Transport for London

Version:

TfL Board 18.6

Statement of Accounts
Year ended 31 March 2008

MAYOR OF LONDON

Contents

Explanatory Foreword and Financial Review

2007/08 again saw significant passenger growth across the TfL network. Passenger journeys on the Underground grew by 5.8 per cent to 1.07 billion, supported by a new record for the number of kilometres operated in a year. Service demand on the bus network reached 2.18 billion passenger journeys for the year, and the Docklands Light Railway (DLR) carried more than 67 million passengers in a year.

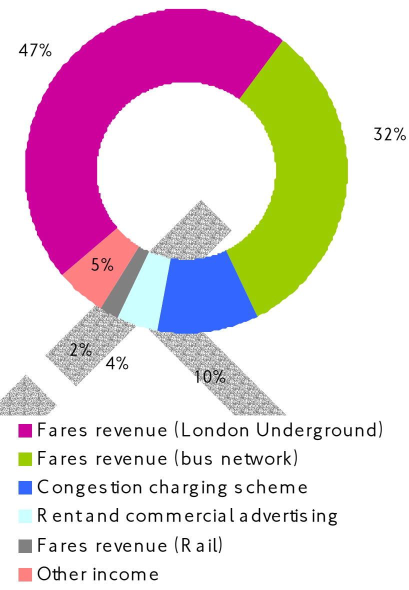
The growth in passenger numbers was reflected in the 2007/08 revenue result, which was up 10.6 per cent on the previous year to £3,279m. Operational spend excluding exceptional items increased by 8.4 per cent to £5,022m.

The level of capital works being undertaken during 2007/08, the third year of TfL's Investment Programme, remained high. Capital expenditure during the year was up 16 per cent to £2,164m.

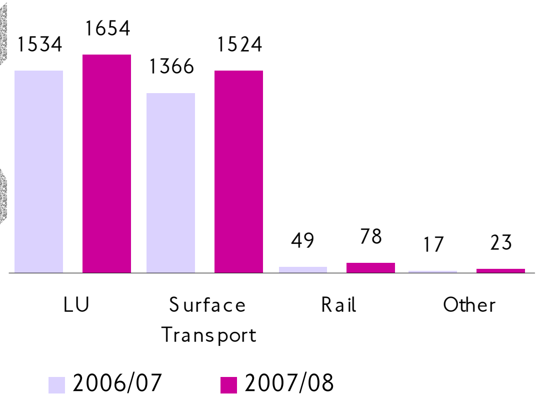
Revenue

TfL's main source of revenue is fares on the London Underground and bus network, including revenue in respect of free travel for older and disabled people, representing 81 per cent of all revenue generated in 2007/08. The continued high levels of passenger demand across the network, together with fare increases, resulted in an 8 per cent increase in fares revenue on the Underground to £1,524m, and a 5 per cent increase in fares revenue on the bus network to £1,057m.

Revenue breakdown (2007/08)



Total revenue by mode (£m)



The price of some bus-only tickets was reduced on 30 September 2007, reducing the average bus fare paid overall by 4.4 per cent. Travelcard prices were increased by 4 per cent in January 2008, broadly in line with inflation. This increased the average Underground fare by 2.6 per cent and the average bus fare by 1.3 per cent.

Explanatory Foreword and Financial Review continued

The use of Oyster PAYG fares increased from 25 per cent of all Underground journeys at the start of 2007/08 to almost 30 per cent over the year. Cash fare use on the Underground declined from 3.9 per cent to 3.6 per cent over the same period. On buses, PAYG use increased from 14 per cent to 17 per cent over the year while cash fares declined from 2.4 per cent to 1.8 per cent of all journeys.

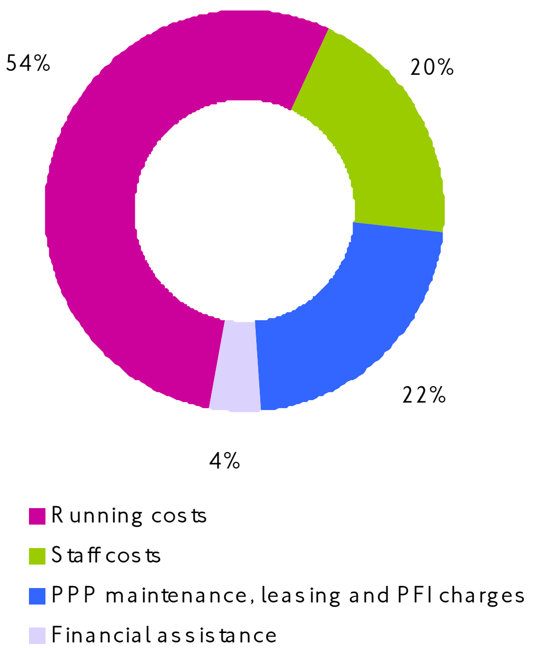
Total fares revenue on the DLR for 2007/08 was £63m compared with £54m for 2006/07. Included in last year's revenue is £5m collected directly by the franchise operator.

