,687m. The average yield from TfL's cash investments for 2005/06 was 4.68 per cent.

Pensions

The majority of TfL's employees are members of the TfL Pension Fund. Over the last year, the recovery in the world stock markets has resulted in an increase in the fair value of the assets of the

Movement in long-term borrowing **(£m)** (net of issue costs)

		Details
Opening borrowing at 1 April 2005	195.6	
European Investment Bank facility	18.1	The total facility is for £450m, to be drawn down over five years. The loan has an interest rate of 4.293 per cent fixed for the full loan amount with repayment on an amortising basis. Final repayment in 2031
Second bond issue	197.8	4.5 per cent coupon with final repayment in 2032
Public Works Loans Board	334.4	Five separate loans with interest rates of 4.20-4.25 per cent and final maturity in 2038
Closing borrowing at 31 March 2006	745.9	

Public Sector Section of the TfL Pension Fund, and the deficit of pension scheme assets over future liabilities has reduced significantly.

At 31 March 2005, when the FTSE index stood at 4894.4, the Pension Fund had a deficit under Financial Reporting Standard 17 of £946m. The FTSE 100 at 31 March 2006 had risen by 22 per cent to 5964.6 and the scheme deficit had declined by 20 per cent to £752m.

In addition, at 31 March 2006 the Group had future liabilities under unfunded pension arrangements of £37m (2005 £40m).

The last full actuarial valuation of the Public Sector Section of the TfL Pension Fund was carried out as at 31 March 2003.

This valuation showed a deficit for funding purposes of £421m, and as a result of this the contributions of the employers were increased to 30.5 per cent. The next full valuation for funding purposes is currently being carried out as at 31 March 2006.

The results of this valuation will be available later in the year. The Group will continue with its current level of contribution to the Pension Fund for the forthcoming year, although the level of contributions for subsequent years may be reviewed when the results of the funding valuation are available.

Prospects and outlook

Passengers

London's population is growing more rapidly than the population of any European city since 1989. The city's population, currently around 7.6 million, is set to grow significantly over the next 20 years reaching an estimated 8.3 million by 2026. This anticipates that the number of people employed in the Capital will increase by 545,000.

Growth in travel is predicted to continue, with at least an extra four million daily trips by 2025, predominately by public transport (41 per cent), car (25 per cent) and walking (25 per cent).

Public transport trips are predicted to increase from around 7.6 million trips per day to over nine million trips per day by 2025.

Car trips in London are projected to increase, albeit at a significantly slower rate than public transport, as a result of growth in population and income.

It is anticipated that the additional 1.64 million public transport trips will be broadly equally split between bus (34 per cent), Underground (26 per cent) and National Rail (40 per cent).

Fares policy

The Mayor's fares policy aims to support TfL's Investment Programme and wider spending plans. Any decisions on fares levels different to those assumed in TfL's 2004 financial settlement with Government will be reflected in the annual update of the five-year Business Plan and will ensure the plan remains financially balanced.

Cost pressures

TfL's operations and ongoing Investment Programme are subject to a range of potential cost pressures which could possibly arise.

These include:

Asset renewal
Unforeseen costs of bringing transport assets such as roads and the Underground into a state of good repair

Legislative compliance
Additional national and EU legal requirements

Energy prices
Increase in oil and/or electricity prices

Terrorism
Terrorism-related and increased security costs

Construction capacity
Increased costs associated with a shortage in construction capacity.

Capital investment

TfL is currently delivering £12bn of improvements through projects included in its Investment Programme (see table below). This includes project work on TfL's assets and works that are carried out by boroughs, PPP and PFI contractors.

Financing of the Investment Programme is from:

- Income (net operating income)
- Government grant
- Precept
- Prudential borrowing

Risk management

TfL's objectives in relation to the management of risk are to:

- Improve awareness and understanding of risk and the need for effective risk management
- Integrate and embed risk management into the organisation's culture
- Manage risk in accordance with best practice

Capital investment (£m)

	2005/06	2006/07	2007/08	2008/09	2009/10	Total
	Actual	Plan	Plan	Plan	Plan	
Net Investment	2,189	2,332	2,481	2,626	2,402	12,030

- Anticipate and respond to changing social, environmental and legislative requirements

Risk management across the Group continues to mature in line with strategic plans.

Key elements in the current process are:

- A risk management policy approved by the TfL Board
- A combined top-down and bottom-up risk identification approach
- Identification, evaluation and categorisation of all significant business risks
- The use of risk maps and registers at the strategic, directorate and operational levels
- Ownership of strategic risks by the Commissioner, with regular status reporting
- An assurance regime that includes the active involvement of the TfL Audit Committee
- Integration of risk management into business planning and the formal management reporting and review processes
- The use of risk management software across the group to ensure consistency of content and quality of data and to enable efficient and comprehensive reporting

The current top five strategic risks facing TfL are:

- Project delivery
- Quality and quantity of people
- Effective contract management
- Use and availability of funding
- Resilience to major external events

These risks, along with all other strategic risks, have detailed risk descriptions and analyses of sub-risk elements. All strategic risks have been fully evaluated, with documented mitigation strategies and action plans in place.

Significant work is currently in hand to improve risk management further in line with best practice. The 2006/07 Risk Management Plan includes, for example, training and awareness initiatives and a piece of work to agree the corporate level of risks that the organisation is prepared to bear.

This will be incorporated into the evaluation and reporting arrangements going forward.

Treasury risk management

The Board approves prudent treasury policies that accord 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 controls day-to-day treasury operations. The Finance Committee is the primary forum for discussing and approving all day-to-day treasury strategy and 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 have not led to significant changes in the recommended treasury management strategy (long-term fixed-rate debt and short-term cash investments under one year), but have focused on the opportunities to increase yield without risking underlying security.

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

Interest rates
The TfL Board 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 100 per cent.

Funding and liquidity
To ensure continuity of affordable funding and flexibility, debt maturities are spread over a range of dates, thereby ensuring that the Group debt service is not exposed to excessive repayment risk in any one year. The maturity profile of debt outstanding at 31 March 2006 is set out in Note 19 to the accounts. Due to the long-term nature of future commitments, significant cash balances are held to mitigate the risk of future access to funds.

Counterparty credit
The Group's exposure to credit-related losses, in the event of non-performance by counterparties to financial instruments, is mitigated by limiting exposure to any one party and imposing a minimum credit limit quality of Moody's A1.

Statement of Accounts

Contents

The maintenance and integrity of the Transport for London website (tfl.gov.uk) is the responsibility of Transport for London; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Explanatory foreword

Activities

Transport for London (TfL) is a statutory corporation established by section 154 of the Greater London Authority Act 1999 (GLA Act). It is a functional body of the Greater London Authority (GLA) and reports to the Mayor of London. TfL's role is to implement the Mayor's Transport Strategy and manage the transport operations for which the Mayor is responsible. These include London Underground, London Rail and Surface Transport.

Underground services are operated directly by London Underground Limited (LU) supported by three Public Private Partnerships (PPPs), under which private sector consortia maintain and upgrade the railway infrastructure. Each weekday, over three million passenger journeys are made over the Tube network's 408km of routes, calling at 275 stations, of which 253 are owned by LU.

Surface Transport includes:

- Streets, which is responsible for operating and improving conditions for all road users, including pedestrians and cyclists, on a 580km network of London's main roads. It is also responsible for Congestion Charging, which was introduced in central London in 2003
- Public Carriage Office, which is responsible for regulating the taxi and private hire trades
- London Buses, which manages bus services in London. It plans routes, specifies service levels and monitors service quality. The bus services are operated by private companies, which work under contract to TfL except for a small number of routes run by TfL's own operating company, East Thames Buses
- Dial-a-Ride, which provides door-to-door transport for disabled Londoners
- Croydon Tramlink, operated by a concessionaire, providing a service through four south London boroughs
- Victoria Coach Station, which is the coach travel 'hub' of central London, handling around nine million passengers per year travelling on nearly 400,000 arrivals and departures
- London River Services, which owns and operates nine passenger piers on the Thames and licenses boat services using those piers

London Rail includes Docklands Light Railway (DLR) and Cross London Rail Links. The DLR, which is also operated by a concessionaire, is the most reliable mainland railway in the UK, with over 97 per cent of its trains consistently running on time. Fifty million journeys are made each year using its 38 stations and 31km of track. This figure is predicted to rise to 80 million by 2009. The DLR interchanges with eight LU lines, five National Rail services plus over 100 bus routes and coach, taxi and riverboat services. It is playing a key role in the regeneration of Docklands and south-east London and is fully integrated with other public transport modes.

Cross London Rail Links Limited, a joint venture formed with the Department for Transport, is tasked with promoting and developing Crossrail, a new railway proposed to run through central London linking Maidenhead in the west with Shenfield to the north-east and Abbey Wood to the south-east of the Capital. A bill is going through Parliament to grant the authority to build the railway.

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

Legal structure

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

- The Corporation which comprises Streets, the Public Carriage Office and the corporate centre and constitutes, for legal and accounting purposes, TfL
- The TfL Group, which is made up of the Corporation and its subsidiaries as set out in Note 12

Accounting statements

Under the Greater London Authority Act 1999, the Corporation is treated as a local authority for accounting purposes. The Statement of Accounts, which includes the individual financial statements of the Corporation, has been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain 2005: A Statement of Recommended Practice ('the SORP').

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

The Statement of Accounts comprises:

- The Corporation revenue account, which shows the income and expenditure on the provision of transport services and how the resultant net expenditure has been financed by Government grants and local taxpayers
- The Corporation balance sheet, which shows the financial position as at 31 March 2006
- The Corporation statement of movements in reserves, which summarises the movements in the fixed asset restatement account, the capital financing account, earmarked reserves and the general fund
- The consolidated group accounts, comprising the Group revenue account, the Group balance sheet and the Group statement of movements in reserves
- The Corporation and Group cash flow statements summarising the inflows and outflows of cash for the Corporation and the Group

- The statement of accounting policies
- The notes to the Corporation and Group 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.

Financial and Business Review

Government and the GLA provided transport grant funding of £2,180m (2004/05 £2,260m) and total revenue from fares and other services increased to £2,738m (2004/05 £2,555m).

The Group's revenue expenditure increased to £4,434m from £4,190m in 2004/05. Capital expenditure has increased to £1,785m (2004/05 £1,157m) which includes £888m (2004/05 £712m) provided under the PPP contracts and £147m (2004/05 £nil) in respect of the DLR City Airport Extension which was provided under a Private Finance Initiative and became operational in 2005/06.

In July 2004, the Group achieved an historic funding settlement with the Government which provides funding over the five years to 2009/10, rather than the traditional two years.

The settlement enables £10bn to be invested in London's transport infrastructure over the period 2005/06 to 2009/10 as set out in TfL's Investment Programme.

With the certainty provided by the funding settlement and the introduction of new legislation allowing for Prudential Borrowing in April 2004, TfL established a £3.3bn borrowing programme last year for 2004/05 to 2009/10 to support the Investment Programme.

In March 2006, the Corporation launched its second Eurobond issue for £200m through joint arrangers HSBC and Morgan Stanley.

The Corporation also borrowed £334.4m from the Public Works Loan Board and the first £18.1m instalment of a £450m project finance facility relating to the East London Line.

This borrowing by the Corporation uses £746m of the £800m limit set by the Mayor for 2005/06.

Statement of responsibilities for the Accounts

The Corporation is required to:

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

The Chief Finance Officer is responsible for the preparation of the Statement of Accounts for the Corporation and the Group which, in the terms of the SORP, is required to present fairly the financial position of the Corporation and Group at the accounting date and the income and expenditure for the year ended 31 March.

In preparing this Statement of Accounts, I certify that I have:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the SORP
- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities

Stephen Critchley
Chief Finance Officer
28 June 2006

Statement of Corporate Governance Assurance

Scope of responsibility

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

TfL is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

TfL also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised having regard to a combination of economy, efficiency and effectiveness. In discharging this accountability, Board members and senior managers are responsible for putting in place proper arrangements for the governance of TfL's affairs and the stewardship of the resources at its disposal, including arrangements for the management of risk.

To this end, TfL has approved and adopted a Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE framework and the requirements of the Accounts and Audit Regulations 2003.

A copy of TfL's Code is on tfl.gov.uk or can be obtained from: TfL Company Secretariat, Windsor House, 42-50 Victoria Street, London SW1H 0TL.

Purpose of the system of corporate governance assurance

TfL has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is both adequate and effective in practice. Specifically, it has an established system of internal control. This is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of TfL's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

Corporate governance in TfL

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

Using the nationally recognised CIPFA/SOLACE framework, TfL developed and published a Code of Corporate Governance in 2002 tailored to its own circumstances, which is designed to make its adopted practices in this area open and explicit.

On an annual basis, TfL agreed to undertake a wide-ranging review of its relevant activities involving all senior managers to determine the degree to which TfL's methodologies conform to the Code's requirements. Where they have been found wanting, action plans are being developed to identify and implement remedial action.