Operational expenditure

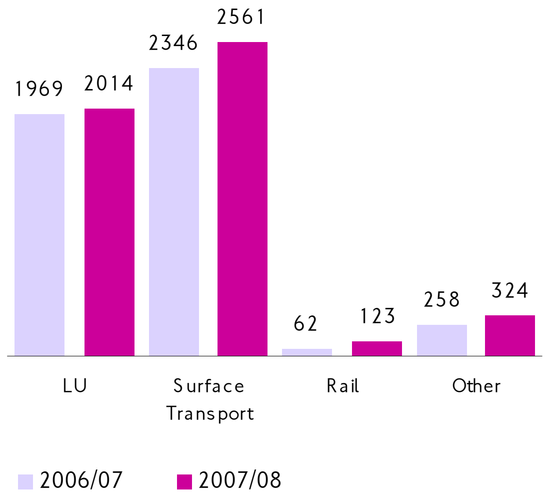
The rise in TfL's expenditure in 2007/08 reflected the Group's increased level of activity during the year.

Operating expenditure on the Underground increased by 2 per cent to £2,014m. Bus network costs increased by approximately £99m to £1,732m, due to contract price inflation, service enhancements and increase in contract performance bonuses.

Operating expenditure breakdown (2007/08)



Expenditure by mode (£m)



Expenditure on Congestion Charging increased by £28m due to a full year's operation of the western extension which came into effect on 19 February 2007.

Rail for London's first few months of operation resulted in additional operating expenditure of £39m. DLR's costs are comparable to last year.

TfL continued its commitment to borough schemes that improve the quality, safety and accessibility of the local travelling environment by providing a total of £179m of financial support to borough programmes. Other financial assistance included payments related to Taxicard.

Interest and finance charges

Interest payable has increased by £90m, reflecting the carrying cost of increased PPP investment and increased borrowings.

Interest receivable has increased by £43m reflecting rising interest rates and cash balances held to fund TfL's Investment Programme.

Explanatory Foreword and Financial Review continued

Balance sheet

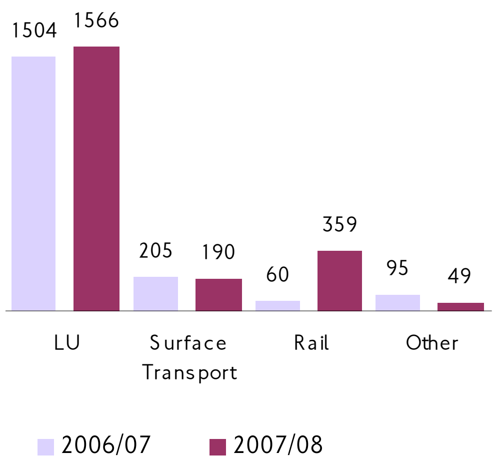
Net assets increased by £337m between 31 March 2007 and 31 March 2008, largely due to an actuarial gain of £308m on the TfL Pension Fund.

Fixed assets increased significantly, reflecting the continuing high levels of capital expenditure. As explained further below, £1,093m of fixed assets were provided under the PPP contracts. This resulted in an increase in finance lease creditors over one year.

Capital expenditure

The third year of the Investment Programme saw capital expenditure rise to £2,164m. Over 72 per cent of TfL's capital expenditure during 2007/08 related to capital works being undertaken on LU's infrastructure.

Capital expenditure by mode (£m)



Capital works undertaken by the Infracos during the year included the renewal of 28 kilometres of track, the completion of a further 26 station refurbishments or modernisations, two new fully accessible lifts at Morden, the refurbishment or replacement of 24 escalators and two lifts and the final refurbished District line train entering service at the end of the year.

Work continued on the upgrades of the Victoria, Jubilee, Northern and Sub-surface lines. The first new Victoria line train was delivered and has been undergoing testing during non-passenger hours. To facilitate the upgrade process on the line, a programme of early closures on Monday to Thursday evenings was in place through much of the year and is continuing into 2008/09, supplementing the extensive weekend closure programme.

Other works undertaken by LU during the year included the continued development of station upgrades, congestion relief works and accessibility improvements. The new communications equipment provided under the Connect PFI was commissioned on the Bakerloo, Piccadilly, Victoria and Waterloo & City lines during the year.

The construction works continued during the year on the new Northern Ticket Hall at Kings Cross and on the redevelopment of the White City site. On 22 December 2007, the remainder of the existing East London Line was closed to facilitate the ongoing upgrade and extension works, which will be incorporated into the recently established London Overground network when the extended line reopens in 2010.

In Surface Transport, £190m was spent on capital works, including: renewal works programme on the Transport for London Road Network (TLRN); safety improvements to bridges and tunnels; developing bus priority systems; Congestion Charging, including the low emission zone; work on introducing the iBus radio and information system; replacement of the bus garages on the Olympics site; improving the Blackwall Tunnel southbound; replacing the Western Avenue Bridge on the A40; implementing walking and cycling initiatives; traffic signal modernisation; and improvements to road safety.

Capital expenditure of £359m was incurred by London Rail. This includes expenditure on DLR projects including the Stratford International extension and capacity enhancement works to upgrade and enhance the railway to enable three car trains to be operated. This amount also includes expenditure of £147m on the project to extend the East London Line..This is in addition to expenditure of £65m incurred by London Underground.

Explanatory Foreword and Financial Review continued

Financing

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

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 Notes 16 and 17 to the accounts).

Movement in long-term borrowing

	£m	
Opening borrowing at 1 April 2007	**1,350**	
European Investment Bank facility	**112**	The third instalment of a total facility of £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. Repayment is in 15 equal instalments from March 2017
Public Works Loan Board	**488**	Seventeen separate loans with interest rates of 4.50-4.85 per cent and final maturity ranging between 2038 and 2052
Closing borrowing at 31 March 2008	**1,950**	

The borrowing limit for the Corporation set by the Mayor for 2007/08 was £2 billion.

Cash and short-term investments

Total cash and short-term investments (364 days or less) held by the Corporation at 31 March 2008 amounted to £1,903m. The average yield from TfL's cash investments for 2007/08 was 5.87 per cent. Most of the cash is represented by reserves and borrowing earmarked to fund TfL's future Investment Programme.

Pensions

The majority of TfL's employees are members of the TfL Pension Fund. Over the past year, the fair value of the assets of the Public Sector Section of the TfL Pension Fund has reduced slightly. However, there has been a significant reduction in the actuarial value of future liabilities, and as a consequence the deficit of pension scheme assets over future liabilities has reduced by almost £341m.

In addition, at 31 March 2008 the Group had future liabilities under unfunded pension arrangements of £43m, unchanged from 2007.

The latest full actuarial valuation of the Public Sector Section of the TfL Pension Fund was carried out as at 31 March 2006. The 2006 valuation showed a deficit for funding purposes of £192m. As part of the recovery plan agreed with the Pension Fund Trustees, TfL paid a lump sum contribution of £157m in August 2007, as advance payment of employers' contributions falling due for a period after 1 September 2007. Employer's contributions will resume when this period ends, expected to be August 2008.

Prospects and outlook

Passengers

London's population continues to rise, with the population forecast to increase from 7.5 million in 2005 to more than 8.1 million by 2016 and to 8.3 million by 2025. Employment in the capital is forecast to grow in line, with the number of jobs in the capital anticipated to grow by 400,000 jobs by 2016, with a further 500,000 by 2025.

On the Underground, TfL will deliver substantial improvements. There will be an estimated overall reduction in average journey time and an estimated 25 per cent increase in capacity across the network by 2020.

Public transport trips are predicted to increase from around 9.2 million trips per day to over 13 million trips per day by 2025.

Explanatory Foreword and Financial Review continued

Fares policy

Fare decisions are taken by the Mayor. The Mayor reduced bus fares in September which saw the price of a single Oyster card bus journey fall from £1 to 90p. The annual fare package in January preserved Oyster card bus journeys at 90p with the wider fare package increasing in line with RPI.

Revenue pressures

The risk of an economic downturn may adversely affect TfL revenues, principally fares income. If fare income is lower than anticipated, the future spending profile will be varied to ensure that financial balance is maintained.

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. The management of road maintenance contracts was brought in house on 1 April 2007 and savings are being generated as a result of this.

Legislative compliance

Additional national and EU legal requirements.

Energy prices

Increase in oil and/or electricity prices. This is particularly topical in the light of recent price moves. London Underground has moved from fixing energy costs on an annual basis to acting monthly.

This has had a positive effect in reducing the overall energy bill.

Terrorism

Terrorism-related and increased security costs.

Construction capacity

Increased costs associated with a shortage in construction capacity.

Capital investment

TfL is currently investing £13bn in enlarging and upgrading the TfL network and delivering the key projects to meet the transport needs of the London 2012 Olympic and Paralympic Games.

On 5 October 2007, the Prime Minister formally gave the go ahead to the Crossrail project, a £16bn investment in a new rail route across London. This will deliver a 10 per cent increase in public transport capacity and is expected to contribute £37bn to UK GDP over the next 60 years.

Financing of the Investment Programme is from:

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

Comprehensive Spending Review 2007

Following the comprehensive spending review, the Government has confirmed its funding agreement with TfL covering the next ten years, agreeing a total TfL grant of £32bn over this period, in addition to support for the Crossrail project.

Metronet

Metronet went into PPP Administration on 18 July 2007. The PPP contracts with Metronet included Put Option Agreements which enabled the lenders to Metronet to receive payment from London Underground of at least 95% of borrowings. On 5 February 2008, the Put Options were exercised and on 12 February 2008, London Underground paid £1.7bn in settlement of its obligations hereunder.

TfL received a revenue grant of £1.7bn from the Department for Transport in order to settle the Put Options.