TfL's governance structure

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

The Board has four committees:

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

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

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

The Commissioner of TfL, advised by his chief officers, is responsible and accountable for the delivery of the day-to-day operations of TfL.

There are three advisory panels, drawn from the Board members and senior management, which provided strategic advice to the Commissioner on development and the carrying out of policy in TfL.

- Rail Transport
- Surface Transport
- London Underground

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

The dimensions of corporate governance

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

- Public focus
- Structures and processes

- Risk management and internal control
- Service delivery arrangements
- Standards of conduct

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

Within the public focus dimension:

- The Mayor has published his Transport Strategy which clearly sets out where TfL wants to be
- TfL regularly publishes public reports on its performance
- TfL has developed and implemented numerous strategies to consult with all interested parties and has processes in place to ensure the results are given due weight in decision-taking
- The public has easy access to TfL Board papers and meetings

Within the structures and processes dimension:

- The roles and responsibilities of Board members and staff managers are well-defined
- TfL has procedures to ensure its activities are properly planned, implemented, monitored and reviewed

Within the risk management and internal control dimension:

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

Within the service delivery arrangements dimension:

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

Within the standards of conduct dimension:

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

Risk management

TfL has a maturing risk management process that identifies both strategic and operational risks. Mitigation strategies are in place to counter all strategic risks.

The top five risks on the Strategic Risk Map are currently:

- Project delivery
- Quantity and quality of people
- Effective contract management
- Use and availability of funding

- Resilience to major external events

As part of its overall corporate governance brief, the Audit Committee has specific responsibility for assuring the Board that effective risk management arrangements are in place. Risk management is a standing agenda item at all Committee meetings. Going forward, the risk management process will also be subject to annual review by TfL's Director of Internal Audit.

The emphasis during 2006/07 will be to build up on the process in place and develop a best-practice model.

Specific areas to be addressed include:

- Finalising a streamlined senior management risk reporting process
- Improving Board and Audit Committee reporting
- Agreeing on a common understanding of the risk TfL is prepared to accept as part of its normal business
- Performance monitoring arrangements to ensure risk management effectiveness

Responsibilities and review of effectiveness

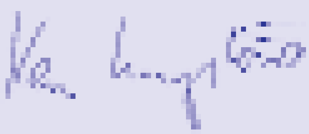
TfL's General Counsel has the responsibility for:

- Overseeing the implementation, and monitoring the operation of the Code
- Reviewing the operation of the Code in practice
- Reporting annually to the Audit Committee on compliance with the Code and any changes that may be necessary to maintain it and ensure its effectiveness in practice

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

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

Signed



K. Livingstone
Chair of the TfL Board

P. Hendy
Commissioner

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

Independent Auditors' report to the Board of Transport for London

Opinion on the financial statements

We have audited the financial statements of Transport for London ('the Corporation') and the Transport for London Group ('the Group') for the year ended 31 March 2006, which comprise the Explanatory Foreword, the Corporation and Group Revenue Accounts, Balance Sheets, Statements of Movements in Reserves, Cash Flow Statements and the related notes. These financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to Transport for London, as a body, 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, as a body, those matters we are required to state to it in an auditors' 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, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and the Auditor

As described on Page 93 the Chief Finance Officer is responsible for the preparation of the financial statements in accordance with applicable laws and regulations and The Code of Practice on Local Authority Accounting in the United Kingdom 2005: A Statement of Recommended Practice.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements present fairly the financial position of the Corporation and the Group in accordance with applicable laws and regulations and the 2005 SORP.

We review whether the information given in the Statement of Corporate Governance Assurance on pages 94 to 98 is consistent with the financial statements and reflects compliance with CIPFA's Guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003'. We report if the Statement does not comply with proper practices specified by CIPFA or if the Statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Corporation's corporate governance arrangements or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises the Annual Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Corporation and the Group in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Corporation and the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and The Code of Practice on Local Authority Accounting in the United Kingdom 2005: A Statement of Recommended Practice, the financial position of the Corporation and the Group at 31 March 2006 and their income and expenditure for the year then ended.

KPMG LLP

KPMG LLP
Chartered Accountants
London

21 August 2006

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

The 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 regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Corporation is required to prepare and publish a best value performance plan summarising the Corporation's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Corporation for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for other local government bodies. We report if significant matters have come to our attention which prevent us from concluding that the Corporation has made such proper arrangements. 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.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the Corporation's best value performance plan and issue a report:

- Certifying that we have done so
- Stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance
- Where relevant, making any recommendations under section 7 of the Local Government Act 1999

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for other local government bodies specified by the Audit Commission, in all significant respects, the Corporation made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2006.

Best Value Performance Plan

We issued our statutory report on the audit of the Corporation's Best Value Performance Plan for the financial year 2005/06 on 10 November 2005. We did not identify any matters to be reported to the Corporation and did not make any recommendations on procedures in relation to the plan.

Certificate

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

KPMG LLP

KPMG LLP
Chartered Accountants
London

21 August 2006

Group revenue account

	Note	Group 2005/06 £m	Group 2004/05 £m
Highways, roads and transport services			
Expenditure	*3*	**4,433.8**	4,189.9
Revenue	*1, 2*	**(2,737.6)**	(2,554.5)
Depreciation net of release of deferred grants	*11c*	**215.4**	213.8
Net cost of services before joint ventures		**1,911.6**	1,849.2
Share of the operating result of joint venture company	*1*	**22.9**	22.1
Net cost of services		**1,934.5**	1,871.3
Finance lease charges	*9*	**104.0**	61.6
Interest payable	*9*	**10.2**	4.1
Interest and investment income	*8*	**(58.2)**	(55.4)
Loss on sale of fixed assets		**3.9**	5.5
Pensions interest cost and expected return on pensions assets	*23a*	**7.9**	13.9
Net operating expenditure	*1*	**2,002.3**	1,901.0
Appropriations			
Transfer to earmarked reserves		**226.3**	538.9
Contributions to pensions reserve	*23a*	**12.1**	15.5
Contributions from fixed asset restatement account		**(79.9)**	(81.7)
Realisation of revaluation reserve		**(71.6)**	(71.4)
Contributions from other reserves		**(46.6)**	(49.0)
Contributions from capital financing account		**(1.8)**	(130.0)
Appropriation (from)/to group profit and loss reserve		**(27.3)**	11.5
Total amount to be met from Government grant and local taxation		**2,013.5**	2,134.8
Revenue transport grant	*7*	**(1,974.6)**	(2,121.3)
Other revenue grant		**(15.9)**	(12.2)
Precept		**(20.0)**	(25.8)
Deficit/(surplus) in the year		**3.0**	(24.5)

Corporation revenue account

	Note	Corporation 2005/06 £m	Corporation 2004/05 £m
Highways, roads and transport services			
Expenditure	*3*	**847.0**	782.4
Revenue	*1*	**(335.5)**	(271.5)
Depreciation	*11c*	**158.0**	138.5
Capital financing charges		**87.6**	83.7
Net cost of services		**757.1**	733.1
Asset management revenue account	*4*	**(150.5)**	(135.0)
Interest and investment income	*8*	**(55.0)**	(52.6)
Pensions interest cost and expected return on pensions assets	*23a*	**0.4**	(0.1)
Net operating expenditure	*1*	**552.0**	545.4
Appropriations			
Transfer to earmarked reserves		**226.3**	538.9
Contributions from fixed asset restatement account		**(79.9)**	(81.7)
Contributions from pensions reserve	*23a*	**(0.1)**	(0.5)
Contributions from other corporation reserves		**-**	(0.1)
Contributions from capital financing account		**(1.8)**	(130.0)
Grant funding of subsidiaries and joint venture		**1,317.0**	1,262.8
Total amount to be met from Government grant and local taxation		**2,013.5**	2,134.8
Transport grant for operations	*7*	**(1,974.6)**	(2,121.3)
Other revenue grant		**(15.9)**	(12.2)
Precept		**(20.0)**	(25.8)
Deficit/(surplus) in the year		**3.0**	(24.5)

Group and Corporation balance sheets as at 31 March 2006

	Note	Group 2006 £m	Group 2005 £m	Corporation 2006 £m	Corporation 2005 £m
Tangible fixed assets					
Infrastructure and other property		11,274.0	10,309.4	2,151.1	2,102.5
Rolling stock		1,357.7	1,292.8	-	-
Plant and equipment		449.3	444.3	131.8	102.5
Non-operational assets		990.5	789.4	99.2	73.8
Total tangible fixed assets	*11*	14,071.5	12,835.9	2,382.1	2,278.8
Investment in subsidiaries and joint venture	*12*	-	-	22.5	22.5
Total fixed assets		14,071.5	12,835.9	2,404.6	2,301.3
Current assets					
Stocks	*13*	5.1	5.0	2.5	2.9
Debtors	*14*	301.6	338.4	432.7	146.5
Short-term investments		1,663.1	1,326.5	1,632.9	1,300.4
Cash at bank and in hand	*15*	24.0	24.0	3.5	8.1
Total current assets		1,993.8	1,693.9	2,071.6	1,457.9
Current liabilities					
Creditors - falling due within one year	*16a*	(1,699.5)	(1,457.5)	(351.4)	(270.3)
Total current liabilities		(1,699.5)	(1,457.5)	(351.4)	(270.3)
Net current assets		294.3	236.4	1,720.2	1,187.6
Total assets less current liabilities		14,365.8	13,072.3	4,124.8	3,488.9
Creditors: falling due after one year	*16b*	(1,267.8)	(636.5)	(4.7)	(8.4)
Provisions for liabilities and charges	*18*	(260.2)	(217.5)	(111.8)	(101.7)
Borrowings due after more than one year	*19*	(745.9)	(195.6)	(745.9)	(195.6)
Net assets excluding grants		12,091.9	12,022.7	3,262.4	3,183.2
Deferred grants	*17*	(6,695.1)	(6,681.7)	(411.5)	(477.5)
Net assets excluding pension and other post-retirement liabilities		5,396.8	5,341.0	2,850.9	2,705.7
Pension and other post-retirement liabilities	*23a*	(769.9)	(960.7)	(17.7)	(14.9)
Total net assets		4,626.9	4,380.3	2,833.2	2,690.8
Capital and reserves					
General fund		147.5	150.5	147.5	150.5
Earmarked reserves		1,198.9	972.6	1,198.9	972.6
Capital financing account		31.8	23.4	31.8	23.4
Fixed asset restatement account		1,499.6	1,586.1	1,499.6	1,586.1
Revaluation reserve		1,891.5	1,907.0	-	-
Miscellaneous reserves		(142.4)	(259.3)	(44.6)	(41.8)
Total capital employed		4,626.9	4,380.3	2,833.2	2,690.8

These accounts were approved by the Board on 28 June 2006

K. Livingstone, Chair of the TfL Board

Statement of movements in reserves
2006 movements

Group

	Balance at 1 April 2005 £m	Transfers (to)/from revenue account £m	Pension actuarial gains/ (losses) £m	Disposal of tangible fixed assets £m	Adjustment/ revaluation of fixed assets £m	Balance at 31 March 2006 £m
General fund	150.5	(3.0)	-	-	-	**147.5**
Earmarked reserves	972.6	226.3	-	-	-	**1,198.9**
Capital financing account	23.4	(1.8)	-	10.2	-	**31.8**
Fixed asset restatement account	1,586.1	(79.9)	-	(22.1)	15.5	**1,499.6**
Fixed asset revaluation reserve	1,907.0	(71.6)	-	-	56.1	**1,891.5**
Group profit and loss reserve	15.2	(27.3)	-	-	-	**(12.1)**
Capital reserves in subsidiaries	137.5	(46.6)	-	-	-	**90.9**
Group pensions reserve	(960.7)	12.1	178.7	-	-	**(769.9)**
Merger reserve	466.1	-	-	-	-	**466.1**
Other reserves	82.6	-	-	-	-	**82.6**
	4,380.3	**8.2**	**178.7**	**(11.9)**	**71.6**	**4,626.9**

Corporation

	Balance at 1 April 2005 £m	Transfers (to)/from revenue account £m	Pension actuarial gains/ (losses) £m	Disposal of tangible fixed assets £m	Adjustment/ revaluation of fixed assets £m	Balance at 31 March 2006 £m
General fund	150.5	(3.0)	-	-	-	**147.5**
Earmarked reserves	972.6	226.3	-	-	-	**1,198.9**
Capital financing account	23.4	(1.8)	-	10.2	-	**31.8**
Fixed asset restatement account	1,586.1	(79.9)	-	(22.1)	15.5	**1,499.6**
Pensions reserve in Corporation	(14.9)	(0.1)	(2.7)	-	-	**(17.7)**
Other Corporation reserves	(26.9)	-	-	-	-	**(26.9)**
	2,690.8	**141.5**	**(2.7)**	**(11.9)**	**15.5**	**2,833.2**

Earmarked reserves have been established to finance future capital projects, consistent with TfL's approved Business Plan, and also to cover contingencies. In addition, reserves have been set aside to finance certain capital projects, which were not included in the approved Business Plan but have been committed to by the Board, where it is considered appropriate to fund such projects from reserves.

The pensions reserve represents the FRS 17 pension fund deficits, as set out further in Note 23 to these accounts. The merger reserve of £466.1m arises as a result of the transfer of the net assets of London Regional Transport, including the share capital of London Underground Limited, to TfL in 2003. It represents the share capital of London Underground Limited and is taken as a credit to reserves as no consideration was given by TfL in respect of the transfer.

The capital reserves in subsidiaries are distributable reserves in respect of net profits and losses transferred to provide for future capital investment. Other reserves relate to the transfer of the net assets of LRT and LU to the TfL Group in 2003.

Statement of movements in reserves (continued)
2005 movements

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

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

Cash flow statements

Reconciliation of net cost of services to net cash outflow from revenue activities	Note	Group 2005/06 £m	Group 2004/05 £m	Corporation 2005/06 £m	Corporation 2004/05 £m
Net cost of services		**(1,911.6)**	(1,849.2)	**(757.1)**	(733.1)
Transport revenue grant	*7*	**1,974.6**	2,121.3	**1,974.6**	2,121.3
Other revenue grant		**15.9**	12.2	**15.9**	12.2
Precept		**20.0**	25.8	**20.0**	25.8
Grants to subsidiaries to fund revenue		**-**	-	**(1,249.0)**	(1,231.9)
Grants to joint venture company		**(35.8)**	(30.9)	**(35.8)**	(30.9)
Depreciation (net of release of deferred grants for Group)		**215.4**	213.8	**158.0**	138.5
Capital financing charges		**-**	-	**87.6**	83.7
(Increase)/decrease in stocks		**(0.1)**	0.7	**0.4**	0.8
(Increase)/decrease in debtors		**63.2**	61.2	**2.5**	(0.9)
(Increase)/decrease in amounts due from subsidiary companies		**-**	-	**(27.8)**	6.1
Increase/(decrease) in creditors due within one year		**121.1**	(30.1)	**56.1**	3.6
Increase/(decrease) in creditors due after more than one year		**10.3**	(11.2)	**0.2**	1.3
Increase/(decrease) in provisions for liabilities and charges		**58.7**	110.3	**25.2**	42.6
Increase/(decrease) in pension and post-retirement liabilities		**(20.0)**	(29.4)	**(0.3)**	0.6
Net cash inflow from revenue activities		**511.7**	594.5	**270.5**	439.7
Returns on investments and servicing of finance					
Finance lease charges		**(102.0)**	(61.6)	**-**	-
Interest paid		**(10.1)**	(4.1)	**(10.1)**	(2.9)
Interest received and investment income		**59.8**	45.0	**56.5**	42.2
		(52.3)	(20.7)	**46.4**	39.3
Capital activities					
Transport capital grant	*7*	**205.8**	138.8	**205.8**	138.8
Third-party contributions and other grant funding		**142.3**	88.7	**7.1**	5.7
Grants to subsidiaries and JV for capital expenditures		**-**	-	**(205.8)**	(103.3)
Payments to acquire tangible fixed assets		**(711.7)**	(385.3)	**(276.8)**	(150.3)
Receipts from sale of tangible fixed assets		**11.5**	17.0	**1.0**	4.9
		(352.1)	(140.8)	**(268.7)**	(104.2)
Net cash inflow before financing		**107.3**	433.0	**48.2**	374.8
Management of liquid resources					
Increase in short-term investments		**(336.6)**	(473.9)	**(332.5)**	(468.2)
Financing					
Capital element of finance lease payments		**(321.0)**	(187.9)	**-**	-
Deferred income received in year		**-**	35.0	**-**	-
Increase in loans to subsidiary companies		**-**	-	**(270.6)**	(96.0)
Increase in borrowings due after more than one year		**550.3**	195.6	**550.3**	195.6
		229.3	42.7	**279.7**	99.6
(Decrease)/increase in cash		**-**	1.8	**(4.6)**	6.2

Notes to the cash flow statements

a) Cash flow statements: reconciliation with the accounts

Capital expenditure	Group 2005/06 £m	Group 2004/05 £m	Corporation 2005/06 £m	Corporation 2004/05 £m
Additions to fixed assets	**(1,784.9)**	(1,157.4)	**(278.5)**	(160.8)
(Increase)/decrease in debtors	**1.0**	(0.4)	**1.5**	(3.3)
Increase/(decrease) in creditors due within one year	**46.4**	69.8	**8.5**	23.0
Increase/(decrease) in creditors due after one year	**(3.9)**	0.1	**(3.9)**	0.1
Additions under finance lease arrangements	**1,034.8**	712.1	**-**	-
Increase/(decrease) in provisions	**(5.1)**	(9.5)	**(4.4)**	(9.3)
Capital expenditure per cash flow statement	**(711.7)**	(385.3)	**(276.8)**	(150.3)

Contributions from third parties for capital expenditure	Group 2005/06 £m	Group 2004/05 £m	Corporation 2005/06 £m	Corporation 2004/05 £m
Third-party contributions and other grant funding	**157.5**	102.6	**7.1**	5.7
(Increase)/decrease in debtors	**(15.2)**	(13.9)	**-**	-
Contributions from third parties per cash flow statement	**142.3**	88.7	**7.1**	5.7

b) Analysis of change in net debt

	Note	At 1 April 2005 £m	Movement £m	At 31 March 2006 £m
Group				
Cash at bank and in hand	*15*	24.0	-	**24.0**
Investments	*19b*	1,326.5	336.6	**1,663.1**
Borrowings due after more than one year	*19b*	(195.6)	(550.3)	**(745.9)**
Finance lease obligations	*19b*	(1,078.5)	(715.8)	**(1,794.3)**
Total of net funds/(debt)		76.4	(929.5)	**(853.1)**
Corporation				
Cash at bank and in hand	*15*	8.1	(4.6)	**3.5**
Investments		1,300.4	332.5	**1,632.9**
Borrowings due after more than one year	*19b*	(195.6)	(550.3)	**(745.9)**
Total of net funds/(debt)		1,112.9	(222.4)	**890.5**

Statement of accounting policies

a) Code of practice

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain 2005 ('the SORP'), developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Joint Committee and approved by the Accounting Standards Board.

b) Basis of accounting

The accounts are made up to 31 March. The Corporation is a single service authority and all expenditure is attributable to the provision of highways, roads and transport services. Accordingly, no costs have been attributed to the corporate and democratic core.

c) Basis of preparation of group accounts

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

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

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

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

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

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

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

d) Revenue and expenditure

The accounts reflect the accruals concept whereby debtors and creditors are included in the balance sheet for goods and services supplied but not paid for at 31 March.

Sales revenue on trading activities comprises the value of sales of services or goods in the normal course of business, exclusive of Value Added Tax. Revenue earned by franchisees, or contractors, providing transport services on behalf of the Group is not taken into account, except in the limited circumstances where the Group shares the risk of revenue volatility with the franchisee.

e) Grants and other funding

The main source of grant is in the form of Transport Grant, which is non-specific in that it is applied to both maintaining services and to fund capital expenditure.

In the accounts of the Corporation, Transport Grant is divided into three elements:

- The element used to finance revenue expenditure in the Corporation, including grants to subsidiaries and the joint venture to finance their own revenue expenditure
- The element used to finance capital expenditure in the Corporation, which is accounted for as described below
- The element used to finance capital expenditure in the subsidiaries, which is not accounted for in the Corporation's revenue account, but is shown in the Corporation's cash flow statement under Capital activities

Statement of accounting policies (continued)

In the accounts of the Corporation and the Group, grants applied for revenue purposes are accounted for in the year in which they arise, in common with other income, and are credited to the revenue account.

Grants and other contributions for capital expenditure are accounted for on an accruals basis and recognised in the accounts when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

Where expenditure on fixed assets is financed either wholly or partly by grants or other contributions, the amount of the grant is credited initially to the deferred capital grants account. Amounts are released to the asset management revenue account over the useful life of the asset to match the depreciation on the asset to which it relates. For group reporting purposes this amount is reclassified and deducted from depreciation on the face of the group revenue account.

f) Borrowings

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

The Corporation is required to make a minimum revenue provision (MRP) for the repayment of outstanding debt determinable under the Local Government Act 2003. For this period the MRP requirement is £3.2m (2004/05 nil).

Additional disclosures on financial instruments required by FRS 13 and FRS 4 as a consequence of the Corporation's listed debt are made in note 20 to these accounts.

g) Capital financing charges

The SORP requires net cost of services for the Corporation to include a capital charge equal to annual gross depreciation plus a notional interest charge. This notional interest charge recognises the cost of acquiring and holding assets (an opportunity cost) and is charged at a rate set annually by CIPFA (currently 3.5 per cent on assets held at current cost and 4.95 per cent on assets held at historical cost). Capital financing charges are not levied on assets under construction.

These notional capital financing charges are reversed through the asset management revenue account in the Corporation revenue account. Notional capital financing charges are eliminated in deriving the Group revenue account as described in d) above. Subsidiaries do not levy capital financing charges.

h) Tangible fixed assets

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

Operational assets

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

Other property consists of business properties, used by the Group for its own purposes, which are not limited in their future use by operational constraints or requirements and which are not integral to the infrastructure (eg, offices). These properties were valued at open market value at 31 March 2006 (on an existing use basis) by the Director of TfL Group Property and Facilities and by suitably qualified TfL staff. The revaluation is taken to the fixed asset restatement account for the assets owned by the Corporation and the fixed asset revaluation reserve for assets owned by the Subsidiaries.

Plant and equipment

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

Non-operational assets

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

Depreciation

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

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

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

The accounting policy for assets held under the London Underground PPP is described in paragraph q) below.

i) Stocks

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

j) Debts outstanding

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

k) Provisions

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

l) Reserves

The capital accounting regime requires that maintenance of two special reserve accounts in the balance sheet:

- The fixed asset restatement account, which represents, principally, the balance of the surpluses or deficits arising on the periodic revaluation of fixed assets

- The capital financing account, which represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans and certain other capital financing transactions

The depreciation charge in the Corporation on assets acquired from predecessor bodies is met by an appropriation from the fixed asset restatement account. The remaining depreciation charge is met by an appropriation from the capital financing account. The revaluation of property in the Corporation is credited to the fixed asset restatement account. These two account balances do not form part of the resources available to the Group and Corporation.

TfL sets aside specific amounts as earmarked reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the Revenue Account after the Net Operating Expenditure line. When expenditure to be financed from earmarked reserves is incurred, it is charged to the Revenue Account in that year and included in Net Cost of Services. A corresponding amount is then appropriated back into the Revenue Account from earmarked reserves after Net Operating Expenditure so that there is no net impact on amounts to be met from Government grant and local taxation.

m) Insurance

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

n) Pensions

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

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

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

o) Deferred taxation

Provision is made within the Group accounts for deferred taxation arising from timing differences between profits or losses as computed for taxation purposes and profits or losses as stated in the accounts, to the extent it is payable or recoverable in the foreseeable future.

p) Leases

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

The Group has entered into a number of Private Finance Initiative (PFI) agreements. Each PFI agreement has been analysed to determine where the balance of the risks and rewards lies. Where substantial risks are retained by the private sector, these transactions are accounted for as operating leases and the assets provided are, therefore, not included in the balance sheet. Where the risks and rewards under the agreements lie with the Group, the transactions are accounted for as finance leases. Any assets created are capitalised in the balance sheet and depreciated over their estimated useful lives. Finance charges are allocated over the period of the contract in proportion to the capital element outstanding.

The Group has also entered into operating leases in respect of properties and motor vehicles. Rentals payable under operating leases (including certain PFI agreements) have been accounted for in the period to which they relate.

q) London Underground Public Private Partnership (PPP)

LU has three PPP contracts. Under these contracts, existing LU assets are allocated to the PPP contractors for a 30-year period from when the contract was established, during which the PPP contractors maintain, enhance and replace these assets. LU pays service charges to the PPP contractors.

LU retains substantial risks and rewards of ownership of the assets allocated to the PPP contractors during the contract term. These assets continue to be recorded as fixed assets in the Group accounts. Similarly, new assets acquired or constructed by the PPP contractors for LU are recorded as fixed asset additions in the Group accounts and a corresponding liability is recorded as a finance lease creditor within creditors in the Group accounts. An imputed finance charge on this liability is included in interest payable in the Group revenue account.

Service charges paid by LU to the PPP contractors are allocated to the revenue account to reflect management's estimate of the value of operating services received, with the balance applied to amortise the finance lease creditor over the term of the contract. Performance adjustments to the service charges are also recorded within expenditure.