On 27 May 2008, two nominee companies, subsidiaries of Transport Trading Limited, acquired the business, assets and certain liabilities of Metronet. The full impact of the transaction will be reflected in the 2008/09 Accounts.

Treasury risk management

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

Explanatory Foreword and Financial Review continued

Senior management directly controls day-to-day treasury operations. The Finance Committee is the primary forum for discussing the annual treasury investment 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/medium-term cash investments with institutions having high credit ratings), but have focused on the opportunities to increase yield without risking underlying security.

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

Counterparty credit

The Group's exposure to credit-related losses i.e. non-performance by counterparties on financial instruments, is mitigated by applying financial limits to any one party in relation to a credit rating. The minimum limit is A1 with a financial limit of £60m – the maximum is AAA with a limit of £200m. Credit ratings are obtained from Moody's Corporation and are kept under constant review. These ratings are cross-checked to those of other rating agencies.

Funding and liquidity

To ensure continuity of affordable funding, debt maturities are spread over a range of dates which broadly equate to the lives of assets purchased with the proceeds of debt. This approach ensures 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 2008 is set out in Note 17 to the accounts. Due to the size and long-term nature of future commitments, significant cash balances are held to mitigate the risk of any future restriction of access to funds.

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. Cash investments at the year end reflected rates for maturities ranging from overnight to 364 days, with a weighted average maturity of 78 days.

Accounting statements

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

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

- the Corporation, which is made up of London Streets, the Public Carriage Office and the corporate centre which, for legal and accounting purposes, constitutes TfL
- the TfL Group, which is made up of the Corporation and its subsidiaries as set out in Note 11

Under the GLA Act 1999, the Corporation is treated as a Local Authority for accounting purposes and the Statement of Accounts, which includes the individual financial statements of the Corporation, has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice (SORP).

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

Explanatory Foreword and Financial Review continued

The Statement of Accounts comprises:

- the Corporation income and expenditure account, statement of movement on general fund balance, statement of total recognised gains and losses, balance sheet, cash flow statement
- the statement of accounting policies
- statement of responsibilities for the accounts
- notes to the Corporation financial statements

The Group Accounts comprise:

- the Group income and expenditure account, statement of total recognised gains and losses, balance sheet and cash flow statement
- reconciliation of the single entity income and expenditure account surplus or deficit to the group income and expenditure account surplus or deficit

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.

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; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Stephen Critchley
Chief Finance Officer
25 June 2008

Annual Governance Statement

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

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

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

A copy of the TfL Code of Governance is on our website at www.tfl.gov.uk or can be obtained from the Corporate Governance Adviser, Windsor House, 42-50 Victoria Street, London, SW1H 0TL. This statement explains how TfL has complied with the TfL Code of Governance and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a Statement on Internal Control.

The purpose of the governance framework
The governance framework comprises the systems and processes, and culture and values, by which TfL is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables TfL to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and 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.

The governance framework has been in place at TfL for the year ended 31 March 2008 and up to the date of approval of the 2007/08 statement of accounts.

The governance framework
The Mayor appoints the TfL Board. The Board determines and agrees TfL's strategic direction and oversees the performance of the executive team. The Commissioner of TfL, advised by his Chief Officers, is responsible and accountable for the delivery of the day to day operations of TfL. The Board has four committees:

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

There are five advisory panels, made up of Board members and senior staff, who provide strategic advice to the Commissioner on the development and execution of policy in TfL:

- Rail Transport;
- Surface Transport;
- London Underground;
- Corporate and Equalities; and
- Strategic Planning.

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

Annual Governance Statement continued

General Counsel has responsibility for the operation of the TfL Code of Governance. The Director of Internal Audit comments annually on the adequacy and effectiveness of the TfL Code of Governance and the extent of TfL's compliance with it.

TfL is working to ensure that good governance is fully incorporated into the culture of the organisation, is applied within the management processes and is transparent to all stakeholders. The mechanisms through which this is done are described below.

TfL identifies and communicates its vision of its purpose and intended outcomes for citizens and service users through the following:

- Its contribution to the Mayor's Transport Strategy which contains his proposals for TfL reflecting national and local priorities;
- T2025 which provides a long term perspective of transport trends in London;
- The Budget and Business Plan which reflects its priorities and seeks to maximise its resources;
- Setting and monitoring key performance targets;
- Regular and meaningful consultation and communication with customers and stakeholders;
- Conducting its business on an open basis, subject only to the requirements of appropriate levels of individual and commercial confidentiality.

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

- Systems for providing sound management information;
- Comprehensive performance plans;
- Monitoring and reporting arrangements for performance against agreed targets and forecasts;
- Arrangements to identify and deal with failure in service delivery; and
- A scrutiny function for its Investment Programme which encourages constructive challenge and enhances TfL's performance overall.

TfL defines and documents the roles and responsibilities of decision-makers with clear delegation arrangements and protocols for effective communication by having:

- A documented Scheme of Delegation that reserves appropriate responsibilities to the Board and provides managers with the authority necessary to conduct routine business;
- Roles and responsibilities of Board Members and senior officers clearly documented; and
- A management structure with roles and responsibilities which are clearly defined.

TfL has developed and communicates and embeds codes of conduct, defining the standards of behaviour for members and staff by:

- Ensuring it is an organisation that has a climate of openness, support and respect;
- Having standards of conduct expected of Members and staff;
- Having arrangements to ensure that Board Members and employees are not influenced by prejudice, bias or conflicts of interest;
- Developing and maintaining shared values including leadership values and communicating these;
- Having targets for performance in the delivery of services; and
- Using its shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships.

TfL reviews and updates Standing Orders, Standing Financial Instructions, its Scheme of Delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks by:

- Having a clear hierarchy of governance documentation whose components are regularly reviewed;
- Maintaining and monitoring processes for the taking of significant decisions;
- Maintaining robust systems for identifying and evaluating significant risks and a risk management framework;
- Maintaining an effective risk management system; and
- Ensuring that risk management is embedded into its culture, with Board Members and managers at all levels recognising that risk management is part of their role.

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

- Having an effective, independent Audit Committee;
- Having the Audit Committee develop and maintain an effective overview of the affairs of TfL;
- Having an Internal Audit Plan that is driven by an annual evidenced assessment of the key business risks facing TfL;
- Having an Internal Audit Department which complies with relevant professional standards and which is accountable to the Audit Committee for the delivery of the Internal Audit Plan;
- The Audit Committee monitoring the performance of the external auditors; and
- Monitoring the performance and training needs of the Audit Committee.

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

- Ensuring that activities are fully documented, appropriately authorised and lawful;
- Identifying a senior manager who is made responsible for ensuring that appropriate advice is given in financial matters, for keeping proper financial records and accounts and for maintaining an effective system of internal financial control;
- Ensuring that a senior manager is responsible for activities being documented, appropriately authorised and lawful;
- Developing and maintaining open and effective mechanisms for documenting decisions and recording the criteria, rationale and considerations on which decisions are based; and
- Ensuring that advice on matters that have legal or financial implications is available and recorded.

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

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

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

- Ensuring that Board Members and senior officers have the skills, resources and support to perform effectively in their roles and that these roles are properly understood throughout TfL;
- Ensuring that Board Members and Chief Officers are provided with the necessary training to perform their roles; and
- Assessing the skills required by Members and officers and making a commitment to develop those skills to enable roles to be carried out effectively.

Annual Governance Statement continued

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

- Having in place arrangements designed to encourage individuals and groups from all sections of the community to engage with, contribute to and participate in the work of TfL;
- Having a policy on the types of issues it will consult on or engage with the public and service users about, including a feedback mechanism for those consultees to demonstrate what has changed as a result;
- Making clear to staff and the public what it is accountable for and to whom;
- Publishing, publicising and making generally available an Annual Report as soon as reasonably practicable after the financial year end; and
- Co-operating with appropriate organisations to ensure there is independent scrutiny of its financial and operational reporting processes.

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

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

Review of effectiveness

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

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

The Director of Internal Audit comments annually on the adequacy and effectiveness of the TfL Code of Governance and the extent of TfL's compliance with it. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee, and a plan to ensure continuous improvement of the system is in place.

Significant governance issues

Following the Mayoral election on 1 May, Boris Johnson became Mayor of London. This is the first time that there has been a change of Mayor. Appropriate steps will be taken to address governance issues consequent on the change of Mayor as they arise.

Preparatory work has been undertaken for the transfer to TfL in 2008/09 of the activities formerly undertaken by Metronet to ensure that the transferred activities are brought within the governance framework.

Following the Crossrail Bill receiving Royal Assent TfL will assume responsibility for building and managing the operation of the new line and TfL will have appropriate governance arrangements in place in relation to this.

Annual Governance Statement continued

TfL will also be ensuring that adequate governance arrangements are in place in relation to the establishment of the London Transport Museum as a charity and the operation of Tramtrack Croydon Limited on transfer to TfL.

We propose over the coming year to take steps to address the above matters and to continue to enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: ……….....................……

Chair of TfL Board

Signed: ……….....................……

Commissioner

Independent Audit Report to 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') which comprise the Explanatory Foreword, Income and Expenditure Account, Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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 those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Transport for London, 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

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and the 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 Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007.

We review whether the Statement of Corporate Governance Assurance reflects compliance with CIPFA's Guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" issued in April 2004. We report if it 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, nor have we considered, 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.

Independent Audit Report to Transport for London

continued

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 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 Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Corporation and the Group as at 31 March 2008 and their income and expenditure for the year then ended.

KPMG LLP
Chartered Accountants
London

XX July 2008

Independent Audit Report to Transport for London

continued

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; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Independent Audit Report to Transport for London

continued

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 2008.