Notes to the accounts

1) Segmental analysis

	Sales revenue 2005/06 £m	Sales revenue 2004/05 £m	Net operating expenditure 2005/06 £m	Net operating expenditure 2004/05 £m	Net assets excluding grants 2005/06 £m	Net assets excluding grants 2004/05 £m
Streets	311.5	250.8	(401.4)	(424.6)	1,616.4	1,825.4
Other	24.0	20.7	(150.6)	(120.8)	1,623.5	1,335.3
Corporation	335.5	271.5	(552.0)	(545.4)	3,239.9	3,160.7
Subsidiary operations						
Bus operations	961.1	892.6	(597.3)	(549.2)	93.1	115.7
London Underground	1,405.2	1,351.7	(747.6)	(748.3)	8,167.8	8,103.3
Docklands Light Railway	15.2	12.8	(41.6)	(33.6)	416.9	436.0
Other	20.6	25.9	(37.0)	3.1	174.2	207.0
Joint venture						
Cross London Rail Links	-	-	(22.9)	(22.1)	-	-
Loss on sale of fixed assets	-	-	(3.9)	(5.5)	-	-
Group	2,737.6	2,554.5	(2,002.3)	(1,901.0)	12,091.9	12,022.7

2) Group sales revenue

	Note	2005/06 £m	% of total	2004/05 £m	% of total
Fares		2,068.0	75.5	1,949.1	76.3
Revenue in respect of free travel for older and disabled people		184.1	6.7	173.2	6.8
Congestion Charging	*25*	254.1	9.3	218.1	8.5
Charges to London boroughs		11.1	0.4	11.4	0.4
Charges to transport operators		7.4	0.3	9.9	0.4
Bus enforcement		45.8	1.7	20.6	0.8
Commercial advertising receipts		53.1	1.9	50.6	2.0
Rents receivable		52.5	1.9	47.3	1.9
Taxi licensing		15.5	0.6	10.3	0.4
Museum income		1.7	0.1	3.0	0.1
Other		44.3	1.6	61.0	2.4
Total sales revenue		2,737.6	100.0	2,554.5	100.0

3) Expenditure

	Note	Group 2005/06 £m	Group 2004/05 £m	Corporation 2005/06 £m	Corporation 2004/05 £m
Staff costs:					
Wages and salaries		617.2	577.1	103.9	93.9
Social security costs		52.0	48.3	9.4	8.4
Pension costs	*23a*	120.8	107.5	19.5	24.0
		790.0	732.9	132.8	126.3
Operating leases and PFI charges		276.2	254.7	13.8	52.4
Financial assistance to boroughs and other third parties	*26*	190.0	164.3	190.0	164.3
Supplies and services		4,962.5	4,195.4	788.9	600.2
		6,218.7	5,347.3	1,125.5	943.2
Capital expenditure	*11a, b*	(1,784.9)	(1,157.4)	(278.5)	(160.8)
Expenditure charged to revenue		4,433.8	4,189.9	847.0	782.4

	Group 2005/06 £m	Group 2004/05 £m	Corporation 2005/06 £m	Corporation 2004/05 £m
The cost of operations include the following amounts:				
Auditors' remuneration for statutory audit services	0.8	0.9	0.4	0.4
Auditors' remuneration for non-statutory audit services	0.1	0.1	-	-
Auditors' remuneration for non-audit services	0.1	-	-	-
	1.0	1.0	0.4	0.4

The Group leases certain properties on short-term and long-term leases. The rents payable on these leases were £32.5m (2004/05 £27.0m). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays all insurance, maintenance and repairs of these properties.

Total operating lease rentals for the Group included in the revenue account were £243.7m (2004/05 £227.7m). Payments under these lease agreements, which include the cost of routine maintenance and repairs, are charged to revenue over the period of the leases from the time the assets become operational.

4) Asset management revenue account

	Corporation 2005/06 £m	Corporation 2004/05 £m
Depreciation reversal	158.0	138.5
Capital financing charge reversal	87.6	83.7
Reversal of notional capital charge for use of assets	245.6	222.2
Depreciation	(158.0)	(138.5)
Amortisation of deferred capital grants	73.1	54.2
Third-party interest payable	(10.2)	(2.9)
	150.5	135.0

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

Notes to the accounts

5) Employees' remuneration

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

£	Group 2005/06 Number	Group 2004/05 Number	Corporation 2005/06 Number	Corporation 2004/05 Number
50,000 - 59,999	**405**	274	**144**	121
60,000 - 69,999	**171**	131	**78**	60
70,000 - 79,999	**84**	81	**45**	36
80,000 - 89,999	**64**	37	**26**	16
90,000 - 99,999	**21**	24	**11**	17
100,000 - 109,999	**11**	24	**5**	11
110,000 - 119,999	**18**	15	**8**	8
120,000 - 129,999	**7**	7	**5**	6
130,000 - 139,999	**10**	5	**5**	1
140,000 - 149,999	**7**	4	**3**	4
150,000 - 159,999	**3**	2	**3**	1
160,000 - 169,999	**2**	4	**2**	4
170,000 - 179,999	**3**	3	**2**	2
180,000 - 189,999	**-**	1	**-**	1
190,000 - 199,999	**2**	1	**1**	1
200,000 - 209,999	**2**	2	**1**	1
210,000 - 219,999	**1**	-	**-**	-
220,000 - 229,999	**2**	1	**-**	1
240,000 - 249,999	**2**	-	**-**	-
260,000 - 269,999	**-**	1	**-**	1
310,000 - 319,999	**1**	1	**1**	1
320,000 - 329,999	**-**	2	**-**	1
330,000 - 339,999	**1**	-	**1**	-
350,000 - 359,999	**1**	-	**1**	-
390,000 - 399,999	**1**	-	**-**	-
450,000 - 459,999	**1**	-	**1**	-
690,000 - 699,999	**-**	1	**-**	1
1,720,000 - 1,729,999	**1**	-	**1**	-
Total	**821**	621	**344**	295

The SORP requires the above disclosure for only the Corporation's employees. The impact of the transfer of employees into and out of the Corporation from subsidiaries can cause distortion for year-on-year comparison.

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

6) Minimum revenue provision

	Corporation 2005/06 £m	Corporation 2004/05 £m
Minimum revenue provision @ 4 per cent	**3.2**	-
	3.2	-
Amount charged as depreciation	**158.0**	138.5
Amortisation of deferred capital grant	**(73.1)**	(54.2)
Appropriation of fixed asset restatement account	**(79.9)**	(81.7)
Appropriation of capital financing account	**(1.8)**	(2.6)
	3.2	-

The Local Government and Housing Act 1989 requires a Minimum Revenue Provision (MRP) to be set aside for the redemption of external debt. This amount is calculated as a percentage (currently 4 per cent) of the Authority's Capital Financing Requirement of £79.1m.

The SORP requires that the provision for depreciation be regarded as part of MRP, with the difference being a charge or credit to the revenue account. This ensures that the revenue account is charged with no more than the amount required for the repayment of debt. This sum should replace the depreciation charged to services in respect of the Corporation in the revenue account.

The transfer from the capital financing account reduces the charge in the Group revenue account to the statutory minimum.

7) Allocation of transport grant received

	Note	Group 2005/06 £m	Group 2004/05 £m	Corporation 2005/06 £m	Corporation 2004/05 £m
Grant from Department for Transport applied to fund revenue expenditure		**1,974.6**	2,121.3	**1,974.6**	2,121.3
Grant from Department for Transport taken to deferred grants	*17*	**205.8**	138.8	**-**	35.5
Grant from Department for Transport used to fund capital expenditure in subsidiaries and joint venture		**-**	-	**205.8**	103.3
Total transport grant received		**2,180.4**	2,260.1	**2,180.4**	2,260.1

Notes to the accounts

8) Interest and investment income

	Group 2005/06 £m	Group 2004/05 £m	Corporation 2005/06 £m	Corporation 2004/05 £m
Interest and investment income:				
Interest receivable and investment income	(58.2)	(55.4)	(55.0)	(52.6)
	(58.2)	(55.4)	(55.0)	(52.6)

9) Interest payable and similar charges

	Group 2005/06 £m	Group 2004/05 £m	Corporation 2005/06 £m	Corporation 2004/05 £m
Interest payable and similar charges:				
Imputed interest on finance lease creditors	104.0	61.6	-	-
Interest payable	10.2	4.1	-	-
	114.2	65.7	-	-

10) Taxation

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

At 31 March 2006 the Group had a deferred tax asset in respect of capital allowances of £43.3m (2004/05 £31.0m).

No deferred tax asset is accounted for, as it is not believed that such an asset would be recoverable in the foreseeable future.

The full potential liability for deferred taxation in respect of potential capital gains on revalued fixed assets has not been quantified as no tax liability is expected to arise due to the availability of rollover relief.

11) Tangible fixed assets

a) Group	*Note*	Infrastructure and other property £m	Rolling stock £m	Plant and equipment £m	Non-operational assets £m	Total £m
Gross cost or valuation						
Balance at 1 April 2005		17,782.3	3,101.7	915.2	789.6	22,588.8
Additions to fixed assets		1,342.6	135.6	98.1	208.6	1,784.9
Disposals		(109.7)	(3.0)	(63.5)	(20.1)	(196.3)
Transfers and adjustments		20.2	4.1	(0.4)	(23.9)	-
Revaluation		16.8	-	-	36.3	53.1
Gross cost or valuation at 31 March 2006		**19,052.2**	**3,238.4**	**949.4**	**990.5**	**24,230.5**
Depreciation						
Balance at 1 April 2005		7,472.9	1,808.9	470.9	0.2	9,752.9
Disposals		(74.2)	(3.0)	(62.4)	(0.2)	(139.8)
Depreciation charge	*11c*	383.8	74.8	91.6	-	550.2
Revaluation		(4.3)	-	-	-	(4.3)
Balance at 31 March 2006		**7,778.2**	**1,880.7**	**500.1**	**-**	**10,159.0**
Net book value at 31 March 2006		**11,274.0**	**1,357.7**	**449.3**	**990.5**	**14,071.5**
Net book value at 31 March 2005		10,309.4	1,292.8	444.3	789.4	12,835.9

PPP assets and leased assets

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

	Infrastructure and other property £m	Rolling stock £m	Plant and equipment £m	Non-operational assets £m	Total £m
Gross cost					
PPP assets	12,976.5	3,118.0	288.6	512.5	16,895.6
Leased assets	144.9	45.3	228.2	-	418.4
	13,121.4	**3,163.3**	**516.8**	**512.5**	**17,314.0**
Depreciation					
PPP assets	5,448.8	1,848.3	142.9	-	7,440.0
Leased assets	2.2	14.2	28.6	-	45.0
	5,451.0	**1,862.5**	**171.5**	**-**	**7,485.0**
Net book value at 31 March 2006	**7,670.4**	**1,300.8**	**345.3**	**512.5**	**9,829.0**
Net book value at 31 March 2005	6,964.8	1,212.4	192.2	415.6	8,785.0

Notes to the accounts

11) Tangible fixed assets (continued)

b) Corporation	Note	Infrastructure and other property £m	Plant and equipment £m	Non-operational assets £m	Total £m
Gross cost or valuation					
Balance at 1 April 2005		3,667.6	152.1	74.0	3,893.7
Additions to fixed assets		168.2	68.3	42.0	278.5
Disposals		(31.3)	(11.0)	(13.0)	(55.3)
Transfers and adjustments		4.5	-	(4.5)	-
Revaluation		2.8	-	0.7	3.5
Gross cost or valuation at 31 March 2006		**3,811.8**	209.4	99.2	4,120.4
Depreciation					
Balance at 1 April 2005		1,565.1	49.6	0.2	1,614.9
Disposals		(22.2)	(10.9)	(0.2)	(33.3)
Depreciation charge	*11c*	119.1	38.9	-	158.0
Revaluation		(1.3)	-	-	(1.3)
Balance at 31 March 2006		**1,660.7**	**77.6**	**-**	**1,738.3**
Net book value at 31 March 2006		**2,151.1**	**131.8**	**99.2**	**2,382.1**
Net book value at 31 March 2005		2,102.5	102.5	73.8	2,278.8

c) Depreciation charge	Note	Group 2005/06 £m	Group 2004/05 £m	Corporation 2005/06 £m	Corporation 2004/05 £m
Depreciation for the period:					
– on the historical cost of depreciated fixed assets		**114.7**	93.2	**158.0**	138.5
– on the revalued element of depreciated fixed assets		**118.2**	120.4	**-**	-
– on assets allocated to PPP contractors		**308.7**	304.0	**-**	-
– on assets held under finance leases		**8.6**	6.8	**-**	-
Total depreciation charge	*11a, b*	**550.2**	524.4	**158.0**	138.5
Less: release of deferred grants	*17*	**(334.8)**	(310.6)	**(73.1)**	(54.2)
Depreciation net of release of deferred grants		**215.4**	213.8	**84.9**	84.3

11) Tangible fixed assets (continued)

d) Historical cost of assets

The historical cost of assets is the original cost to the subsidiary that acquired the assets, together with the fair value of the assets transferred to the Corporation on 3 July 2000 and the cost of subsequent additions.