Best Value Performance Plan

We issued our statutory report on the audit of the Corporation's best value performance plan for the financial year 2007/08 on 12 November 2007. 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
Chartered Accountants
London

XX July 2008

Group Income and Expenditure Account

	Note	**Group 2007/08 £m**	Group 2006/07 £m
Highways, roads and transport services			
Expenditure	*3*	**5,022.2**	4,634.7
Exceptional items	*5*	**1,958.7**	-
		6,980.9	4,634.7
Revenue	*1, 2*	**(3,278.8)**	(2,965.6)
Depreciation net of associated amortisation of deferred capital grants	*10c*	**245.6**	235.8
Amortisation of deferred capital grants to fund deferred charges	*19*	**(150.0)**	-
Net cost of services before joint venture		**3,797.7**	1,904.9
Share of the operating result of joint venture company	*1*	**52.5**	47.5
Net cost of services		**3,850.2**	1,952.4
Loss on disposal of assets	*7*	**29.5**	23.6
Net losses on financial instruments	*8*	**175.8**	129.0
Pensions interest cost and expected return on pensions assets	*20a*	**(18.8)**	(23.9)
Net operating expenditure		**4,036.7**	2,081.1
Revenue transport grant for operations	*6a*	**(2,220.2)**	(1,979.8)
Other grant to fund exceptional items	*5, 6a*	**(1,700.0)**	-
Other revenue grant	*6b*	**(120.0)**	(44.2)
Precept		**(12.0)**	(12.0)
(Surplus)/deficit for the year		**(15.5)**	45.1

Corporation Income and Expenditure Account

	Note	**Corporation 2007/08 £m**	Corporation 2006/07 £m
Highways, roads and transport services			
Expenditure	*3*	**1,018.4**	911.2
Exceptional items	*5*	**209.9**	-
Grant funding of subsidiaries and joint venture for operations		**1,477.0**	1,340.7
Grant funding of subsidiary to fund exceptional items	*5*	**1,748.8**	-
Revenue	*1*	**(442.8)**	(337.2)
Depreciation net of associated amortisation of deferred capital grants	*10c*	**108.7**	98.2
Amortisation of deferred capital grants to fund deferred charges	*19*	**(150.0)**	-
Net cost of services		**3,970.0**	2,012.9
Loss/(profit) on disposal of assets	*7*	**21.9**	(0.5)
Net gains on financial instruments	*8*	**(70.2)**	(32.3)
Pensions interest cost and expected return on pensions assets	*20a*	**0.1**	0.2
Net operating expenditure		**3,921.8**	1,980.3
Revenue transport grant for operations	*6a*	**(2,220.2)**	(1,979.8)
Other grant to fund exceptional items	*5, 6a*	**(1,700.0)**	-
Other revenue grant	*6b*	**(67.5)**	(15.8)
Precept		**(12.0)**	(12.0)
Surplus for the year		**(77.9)**	(27.3)

Statement of Movement on the General Fund Balance

This statement shows how the surplus on the Corporation's Income and Expenditure Account for the year reconciles to the surplus for the year on the General Fund. Note 22 to the Statement of Accounts explains the significance of the General Fund and the reconciliation statement.

	Note	**Corporation 2007/08 £m**	Corporation 2006/07 £m
Transfer of the surplus for the year on the Income and Expenditure Account		**(77.9)**	(27.3)
Net additional amount required by statute or non-statutory proper practice to be taken into account when determining the surplus or deficit on the General Fund for the year	*22*	**64.1**	27.0
General Fund surplus for the year		**(13.8)**	(0.3)

Reconciliation of the Surplus on the Corporation's Single Entity Income and Expenditure Account to the (Surplus)/Deficit on the Group Accounts

This statement shows how the surplus on the Corporation's single entity Income and Expenditure Account reconciles to the (surplus)/deficit for the year on the Group Accounts

	Group 2007/08 £m	Group 2006/07 £m
Surplus on the Corporation's single entity Income and Expenditure Account for the year	**(77.9)**	(27.3)
Corporation's share of the deficit incurred by its subsidiaries	**92.0**	105.5
FRS 17 pensions credit to Group Income and Expenditure Account on consolidation	**(29.6)**	(33.1)
Group Account (surplus)/deficit for the year	**(15.5)**	45.1

Statements of Total Recognised Gains and Losses

	Note	Group 2007/08 £m	Group 2006/07 £m
(Surplus)/deficit on the Income and Expenditure Account for the year		**(15.5)**	45.1
Gain arising on the revaluation of fixed assets	*10a*	**(9.4)**	(103.2)
Revaluation realisation adjustment		**-**	(0.8)
Actuarial (gain)/loss on pension assets and liabilities	*20b*	**(311.8)**	210.9
Total recognised (gains)/losses for the year	*21*	**(336.7)**	152.0

	Note	Corporation 2007/08 £m	Corporation 2006/07 £m
Surplus on the Income and Expenditure Account for the year		**(77.9)**	(27.3)
Loss/(gain) arising on the revaluation of fixed assets	*10b*	**2.6**	(19.1)
Actuarial gain on pension assets and liabilities	*20b*	**(4.1)**	(4.0)
Revaluation realisation adjustment		**1.2**	-
Total recognised gains for the year	*21*	**(78.2)**	(50.4)

Group and Corporation Balance Sheets

as at 31 March

	Note	**Group 2008 £m**	Group 2007 £m	**Corporation 2008 £m**	Corporation 2007 £m
Tangible fixed assets					
Infrastructure and other property		**13,272.7**	12,485.9	**2,033.9**	2,126.5
Rolling stock		**1,374.5**	1,366.6	**-**	-
Plant and equipment		**496.1**	493.7	**146.3**	162.5
Non-operational assets		**1,572.6**	1,003.1	**193.6**	180.7
Total tangible fixed assets	*10a,b*	**16,715.9**	15,349.3	**2,373.8**	2,469.7
Investment in subsidiaries and joint venture	*11*	**-**	-	**22.5**	22.5
Long term debtors	*13*	**-**	-	**1,322.2**	-
Total long term assets		**16,715.9**	15,349.3	**3,718.5**	2,492.2
Current assets					
Stocks	*12*	**4.2**	4.3	**2.1**	1.9
Debtors	*13*	**562.0**	302.7	**340.2**	751.7
Short-term investments		**1,870.0**	2,004.3	**1,832.7**	1,970.6
Cash at bank and in hand	*14*	**33.1**	23.5	**3.4**	3.3
Total current assets		**2,469.3**	2,334.8	**2,178.4**	2,727.5
Current liabilities					
Creditors: amounts falling due within one year	*15a*	**(1,925.1)**	(1,753.8)	**(470.5)**	(456.9)
Total current liabilities		**(1,925.1)**	(1,753.8)	**(470.5)**	(456.9)
Net current assets		**544.2**	581.0	**1,707.9**	2,270.6
Total assets less current liabilities		**17,260.1**	15,930.3	**5,426.4**	4,762.8
Creditors: amounts falling due after one year	*15b*	**(2,780.2)**	(2,064.1)	**(6.3)**	(5.7)
Provisions for liabilities and charges	*18*	**(249.7)**	(248.2)	**(80.6)**	(90.4)
Borrowings due after more than one year	*16b*	**(1,950.0)**	(1,349.8)	**(1,950.0)**	(1,349.8)
Net assets excluding grants		**12,280.2**	12,268.2	**3,389.5**	3,316.9
Deferred grants	*19*	**(6,861.8)**	(6,845.1)	**(417.6)**	(419.1)
Net assets excluding pension and other post-retirement liabilities		**5,418.4**	5,423.1	**2,971.9**	2,897.8
Pension and other post-retirement liabilities	*20a*	**(606.8)**	(948.2)	**(10.1)**	(14.2)
Total net assets		**4,811.6**	4,474.9	**2,961.8**	2,883.6
Capital and reserves					
General fund		**161.6**	147.8	**161.6**	147.8
Earmarked reserves		**1,442.8**	1,299.8	**1,442.8**	1,299.8
Other reserves		**3,207.2**	3,027.3	**1,357.4**	1,436.0
Total capital employed	*21*	**4,811.6**	4,474.9	**2,961.8**	2,883.6