	Group 2006 £m	Group 2005 £m	Corporation 2006 £m	Corporation 2005 £m
Infrastructure and other property	**14,235.8**	12,939.3	**3,811.6**	3,670.2
Rolling stock	**2,034.0**	1,894.9	**-**	-
Plant and equipment	**854.5**	819.7	**209.4**	152.1
Non-operational assets	**744.1**	574.1	**69.7**	45.2
Gross cost	**17,868.4**	16,228.0	**4,090.7**	3,867.5
Less accumulated depreciation	**(5,069.8)**	(4,679.2)	**(1,739.6)**	(1,614.8)
Net written down cost	**12,798.6**	11,548.8	**2,351.1**	2,252.7

e) Group assets

	Group 2006 Number	Group 2005 Number
Railway carriages	**4,164**	4,077
Track route length (kilometres)	**438**	434
Railway stations	**291**	287
Bridges and viaducts	**1,991**	1,991
Roads (kilometres)	**580**	580
Car ferries	**3**	3
Buses	**517**	515
Bus stations and stands	**100**	99
Bus shelters	**9,046**	8,732
Offices	**130**	135
Piers	**9**	9

f) Capital expenditure analysed by source of finance

	Note	Group 2006 £m	Group 2005 £m	Corporation 2006 £m	Corporation 2005 £m
Analysis by source of finance:					
Transport capital grants		**0.4**	138.8	**-**	35.6
Prudential borrowing		**550.0**	195.6	**260.6**	104.2
Finance leases - PPP		**887.6**	712.1	**-**	-
- other		**146.8**	-	**-**	-
Third-party contributions		**157.5**	102.6	**7.1**	5.7
Capital receipts and revenue contributions		**42.6**	8.3	**10.8**	15.3
	11a,b	**1,784.9**	1,157.4	**278.5**	160.8

Notes to the accounts

12) Investment in subsidiaries and joint venture

	Group 2006 £m	Group 2005 £m	Corporation 2006 £m	Corporation 2005 £m
Balance at 1 April 2005	-	-	22.5	22.5
Share of gross assets of joint venture	8.5	6.3	-	-
Share of gross liabilities of joint venture	(8.5)	(6.3)	-	-
Balance at 31 March 2006	-	-	22.5	22.5

The Group's subsidiaries and joint venture are:

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

The Corporation owns all the ordinary share capital of its subsidiaries. Transport Trading Limited holds 50 per cent of the share capital of the joint venture. The accounts of these companies are lodged at Companies House. TfL has given assurances of financial support to the boards of all the subsidiary companies listed above. The statutory accounts for these companies for the year ended 31 March 2006 all received unqualified audit opinions.

13) Stocks

	Group 2006 £m	Group 2005 £m	Corporation 2006 £m	Corporation 2005 £m
Maintenance stores	4.7	4.6	2.5	2.9
Goods purchased for resale	0.4	0.4	-	-
	5.1	5.0	2.5	2.9

14) Debtors

	Group 2006 £m	Group 2005 £m	Corporation 2006 £m	Corporation 2005 £m
Trade debtors	265.6	266.4	48.3	31.1
Amounts due from subsidiary companies				
– loans	-	-	380.8	91.4
– other	-	-	-	6.9
Prepayments and accrued income	36.0	72.0	3.6	17.1
	301.6	338.4	432.7	146.5

15) Cash at bank and in hand

	Note	Group 2006 £m	Group 2005 £m	Corporation 2006 £m	Corporation 2005 £m
Cash at bank		12.0	9.9	3.4	8.0
Cash in hand and in transit		12.0	14.1	0.1	0.1
	19b, 20	24.0	24.0	3.5	8.1

16) Creditors

a) Amounts falling due within one year	Note	Group 2006 £m	Group 2005 £m	Corporation 2006 £m	Corporation 2005 £m
Trade creditors		791.2	690.0	222.2	167.2
Capital works		263.2	216.9	109.0	100.5
Amounts due to subsidiary companies		-	-	16.3	-
Finance lease obligations repayable within one year	*19*	544.7	453.7	-	-
Salaries and wages		13.4	12.6	3.9	2.6
Receipts in advance for travelcards and bus passes		87.0	84.3	-	-
		1,699.5	1,457.5	351.4	270.3

b) Amounts falling due after more than one year	Note	Group 2006 £m	Group 2005 £m	Corporation 2006 £m	Corporation 2005 £m
Retentions on capital contracts		0.3	4.1	0.3	4.2
Accruals and deferred income		17.9	7.6	4.4	4.2
Finance lease obligations	*19*	1,249.6	624.8	-	-
		1,267.8	636.5	4.7	8.4

Notes to the accounts

17) Deferred grants

	Note	Group 2006 £m	Group 2005 £m	Corporation 2006 £m	Corporation 2005 £m
Balance at 1 April		**6,681.7**	6,766.8	**477.5**	491.6
Transport grant	*7*	**205.8**	138.8	**-**	35.5
Third-party contributions and other grant funding		**157.5**	102.6	**7.1**	5.7
Transfer from subsidiary		**-**	-	**-**	(1.0)
Release of deferred grant:					
– to meet the depreciation charge	*11c*	**(334.8)**	(310.6)	**(73.1)**	(54.2)
– on disposal of tangible fixed assets		**(15.1)**	(15.9)	**-**	(0.1)
Balance at 31 March		**6,695.1**	6,681.7	**411.5**	477.5

18) Provisions for liabilities and charges

	Note	At 1 April 2005 £m	Payments in year £m	Increase/ (decrease) in provision £m	At 31 March 2006 £m
Group					
Claims for compensation		132.8	(17.2)	69.6	**185.2**
Capital investment activities		35.8	(5.6)	(10.3)	**19.9**
Unfunded pension liabilities	*23f*	40.2	(3.2)	0.3	**37.3**
Other		8.7	(1.7)	10.8	**17.8**
		217.5	(27.7)	70.4	**260.2**
Corporation					
Claims for compensation		43.9	(8.3)	26.2	**61.8**
Capital investment activities		30.1	(5.4)	(9.8)	**14.9**
Unfunded pension liabilities		26.2	(2.2)	(3.1)	**20.9**
Other		1.5	(0.7)	13.4	**14.2**
		101.7	(16.6)	26.7	**111.8**

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

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

Details of unfunded pension liabilities are given in Note 23. Other provisions include the long-term charges to Train Operating Companies and dilapidations on full repairing leases.

19) Borrowings

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

	Note	Group 2006 £m	Group 2005 £m	Corporation 2006 £m	Corporation 2005 £m
a) Amounts falling due within one year					
Finance lease obligations	*16a*	**544.7**	453.7	**-**	-
		544.7	453.7	**-**	-
b) Amounts falling due after more than one year					
Finance lease obligations	*16b*	**1,249.6**	624.8	**-**	-
Loan Notes, loans from Public Works Loan Board and Bank Project Finance		**745.9**	195.6	**745.9**	195.6
		1,995.5	820.4	**745.9**	195.6
Total borrowings		**2,540.2**	1,274.1	**745.9**	195.6
Investments – deposits		**(1,663.1)**	(1,326.5)		
Cash at bank and in hand	*15*	**(24.0)**	(24.0)		
Net borrowing/(funds)		**853.1**	(76.4)		

	Group 2006 £m	Group 2005 £m	Corporation 2006 £m	Corporation 2005 £m
Borrowings analysed by maturity:				
Within one year	**544.7**	453.7	**-**	-
Between one and two years	**890.7**	225.3	**-**	-
Between two and five years	**19.2**	199.0	**-**	-
Between five and ten years	**70.1**	59.1	**-**	-
Over ten years	**1,015.5**	337.0	**745.9**	195.6
	2,540.2	1,274.1	**745.9**	195.6
Borrowings analysed by source:				
Finance lease – PPP	**1,426.3**	857.7	**-**	-
– Other	**368.0**	220.8	**-**	-
Bank Project Finance	**18.1**	-	**18.1**	-
Public Works Loan Board	**334.4**	-	**334.4**	-
Loan Notes	**393.4**	195.6	**393.4**	195.6
	2,540.2	1,274.1	**745.9**	195.6

The increase in obligations under finance leases principally reflects the level of fixed asset additions provided by the PPP contractors during the year net of the capital element of the annual payments to these contractors, and assets provided under a Private Finance Initiative in respect of the DLR City Airport Extension which became operational in 2005/06.

Bank Project Finance comprises the first instalment of a 4.293 per cent fixed rate £450m facility to finance the East London Line maturing in 15 equal instalments from March 2017.

Loans from the Public Works Loan Board comprise £159.4m at a fixed rate of 4.25 per cent with maturities in March 2033, 2034 and 2035 and £175.0m at a fixed rate of 4.2 per cent with maturities in March 2036, 2037 and 2038. Loan Notes comprise £200m with a fixed coupon of 5.0 per cent maturing in five equal instalments from March 2031 and £200m with a fixed coupon of 4.5 per cent maturing in five equal instalments from March 2027.

20) Financial instruments

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

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

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

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

In managing these financial assets and liabilities, the Treasury Management Strategy and annual plan has the following objectives:

- To undertake treasury management operations with primary regard for the security and liquidity of capital invested with reference to Government guidance
- To maximise yield from investments consistent with the security and liquidity objectives
- To ensure that sufficient cash is available to enable the Corporation and the Group to discharge its financial obligations in accordance with approved spending plans
- To undertake treasury management activity with regard to Prudential Code Indicators

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

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

In March 2006, the Corporation launched its second Eurobond issue for £200m through joint arrangers HSBC and Morgan Stanley. The Corporation also borrowed £334.4m from the Public Works Loan Board and the first £18.1m instalment of a £450m project finance facility. This borrowing by the Corporation uses £746m of the £800m limit set by the Mayor for 2005/06.

20) Financial instruments (continued)

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

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

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

	Note	Group 2006 £m	Group 2005 £m	Corporation 2006 £m	Corporation 2005 £m
Financial assets					
Cash at bank and in hand	*15*	**24.0**	24.0	**3.5**	8.1
Short-term investments		**1,663.1**	1,326.5	**1,632.9**	1,300.4
Total financial assets		**1,687.1**	1,350.5	**1,636.4**	1,308.5
Financial liabilities					
Borrowings	*19b*	**745.9**	195.6	**745.9**	195.6
Obligations under finance lease	*19a, b*	**1,794.3**	1,078.5	**-**	-
Other creditors greater than one year	*16b*	**18.2**	11.7	**4.7**	8.4
Total financial liabilities		**2,558.4**	1,285.8	**750.6**	204.0

Short-term investments represent deposits invested with banks and institutions for less than one year with interest earnings benchmarked by reference to three-month LIBOR. Obligations under finance leases carry an imputed weighted average interest charge of 6.8 per cent. Long-term borrowings carry fixed coupons ranging between 4.2 per cent and 5.0 per cent.

The weighted average interest rate ranges between 4.2 per cent and 5.15 per cent.

At 31 March 2006 the market value of the Group's quoted debt was £412.1m (2005 £197.4m). All other financial assets and liabilities have fair values equal to their book value.

21) Capital commitments

	Group 2006 £m	Group 2005 £m	Corporation 2006 £m	Corporation 2005 £m
In respect of contracts placed for:				
Road projects	**111.9**	77.1	**111.9**	77.1
London Underground projects	**178.7**	56.2	**-**	-
Docklands Light Railway projects	**276.4**	151.0	**-**	-
Other projects	**81.4**	11.0	**-**	2.1
	648.4	295.3	**111.9**	79.2

Notes to the accounts

22) Financial commitments

a) Operating leases

As at 31 March 2006, the Group and the Corporation were committed to making the following payments during the next year in respect of operating leases:

	Group 2006 £m	Group 2005 £m	Corporation 2006 £m	Corporation 2005 £m
Property leases which expire:				
Within one year	**1.6**	3.7	**-**	-
Between one and five years	**4.6**	4.2	**-**	-
Thereafter	**22.0**	20.0	**1.2**	-
	28.2	27.9	**1.2**	-
PFI agreements and other leases which expire:				
Within one year	**0.3**	0.8	**-**	-
Between one and five years	**0.4**	1.0	**-**	-
Thereafter	**254.2**	251.5	**19.9**	26.3
	254.9	253.3	**19.9**	26.3

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

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

b) PPP

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

c) Contingencies

There are a number of uncertainties surrounding projects, including claims in the course of negotiations, which may affect the financial outcome. Where claims are possible but not probable, or unquantifiable, such claims are treated as contingent liabilities. Contingent liabilities are not recognised in the Statement of Accounts, 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 financial statements include provisions based on management's best estimate of the outcome of these uncertainties (see Note 18).

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

23 Pensions

a) Summary of Pension Totals for the year

Total pension service cost for the year

	Note	Group 2005/06 £m	Group 2004/05 £m	Corporation 2005/06 £m	Corporation 2004/05 £m
TfL Pension Fund	23b	112.7	95.3	18.8	17.0
Local Government Pension Scheme	23c	1.9	1.9	1.9	1.9
Principal Civil Service Pension Scheme	23d	1.3	1.1	1.3	1.1
Other schemes and unfunded pensions	23f	4.9	9.2	(2.5)	4.0
Amount included in net cost of services	3	120.8	107.5	19.5	24.0

Total pensions interest cost and expected return on pensions assets

	Note	Group 2005/06 £m	Group 2004/05 £m	Corporation 2005/06 £m	Corporation 2004/05 £m
TfL Pension Fund	23b	7.5	14.0	-	-
Local Government Pension Scheme	23c	0.4	(0.1)	0.4	(0.1)
Amount included in net cost of services		7.9	13.9	0.4	(0.1)

Total contribution to/(from) pension reserve in the year

	Note	Group 2005/06 £m	Group 2004/05 £m	Corporation 2005/06 £m	Corporation 2004/05 £m
TfL Pension Fund	23b	12.2	16.0	-	-
Local Government Pension Scheme	23c	(0.1)	(0.5)	(0.1)	(0.5)
Amount included in net cost of services		12.1	15.5	(0.1)	(0.5)

Total pension deficit at end of year

	Note	Group 2005/06 £m	Group 2004/05 £m	Corporation 2005/06 £m	Corporation 2004/05 £m
TfL Pension Fund	23b	(752.2)	(945.8)	-	-
Local Government Pension Scheme	23c	(17.7)	(14.9)	(17.7)	(14.9)
Amount included in net cost of services		(769.9)	(960.7)	(17.7)	(14.9)

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

Notes to the accounts

23) Pensions (continued)

b) TfL Pension Fund

The TfL Pension Fund, to which the Group contributes, is a final salary scheme established under trust. The Fund's Trustee is the TfL Trustee Company Limited, a wholly owned subsidiary of TfL. Under the rules of the Fund, its 18 Trustee Directors are nominated in equal numbers by TfL and on behalf of the Fund's membership. TfL's subsidiaries also participate in the Fund and it is not possible to identify the Corporation's share of the underlying assets and liabilities.

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

A separate valuation has been prepared for accounting purposes on an FRS 17 basis as at 31 March 2006.

The assumptions used by the Actuary are the best estimates chosen from a range of possible actuarial assumptions, while the present value of the scheme's liabilities is derived from cash flow projections. Due to the timescale covered, neither the assumptions nor the cash flow projections may necessarily be borne out in practice.

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

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

	FRS 17 valuation at 31 March 2006 %	FRS 17 valuation at 31 March 2005 %	FRS 17 valuation at 31 March 2004 %
Inflation	**3.00**	2.90	2.90
Rate of increase in salaries	**4.50**	4.40	4.40
Rate of increase of pensions in payment and deferred pensions	**3.00**	2.90	2.90
Discount rate	**5.10**	5.55	5.70
Investment return	**6.70**	7.00	7.00

The liabilities for the TfL Pension Fund have been calculated using the mortality assumptions adopted for the latest funding valuation as at 31 March 2003. 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 which was broadly financially equivalent to a 0.25 per cent per annum reduction in the discount rate.

23) Pensions (continued)

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

	Expected return %	Value at 31 March 2006 £m	Expected return %	Value at 31 March 2005 £m	Expected return %	Value at 31 March 2004 £m
Equities	8.1	2,351.4	8.2	1,934.4	8.2	1,700.1
Bonds	4.5	1,260.2	4.9	1,055.9	5.0	987.7
Cash, property and other assets	4.0	150.1	3.9	43.9	4.1	37.0
Total market value of assets		3,761.7		3,034.2		2,724.8
Actuarial valuation of Section liabilities		(4,513.9)		(3,980.0)		(3,604.8)
Deficit in the scheme recognised as a liability in the balance sheet		(752.2)		(945.8)		(880.0)

Analysis of amounts charged to cost of services:	Group 2005/06 £m	Group 2004/05 £m
Current service cost	112.7	95.3
Past service cost	-	-
Total charged to cost of services	112.7	95.3

Analysis of pensions interest cost and expected return on pensions assets

	Group 2005/06 £m	Group 2004/05 £m
Interest on Section liabilities	220.9	204.7
Expected return on Section assets	(213.4)	(190.7)
Total charged to net operating expenditure	7.5	14.0
Total amount included in net operating expenditure in Group revenue account	120.2	109.3
Contribution to/(from) pensions reserve	12.2	16.0
Amount to be met from Government grant and local taxation	132.4	125.3

Analysis of the movement in deficit in the Section during the year:	Group 2005/06 £m	Group 2004/05 £m
Deficit in the Section at start of year	(945.8)	(880.0)
Contributions paid	132.4	125.3
Current service cost	(112.7)	(95.3)
Interest and investment charge	(7.5)	(14.0)
Actuarial gain/(loss)	181.4	(81.8)
Deficit in the Section at end of year	(752.2)	(945.8)

Notes to the accounts

23) Pensions (continued)

c) Local Government Pension Scheme

The Local Government Pension Scheme is a funded multi-employer defined benefit scheme. The Corporation is able to identify its share of the assets and liabilities of the scheme and this scheme has therefore been accounted for as a defined benefit scheme under FRS 17. Employers' contributions were payable at the rate of 14.1 per cent (2004/05 13.2 per cent) of pensionable pay. The Corporation's share of the underlying assets and liabilities resulted in a deficit of £17.7m (2004/05 £14.9m). The annual report and accounts for the whole scheme can be found on the London Pensions Fund Authority website (lpfa.org.uk).

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

	FRS 17 valuation at 31 March 2006 %	FRS 17 valuation at 31 March 2005 %	FRS 17 valuation at 31 March 2004 %
Inflation	**3.10**	2.90	2.90
Rate of increase in salaries	**4.60**	4.40	4.40
Rate of increase of pensions in payment and deferred pensions	**3.10**	2.90	2.90
Discount rate	**4.90**	5.40	6.50
Investment return	**6.80**	7.10	7.30

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

	Expected return %	**Value at 31 March 2006 £m**	Expected return %	Value at 31 March 2005 £m	Expected return %	Value at 31 March 2004 £m
Equities	**7.3**	**20.5**	7.7	19.3	7.7	11.5
Bonds	**6.0**	**6.2**	4.8	2.6	5.1	1.8
Cash, property and other assets	**5.8**	**5.8**	5.4	2.7	5.8	0.7
Total market value of assets		**32.5**		24.6		14.0
Actuarial valuation of liabilities		**(50.2)**		(39.5)		(16.7)
Deficit in the scheme recognised as a liability in the balance sheet		**(17.7)**		(14.9)		(2.7)

23) Pensions (continued)

	Corporation and Group	
	2005/06 £m	2004/05 £m
Analysis of amounts charged to cost of services:		
Current service cost	1.8	1.8
Past service cost	-	0.1
Curtailment and settlements	0.1	-
Total charged to cost of services	1.9	1.9
Analysis of pensions interest cost and expected return on pensions assets		
Interest on pensions liabilities	2.2	1.0
Expected return on pensions assets	(1.8)	(1.1)
Total charged to net operating expenditure	0.4	(0.1)
Total amount included in net operating expenditure in revenue account	2.3	1.8
Contribution (from)/to pensions reserve	(0.1)	(0.5)
Amount to be met from Government grant and local taxation	2.2	1.3

	2005/06 £m	2004/05 £m
Analysis of the movement in deficit during the year:		
Deficit at start of year	(14.9)	(2.7)
Contributions paid	2.2	1.3
Current/past service cost	(1.9)	(1.9)
Interest and investment income/(charge)	(0.4)	0.1
Actuarial gain/(loss)	(2.7)	(11.7)
Deficit at end of year	(17.7)	(14.9)

d) Principal Civil Service Pension Scheme

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. The Group is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis, and in accordance with FRS 17 the Group treats contributions to the PCSPS as if they were contributions to a defined contribution plan.

A full actuarial valuation was carried out at 31 March 2003. Details can be found in the Civil Service Superannuation Resource Accounts (civilservice-pensions.gov.uk).

Employers' contributions were payable to the PCSPS at one of four rates in the range 16.2 per cent to 24.6 per cent of pensionable pay, based on salary bands. Rates may change for next year, subject to salary band changes.

Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Notes to the accounts

23) Pensions (continued)

e) Analysis of movements in pensions reserve

The actuarial gains and losses identified as movements on the pensions reserve in 2005/06 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2006:

TfL Pension Fund — **Group only**

	2005/06		2004/05		2003/04		2002/03	
	£m	%	£m	%	£m	%	£m	%
Difference between the expected and actual return on assets (gain)/loss	**(469.6)**	12.5	(97.2)	3.2	(304.1)	11.2	637.1	27.5
Differences between actuarial assumptions about liabilities and actual experience (gain)/loss	**(59.8)**	1.3	94.3	2.4	8.9	0.3	(27.6)	0.9
Changes in the demographic and financial assumptions used to estimate liabilities (gain)/loss	**348.0**	7.7	84.7	2.1	210.6	5.8	90.6	2.8
Actuarial (gain)/loss recognised in reserves	**(181.4)**	4.0	81.8	2.1	(84.6)	2.4	700.1	21.6

Local Government Pension Scheme — **Corporation and Group**

	2005/06		2004/05		2003/04		2002/03	
	£m	%	£m	%	£m	%	£m	%
Difference between the expected and actual return on assets (gain)/loss	**(4.1)**	12.6	(0.7)	2.7	(1.6)	11.8	3.5	39.3
Differences between actuarial assumptions about liabilities and actual experience (gain)/loss	**-**	-	4.7	11.9	-	-	(0.3)	2.5
Changes in the demographic and financial assumptions used to estimate liabilities (gain)/loss	**6.8**	13.7	7.7	1.9	-	-	-	-
Actuarial (gain)/loss recognised in reserves	**2.7**	5.5	11.7	29.6	(1.6)	9.7	3.2	23.9

f) Unfunded pension costs

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

In addition, the Group bears the cost of:

- Ex-gratia payments which are made to certain former employees who retired more than 10 years ago in respect of service prior to the establishment of pension funds for those employees
- Supplementary pensions, which are made to certain former employees who retired more than 10 years ago and prior to index-linking of pensions
- Pensions of LU and LRT former board members who retired more than five years ago and who did not qualify to join the TfL Pension Fund

Watson Wyatt, consulting actuaries, were instructed to report on the financial position of the unfunded pension liabilities as at 31 March 2006 for the purpose of FRS17 only. The report does not constitute a formal actuarial valuation of the unfunded pension liabilities. The valuation as at 31 March 2006 was £37.3m (2005 £40.2m) and is fully provided for in these accounts.

24) Related parties

Transport for London is required by the Accounting Code of Practice (ACOP) and FRS 8 Related Party Disclosures to disclose all material related party transactions.

A related party is one which has direct or indirect control over the organisation, or influence over the financial and operational policies of the organisation. It follows that those persons who have control or influence over the organisation or policies of the Corporation may be involved in related party transactions where they also have control or influence over the organisation which has dealings with the Corporation. A related party transaction can also arise between parties subject to influence or control from the same external source. The related parties to the Corporation are:

- Its Board members, Chief Officers and Commissioner
- Its directors and heads of service
- Central Government
- Greater London Authority (GLA) and other functional bodies
- Partnerships and associated companies, and
- The TfL Pension Fund

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

Most of the transactions between these parties are reported elsewhere in the Statement of Accounts. The Accounts of the Pension Fund are shown separately and are subject to a separate audit opinion.

Board members, Chief Officers and the Commissioner are required to complete a declaration regarding any related party transactions.

Central Government is responsible for providing the statutory framework within which the Corporation operates and provides the majority of its funding in the form of Transport Grant. Transport Grant is paid by the Department for Transport to the Greater London Authority, which in turn pays the grant to the Corporation. Details of Transport Grant are disclosed in the Corporation and Group revenue accounts and cash flow statements and are therefore not included in this note.

Members of the Board of the Corporation are appointed by the Mayor, who serves as the Chair. The Board is responsible for approving the Corporation's strategic direction and monitoring the performance of the executive team in executing these strategies.

During 2005/06 there were no material related party transactions except as disclosed below.

On 24 November 2005 the Corporation entered into a Consultancy Agreement with the former Commissioner of TfL, Mr R Kiley, who stepped down as Commissioner on 31 January 2006.

In consideration for making himself available to provide consultancy services, Mr Kiley received a payment of £135,000 on 1 February 2006.

He is entitled to the following payments in future years:

1 July 2006	£135,000
1 January 2007	£146,250
1 July 2007	£146,250
1 January 2008	£175,000

Notes to the accounts

25) Congestion Charging

		Group and Corporation	
		2005/06	2004/05
	Note	**£m**	£m
Revenue	*2*	**254.1**	218.1
Expenditure:			
– Toll facilities		**(143.5)**	(120.8)
– Traffic management		**(0.4)**	(0.6)
Financial assistance	*26*	**-**	1.7
Depreciation		**(2.8)**	(1.6)
Capital financing charges		**(1.1)**	(0.4)
Net income/(expenditure)		**106.3**	96.4

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

Notes to the accounts

26) 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.

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

	Note	Corporation 2005/06 £m	Corporation 2004/05 £m
Financial assistance to subsidiaries and joint venture			
Transport Trading Limited		**4.6**	30.5
London Underground Limited		**1,059.3**	807.0
London Bus Services Limited		**627.6**	549.9
London Buses Limited		**3.7**	-
Docklands Light Railway Limited		**80.4**	43.0
London River Services Limited		**1.0**	0.8
Cross London Rail Links Limited		**35.8**	30.9
		1,812.4	1,462.1
Financial assistance to London boroughs and other third parties			
Borough Spending Plan		**162.1**	154.8
Other bus priority payments		**5.5**	-
Taxicard		**9.7**	4.3
Congestion Charging	*25*	**-**	(1.7)
Trafalgar Square		**-**	(0.5)
One Railway		**0.8**	-
c2c Rail Ltd		**0.6**	-
Southern Railway Ltd		**2.1**	1.6
Thameslink		**0.8**	0.6
First Great Western		**0.4**	0.3
London Eastern Railways Ltd		**-**	0.2
South Eastern Trains		**4.0**	0.5
Silverlink		**0.2**	-
WAGN		**0.4**	0.1
Strategic Rail Authority		**-**	0.2
South West Trains		**1.2**	3.0
Others		**2.2**	0.9
	3	**190.0**	164.3

27) 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 guarantee 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:

Agreement with Tube Lines	£1,803m
Agreement with Metronet BCV	£1,325m
Agreement with Metronet SSL	£1,325m
Agreement with CityLink	£502m
Agreement with PADCo and Seeboard Powerlink Ltd	£168m
Agreement with TranSys	£197m
Agreement with CARE	£164m
Agreement with APSLL	£4m

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

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

Summary of progress towards implementing the Mayor's Transport Strategy

TfL is required to report its progress on implementing the Mayor's Transport Strategy (MTS). This information is incorporated throughout the main body of this report. The following summary identifies the contribution TfL and its subsidiaries have made towards specific MTS priorities over the last year.

Priority A

Reducing traffic congestion

In central London, the benefits of the Congestion Charging scheme continued to influence traffic conditions. Against background trends of a continuing decline in overall traffic speeds, the time spent in traffic queues inside the Congestion Charging zone is broadly 30 per cent lower than it might have been without the scheme.

The £8 charge was introduced in July 2005 but it is too early to judge its full impact. The decision to proceed with the zone's western extension has been made and it is scheduled to become operational in February 2007. In Inner and Outer London, the TfL Pinch Point Programme, established in 2003, continues. TfL is reviewing and working with the London boroughs to tackle the worst areas of congestion on the TLRN and, through the LIP programme, to develop a way of reviewing the worst congestion bottlenecks on the borough networks then implementing a programme to address them.

The Traffic Management Act 2004 places a duty on all Local Traffic Authorities (including TfL) to keep all forms of traffic moving on their network, and to work with other traffic authorities for the wider benefit of the network. In 2005/06, this Act completed its first full year in operation. TfL's response to the legislation has eased congestion and minimised the disruption associated with London's one million road and street works by helping it to take difficult decisions that balance the conflicting and competing demands of all stakeholders. In addition, the London street works website, run by TfL on behalf of the ALG, has proved effective at fostering dialogue among those responsible for managing and maintaining London's streets.

TfL has also continued to deliver greater levels of traffic enforcement along London's strategic road network to ensure free movement of traffic. TfL now commands the largest camera enforcement operation in the UK. It has recently unveiled the latest weapon to combat illegal parking: a Smart car equipped with the latest digital technology, which will be used to enforce parking restrictions on the TLRN.

Meanwhile, there are also developments in Government policy, particularly on road pricing, that TfL is well-placed to contribute to and benefit from.

Priority B

Overcoming the backlog of investment on the Underground so as to safely increase capacity, reduce overcrowding and increase both reliability and frequency of service

This is a key objective for LU. Over the last year, as part of TfL's Investment Programme, there has been a considerable amount of essential engineering work undertaken on the Tube network.

This has included:

- Track replacement on most lines
- Escalator refurbishment and replacement and station refurbishment and modernisation

Specific developments included:

- The opening of the upgraded Wembley Park station on schedule and on budget, in time for the new Wembley Stadium
- The start of engineering work on the Waterloo & City line to complete much needed improvements that will deliver a more reliable service with greater capacity and improved journey times
- The addition in January 2006 of a seventh carriage to all Jubilee line trains, boosting passenger capacity by 17 per cent; and the addition of four new trains, enlarging the Jubilee line fleet from 59 to 63 trains
- The progressive introduction of newly refurbished trains on to the District line from June 2005
- Ongoing construction work on the Heathrow Terminal 5 extension of the Piccadilly line
- The announcement that one-third of Tube stations will have step-free access by 2013, more than double the current number
- Ongoing work on the first phase of the King's Cross St Pancras development, including the Western Ticket Hall, which was opened in May 2006

Under TfL's Investment Programme, 34 station modernisation or refurbishment projects were completed during 2005/06.

Work involved installing improved safety, security, information and accessibility features, as well as restoring historic features at the stations. In 2006/07, over 45 stations will have been enhanced, and work will have started at a further 50 stations.

Progress is also continuing towards increasing capacity and reducing overcrowding, with plans ongoing for development and congestion relief at Bank, Covent Garden, Tottenham Court Road and Victoria stations.

Priority C

Making radical improvements to bus services across London, including increasing the bus system's capacity, improving reliability and increasing the frequency of services

In line with recent trends, there were further improvements to bus frequencies, kilometres operated and passenger journeys during 2005/06.

Improvements across London included:

- Support for the introduction of free travel for under-16s
- Network enhancements in and around Barking, Romford and Lewisham and elsewhere
- Increased capacity on many services
- Conversion of routes 29, 38 and 207 to articulated buses
- Provision of replacements for withdrawn

commercially operated bus services in the Heathrow and Harold Wood areas

Service reliability has also improved further. This is the result of an increased number of services operated under Quality Incentive Contracts, improved route control, greater bus priority and enforcement, and the continued benefits of Congestion Charging.

New technologies in bus priority – such as selective vehicle detection (SVD), which allows buses to be preferentially progressed through traffic signals – has further improved bus speeds and reliability.

Changes were also proposed to improve bus services in inner west London to accompany the western extension of the Congestion Charging zone. These changes include increasing frequencies, using bigger buses, introducing extended routes and providing one completely new route, making it easier for residents and visitors to move around the area by public transport.

Work is also continuing on improvements at key bus stations. Enhancements include better accessibility, security, passenger information and interchange facilities at Finsbury Park and a new state-of-the-art bus station at Edmonton Green. In March 2006, the GLA Transport Committee released the Value Added report, which established that since the bus network has been expanded, the fleet overhauled and reliability improved, it is now being used by more passengers than at any time since the 1960s. The Committee also found that the subsidy paid by TfL towards the bus network represented value for money.

Priority D

Better integration of the National Rail system with London's other transport systems to facilitate commuting, reduce overcrowding, increase safety and move towards a London-wide high frequency 'turn up and go' Metro service

TfL and the Mayor have continued to seek a greater influence over National Rail operations in London to further integrate services with bus and Underground and deliver greater efficiency to the network.

In February 2006, the DfT announced that from 11 November 2007, TfL and the Mayor will be responsible for managing the North London Railway.

This comprises the North London line; the London Euston to Watford Junction DC line; the West London line from Willesden Junction to Clapham Junction via Kensington Olympia; and the Gospel Oak to Barking line.

This move will allow the provision of additional station staff and facilities; improved security and revenue protection; Oyster ticketing, including the use of pay as you go; and extra train services. An enhancement programme will bring the North London Railway up to TfL standards, delivering more frequent services on all lines and up to eight trains an hour between Stratford and Willesden.

New trains will replace the existing fleet. The DfT has also accepted TfL's recommendations for the refranchising of the South West main line franchise into Waterloo, which now requires the successful bidder to provide Oyster validating machines at all London stations by 2009 – a further step towards fully integrated ticketing.

Furthermore, during 2005/06, TfL – in partnership with the train operating companies – funded passenger security improvements at stations and on trains.

These improvements included:

- The launch of a £2.7m package of on-train and station security enhancements in partnership with One and the London Borough of Hackney
- CCTV and Help points, both monitored by a control centre staffed 24/7
- Passenger-friendly waiting accommodation
- Real-time train running information
- New public address systems
- Increased lighting levels in and around stations

A number of proposals have been developed which could effectively meet growing rail demand in London and the South East.

These proposals include:

- A new east-west rail link (Crossrail 1)
- An upgraded main north-south route (Thameslink) to provide longer and more frequent trains
- The upgrade of a major London terminus (Waterloo) to take longer trains
- A package of other individual, relatively straightforward and low-cost measures that each make the best use of existing railways infrastructure by addressing key bottlenecks on each of the other main corridors

By modifying the existing National Rail infrastructure in London, and the focused renewal and enhancement of the existing rail network, in addition to Crossrail 1, growth can be met in a sustainable way and at relatively low cost. London Rail is currently testing these solutions in partnership with Government, the rail industry and other stakeholders. In particular, TfL is working very closely with the DfT and Network Rail on this proposal.

Priority E

Increasing the overall capacity of London's transport system by promoting major new cross-London rail links, including access to international transport facilities, improved orbital rail links in Inner London and a new Thames river crossing in east London

TfL has been working to deliver several key projects in accordance with this priority, as follows:

Crossrail
The Crossrail Bill had a second successful

Parliamentary reading and was formally referred to a government select committee. This select committee first met in January 2006 and its work continues.

DLR and extensions

The London City Airport extension was opened on time and on budget in December 2005. Construction is now underway on a further extension under the Thames to Woolwich Arsenal, with a projected completion date of early 2009. Transport and Works Act approval for the proposed extension to Stratford International was submitted in August 2005. Powers have been obtained to enhance capacity between Bank/Tower Gateway and Lewisham by increasing the length of trains from two to three cars. This will require works to lengthen station platforms, strengthen viaducts and bridges and provide new rolling stock. Completion is expected in 2009.

East London Line

Work is currently underway on the first phase of the project, which will link West Croydon to Dalston Junction. It has an estimated completion date of June 2010.

Thames Gateway Bridge

The public inquiry into the bridge that will link Beckton and Thamesmead began in June 2005 and concluded in May 2006. Subject to a decision by the Secretaries of State, the bridge is scheduled to open around 2013.

Cross River Tram

Work is progressing on possible route options and the public will be consulted on them during the second half of 2006.

Tramlink extensions

An outline business case has been developed for the Crystal Palace Tramlink extension. Public consultation on the alignment options is scheduled to take place in late 2006.

West London Tram

TfL has continued the development of the West London Tram, with work focusing on the detailed modelling required to support the design of this complex scheme. The design is being finalised ahead of a Transport and Works Act application, subject to the agreement of the TfL Board.

Priority F

Improving journey time reliability for car users, which will particularly benefit Outer London, where car use dominates, while reducing car dependency by increasing travel choice

TfL has an ongoing commitment to relieving congestion and aims to improve journey time reliability for car drivers and other road users throughout London (see Priority A).

During 2005/06, TfL spent £162m towards funding the boroughs' transport initiatives through the BSP process. TfL also continues to work closely with all stakeholders – including boroughs, schools and businesses – to raise travel awareness and encourage modal shift.

Priority G

Supporting local initiatives including improved access to town centres, regeneration, walking and cycling, Safer Roads to School, road safety improvements, better maintenance of roads/bridges and improved co-ordination of street works

Initiatives supporting this priority include:

- The installation of 4,500 new cycle parking spaces on streets, at schools and at railway stations across London
- The new, 24-hour, fully staffed cycle park at Finsbury Park station, the first to be opened in the UK
- The installation of another 70km of London Cycle Network plus (LCN+) routes, bringing their total length to 500km
- The completion of the 78-mile Capital Rings strategic walking route linking parks, commons and other open spaces in Central and Inner London
- A continuing programme of road safety initiatives including the publication of 'The A-Z of Traffic Tales' book, aimed at four- to seven-year-olds; the award-winning 'Don't Die Before You've Lived' advertising campaign; and the introduction of 20mph zones in residential areas
- Developing a scheme to improve the A406 North Circular Road between Bounds Green Road and Green Lanes, which will bring real benefits to local residents and road users
- Work via the TfL–Boroughs Joined-Up Working Group to develop collaborative procurement and contracts for road schemes/construction, road markings, high-friction surfacing, signs, and producing London-wide specifications to replace the 34 specifications currently in use
- The London street works website, run by TfL on behalf of the ALG, has proved effective at fostering dialogue among those responsible for managing and maintaining London's streets

Priority H

Making the distribution of goods and services in London more reliable, sustainable and efficient while minimising negative environmental impacts

TfL's new Freight Unit is promoting the sustainable transport of freight and waste, and will produce the London Freight Plan by the end of 2006.

The London Construction Consolidation Centre (LCCC) in South Bermondsey was opened in March 2006. This will ensure more efficient and reliable handling and distribution of freight while making the process more environmentally friendly. Deliveries, which would normally go straight to site at the rate of up to 100 per day towards the end of a major project, now come to the LCCC instead.

A single vehicle then transfers only the required amount of material for that day's work to the site at an agreed time.

Priority I

Improving the accessibility of London's transport system so that everyone, regardless of disability, can enjoy other benefits of living in, working in and visiting the Capital, thus improving social inclusion

TfL remains committed to making London's transport infrastructure accessible to all residents and visitors, and 2005/06 has seen further improvements to the network.

These improvements include:

- All London's 8,200 buses have been accessible to those with reduced mobility since December 2005, except on the two heritage routes
- On the Underground, further progress was made towards introducing step-free access at stations. Forty-seven stations now have step-free access from street to platform and work is underway to deliver further access improvements to stations across the LU network
- The 'Out and About in London' guide, produced by TfL, was published in November 2005. It gives people with learning difficulties as well as their carers help and advice on how to use public transport in the Capital

Following in-depth consultation on their design, 33 new Dial-a-Ride vehicles were launched in May 2005. By the end of March 2006, there were a further 113 in service. These vehicles have been custom-built to give passengers a far greater level of comfort and safety. They will improve the quality of transport service TfL can offer disabled people in London.

TfL submitted a number of recommendations during a DfT consultation Railways for All, to secure accessbility improvements for rail passengers in London and to ensure that their needs are met. In March, the DfT announced a total of 47 stations to be included in phase one of the works, which will be completed within the next three years.

The 15 London stations included in phase one of the Railways for All programme are: Balham, Blackheath, Clapham Junction, Denmark Hill, Herne Hill, Kew Gardens, Kingston, Lewisham, New Cross Gate, Norwood Junction, Orpington, Purley, Putney, Streatham Hill and Tulse Hill.

All TfL's major projects – such as the proposed East London Line extension – will play a major role in helping to regenerate some of London's deprived areas. Similarly, the expanding bus network continues to play a key role in increasing social inclusion, as will projects such as the proposed Thames Gateway Bridge and DLR extensions, once they are completed.

Priority J

Bringing forward new integration initiatives to: provide integrated, simple and affordable public transport fares; improve key interchanges; enhance safety and security across all means of travel; ensure that taxis and private hire vehicles are improved and fully incorporated into London's transport system; and provide much better information and waiting environments

The use of Oyster has continued to expand and over 7 million have now been issued. This uptake was encouraged by the decision to freeze Oyster fares and introduce daily price capping at the start of 2006 and this also reduced the number of cash journeys made in the Capital.

Oyster cards now pay for over 60 per cent of all single journeys on London's buses and Tubes. This helped to cut queues, journey times and travel costs while simplifying fare options.

Free bus and tram travel for under-16s has further encouraged young people to use public transport, improving their access to education, sport and leisure opportunities. The move has also helped London's shift away from car journeys.

In partnership with the BTP, TfL has funded an additional 89 officers at Underground and rail stations. A new BTP office has been installed at Highbury & Islington station and there has been a significant investment in train and station security. Every London bus is now fitted with CCTV and 53 per cent of National Rail stations in the Capital now have new CCTV cameras and Help points.

These improvements contribute to a more secure waiting and travelling environment for passengers across London.

London Buses continues to make progress towards rolling out the iBus system. iBus will use a combination of technologies, including satellite tracking and GPRS data transfer, that will enable it to pinpoint all the city's 8,200 buses and relay information between the driver and route control.

The precision of the information means that buses along each route can be more evenly spaced, and waiting times on each bus stop display will be more accurate. iBus also includes next stop announcements. Its visual displays and voice announcements will make it much easier for visually- and hearing-impaired passengers and those with learning difficulties to use London buses. iBus will start to roll out across all London's bus garages in 2007.

Future revisions to the MTS

There are a number of developments that will need to be reflected in any future revisions of the MTS based on the analysis of the draft revisions in the London Plan.

The forecast increase in jobs and population alongside the continuing growth of the Thames Gateway will place increasing demands on London's transport system. Looking further into the future, work is already underway to help understand some of the long-term pressures placed on the transport system by continued population and employment growth beyond 2016. TfL will continue to work closely with the GLA, sharing analysis and helping to develop policy solutions to the challenges facing London. Many of the policy issues that will demand consideration, such as land use planning, are crosscutting and extend beyond transport.

Within transport, the development of policies for optimising use of the road network and a long-term vision for integrating rail services with the rest of London's transport network is underway. Currently, TfL is working closely with other parts of the GLA group to maximise the wider benefits of transport schemes, such as the regeneration benefits delivered by the East London Line extension.

Appendix 1

Remuneration

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

Policy for Board members

Board members are appointed by the Mayor and are independent of the organisation's management. Board members are not required to devote all their time to TfL's affairs. Remuneration for each Board member (with the exception of the Vice Chair) is based on a published formula. In addition to Board activities, the formula relates directly to the number of Panels and Committees on which each member serves. Remuneration also takes into account those members who serve as Chair of the Panels and Committees, up to a capped maximum.

Remuneration levels are set for each Mayoral term, but are reviewed periodically in line with comparable markets to reflect the responsibilities and accountabilities of the role. With effect from 1 August 2004, the basic fee was £18,000 per annum. Board members who act as Chair or 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 £24,000 per annum, except for the position of Vice Chair of the Board, where the annual fee is £60,000 per annum in total. The terms and conditions of appointment for Board members are published on the TfL website (tfl.gov.uk).

Policy for Chief Officers

The Remuneration Committee is chaired by the Chair of TfL, the Mayor of London. Two Board members constitute the remaining Committee members. The term of reference of the Remuneration Committee is to review the remuneration of the Commissioner and Chief Officers on behalf of the Board. Chief Officers are employed by TfL or its subsidiary companies and are required to devote substantially the whole of their time to the organisation's affairs. The policy of TfL is to recruit and retain the highest calibre Chief Officers and to provide remuneration packages that reflect their responsibilities, experience and performance. The Remuneration Committee has established a reward structure commensurate with this policy and comparable talent markets.

The constituent parts of Commissioner and Chief Officer remuneration are:

Basic salary
TfL's reward strategy aims to pay competitive market salaries while recognising individual progress and development through the annual performance reviews. Annual increases in base pay are contained within an inflation based budget. However, in setting individual salary levels, the Remuneration Committee takes into account the median position of relevant markets, the remuneration for other Chief Officers, the

individual contribution to the role and any pay parity issues across the organisation.

Performance-related bonus
The Commissioner and Chief Officers are entitled to an annual performance bonus, assessed against a range of business measures. The bonus paid to the previous Commissioner, Bob Kiley, was up to a maximum of £285,000 in any year. The bonus paid to the current Commissioner, Peter Hendy, is up to a maximum of 50 per cent of base salary. The Chief Officers' bonus is currently up to a maximum of 30 per cent of base salary.

Pension arrangements
Chief Officers are eligible to join the defined benefit TfL Pension Fund. The provisions for Chief Officers are designed to give a pension of up to two-thirds of final pensionable pay, part of which can be exchanged for a tax-free retirement lump sum (under current legislation). There is a death in service benefit of four times pensionable pay. Employee contribution is 5 per cent of pensionable pay. Further benefits are provided through the TfL Supplementary Pension Scheme. Only base salary is pensionable.

Other benefits
A private medical insurance scheme is provided. 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 discounts in line with the policy of the predecessor organisation.

Commissioner's remuneration

The remuneration of the previous TfL Commissioner, Bob Kiley, for 1 April 2005-31 January 2006 was made up as follows:

Salary	£265,090
Bonus for 2004/05*	£270,000
Bonus 2005/06	£237,500
Compensation for loss of office	£745,000
Termination bonuses	£181,250

Other benefits provided for under the employment contract including accommodation, health insurance, and professional tax advice.

* Bonus is shown in the year in which it is paid.

Peter Hendy was appointed TfL Commissioner on 1 February 2006 with a base salary of £320,000 and bonus as detailed earlier on this page. No base pay increase or bonus payment will be due until April 2007.

Appendix 2

Membership of TfL Board, panels and committees 2005/06

TfL Board

Ken Livingstone **Chair**
Dave Wetzel **Vice Chair**
Professor David Begg (until 31/01/06)
Honor Chapman
Professor Stephen Glaister
Kirsten Hearn
Meg Hillier (until 05/05/05)
Sir Mike Hodgkinson
Susan Kramer (until 05/05/05)
Paul Moore
Sir Gulam Noon
Patrick O'Keefe
John Ormerod (until 09/08/06)
Tony West

Special advisors to the Board
Lord Toby Harris
Bryan Heiser
Murziline Parchment
Lynn Sloman

Committees of the Board

Remuneration Committee

Ken Livingstone **Chair**
Sir Mike Hodgkinson
Sir Gulam Noon

Safety, Health and Environmental Committee

Dave Wetzel **Chair**
Kirsten Hearn
Paul Moore
Tony West

Special advisor
Lord Toby Harris

External advisors
Professor Richard Booth
Professor Stuart Nattrass

Finance Committee

Sir Mike Hodgkinson **Chair**
Honor Chapman
Professor Stephen Glaister
Susan Kramer (until 05/05/05)
John Ormerod (until 09/08/06)

Audit Committee

John Ormerod **Chair** (until 09/08/06)
Sir Mike Hodgkinson
Patrick O'Keefe
Dave Wetzel

Special advisors
Bryan Heiser
Murziline Parchment

Advisory panels

Rail Transport advisory panel

Bob Kiley **Chair** (until 31/01/06)
Peter Hendy **Chair** (from 01/02/06)
Susan Kramer **Vice Chair** (until 05/05/05)
Professor David Begg (until 31/01/06)
Ian Brown
Kirsten Hearn
Paul Moore
Patrick O'Keefe (until 14/11/05)
Jay Walder
Tony West

Special advisors
Bryan Heiser

Surface advisory panel

Bob Kiley **Chair** (until 31/01/06)
Peter Hendy **Chair** (from 01/02/06)
Paul Moore **Vice Chair**
Professor David Begg (until 31/01/06)
Professor Stephen Glaister
Kirsten Hearn
Meg Hillier (until 05/05/05)
Patrick O'Keefe
Jay Walder
Tony West
Dave Wetzel

Special advisors
Lord Toby Harris
Bryan Heiser
Lynn Sloman

Underground advisory panel

Bob Kiley **Chair** (until 31/01/06)
Peter Hendy **Chair** (from 01/02/06)
Professor Stephen Glaister **Vice Chair**
Honor Chapman
Kirsten Hearn
Susan Kramer (until 05/05/05)
Tim O'Toole
Jay Walder
Tony West

Special advisors
Lord Toby Harris
Bryan Heiser
Murziline Parchment

Appendix 3

Glossary

ALG
Association of London Government

ALG/TEC
Association of London Government Transport and Environment Committee

AVL
Automatic Vehicle Location

BAME
Black, Asian and Minority Ethnic

BSP
Borough Spending Plan

BTEC
Business & Technology Education Council

BTP
British Transport Police

CCTV
Closed circuit television

CIPFA
The Chartered Institute of Public Finance and Accountancy

CTRL
Channel Tunnel Rail Link

DLR
Docklands Light Railway

DTO
Directorate of Traffic Operations

GLA
Greater London Authority

GPRS
General Packet Radio Service

HSE
Health and Safety Executive

Infraco
Infrastructure company (Metronet and Tube Lines)

KSI
Killed or seriously injured (KSI) casualties

LCCC
London Construction Consolidation Centre

LCDS
London Cycle Design Standards

LCN+
London Cycle Network plus

LEZ
Low Emission Zone

LFP
London Freight Plan

LIP
Local Implementation Plan

LRS
London River Services

LTA
Local Traffic Authority

LTCC
London Traffic Control Centre

LU
London Underground

Met
Metropolitan Police Service

MTS
Mayor's Transport Strategy

NMD
Network Management Duty

NORP
North Orbital Rail Partnership

ODA
Olympic Delivery Authority

PCO
Public Carriage Office

PFI
Private Finance Initiative

RNM
Road Network Management

RPI
Retail Price Index

PPP
Public Private Partnership

SVD
Selective Vehicle Detection

T2025
'Transport 2025: transport challenges for a growing city' report

TBJG
TfL–Boroughs Joined-up Working Group

TDM
Travel Demand Management

TfL
Transport for London

TLRN
Transport for London Road Network

TMO
Traffic Manager's Office

TPED
Transport Policing Enforcement DIrectorate

TPSCO
Transport Police Community Support Officer

VCS
Victoria Coach Station

Other formats

An electronic version of TfL's Annual Report and Accounts 2005/06 is available at tfl.gov.uk/annualreport. It is also available in audio, Braille and a range of other languages. To order the format you require, please tick the relevant box in the list opposite, include your name and address and return to Alex Robertson, Transport for London, Windsor House, 42-50 Victoria Street, London SW1H 0TL.

Alternatively, call 0207 126 4500 or email alexrobertson@tfl.gov.uk.

Name: ____________________

Address: ____________________

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- ❑ Audio (English)
- ❑ Arabic

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- ❑ Bengali

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- ❑ Chinese

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