These accounts were approved
by the Board on 25 June 2008

Boris Johnson
Chair of the TfL Board

Cash Flow Statements

Reconciliation of net cost of services to net cash inflow/(outflow) from revenue activities	Note	Group 2007/08 £m	Group 2006/07 £m	Corporation 2007/08 £m	Corporation 2006/07 £m
Net cost of services		**(3,797.7)**	(1,904.9)	**(3,970.0)**	(2,012.9)
Transport revenue grant	*6a*	**3,920.2**	1,979.8	**3,920.2**	1,979.8
Other revenue grant		**44.0**	15.8	**44.0**	15.8
Precept		**12.0**	12.0	**12.0**	12.0
Grants to joint venture company		**-**	(19.1)	**-**	-
Depreciation net of associated release of deferred grants		**245.6**	235.8	**108.7**	98.2
Amortisation of deferred capital grant to fund deferred charges		**(150.0)**	-	**(150.0)**	-
Decrease/(increase) in stocks		**0.1**	0.8	**(0.2)**	0.6
Increase in debtors		**(120.2)**	(14.9)	**(111.7)**	(11.8)
Increase in amounts due to subsidiary companies		**-**	-	**22.1**	102.7
Increase in creditors due within one year		**98.4**	55.4	**27.2**	26.4
Increase in creditors due after more than one year		**3.5**	4.0	**0.3**	1.0
Increase/(decrease) in provisions for liabilities and charges		**6.1**	(5.4)	**(5.6)**	(19.1)
(Decrease)/increase in pension and post-retirement liabilities		**(10.8)**	(8.8)	**-**	0.2
Net cash inflow/(outflow) from revenue activities		**251.2**	350.5	**(103.0)**	192.9
Returns on investments and servicing of finance					
Finance lease charges		**(215.7)**	(162.3)	**-**	-
Interest paid and similar charges		**(75.1)**	(32.6)	**(75.1)**	(32.6)
Interest received and investment income		**99.2**	61.1	**129.5**	60.0
		(191.6)	(133.8)	**54.4**	27.4
Capital activities					
Transport capital grant		**312.2**	410.5	**312.2**	410.5
Third party contributions and other grant funding		**163.5**	163.1	**4.7**	7.9
Grants to subsidiaries and joint venture for capital expenditures	*6a*	**-**	-	**(260.7)**	(345.9)
Payments to acquire tangible fixed assets		**(1,005.5)**	(736.2)	**(189.6)**	(262.5)
Receipts from sale of tangible fixed assets		**97.8**	30.2	**81.1**	10.0
		(432.0)	(132.4)	**(52.3)**	(180.0)
Net cash (outflow)/inflow before financing		**(372.4)**	84.3	**(100.9)**	40.3
Management of liquid resources					
Decrease/(increase) in short-term investments		**134.3**	(341.2)	**137.9**	(337.7)
Financing					
Capital element of finance lease payments		**(352.3)**	(347.6)	**-**	-
Increase in loans to subsidiary companies		**-**	-	**(636.9)**	(306.8)
Increase in borrowings due after more than one year		**600.0**	604.0	**600.0**	604.0
		247.7	256.4	**(36.9)**	297.2
Increase/(decrease) in cash		**9.6**	(0.5)	**0.1**	(0.2)

Notes to the cash flow statements

a) Cash flow statements: reconciliation with the accounts

Capital expenditure	Note	Group 2007/08 £m	Group 2006/07 £m	Corporation 2007/08 £m	Corporation 2006/07 £m
Additions to fixed assets	*10a, b*	**(2,163.7)**	(1,863.7)	**(175.9)**	(233.4)
Decrease/(increase) in debtors		**0.1**	1.7	**(1.1)**	1.8
Increase/(decrease) in creditors due within one year		**69.8**	14.0	**(8.2)**	(23.9)
Increase in creditors due after one year		**0.3**	-	**0.4**	-
Additions under finance lease arrangements		**1,093.1**	1,123.1	**-**	-
Decrease in provisions and other items		**(5.1)**	(11.3)	**(4.8)**	(7.0)
Capital expenditure per cash flow statement		**(1,005.5)**	(736.2)	**(189.6)**	(262.5)

Contributions from third parties for capital expenditure	Group 2007/08 £m	Group 2006/07 £m	Corporation 2007/08 £m	Corporation 2006/07 £m
Third party contributions and other grant funding	**139.1**	152.1	**4.7**	7.9
Decrease in debtors	**24.4**	11.0	**-**	-
Contributions from third parties per cash flow statement	**163.5**	163.1	**4.7**	7.9

b) Analysis of change in net debt

Group	Note	At 1 April 2007 £m	Movement £m	At 31 March 2008 £m
Cash at bank and in hand	*14*	23.5	9.6	**33.1**
Investments	*16b*	2,004.3	(134.3)	**1,870.0**
Borrowings due after more than one year	*16b*	(1,349.8)	(600.2)	**(1,950.0)**
Finance lease obligations		(2,569.8)	(740.8)	**(3,310.6)**
Total of net debt		(1,891.8)	(1,465.7)	**(3,357.5)**

Corporation	Note	At 1 April 2007 £m	Movement £m	At 31 March 2008 £m
Cash at bank and in hand	*14*	3.3	0.1	**3.4**
Investments	*16b*	1,970.6	(137.9)	**1,832.7**
Borrowings due after more than one year	*16b*	(1,349.8)	(600.2)	**(1,950.0)**
Total of net funds		624.1	(738.0)	**(113.9)**

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 the United Kingdom 2007 (‘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) Changes in accounting policies

The 2007 SORP introduced two major changes to the accounts for local authorities for accounting periods starting on or after 1 April 2007.

The fixed asset restatement account and the capital financing account have been replaced by a revaluation reserve and a capital adjustment account. The 2006 SORP which initially introduced this change stated that the difference between the current value of an asset and its depreciated historical cost would represent the revaluation gain attributable to that asset, and that the grand total of all such gains would be the opening position on the revaluation reserve.

The 2007 SORP recognised that this would require some authorities to perform lengthy research and involve a substantial amount of expert estimation in establishing reliable figures for depreciated historical cost. The 2007 SORP therefore requires that the Revaluation Reserve be created with a nil balance at 31 March 2007.

TfL is able to accurately reconstruct the opening balance on its revaluation reserve. In order to ensure consistent accounting policies across the Group, TfL has departed from the requirements of the SORP and has established a revaluation reserve with an opening balance of £37.7 million. The balance of the Fixed Asset Restatement Account at 31 March 2007, together with the balance on the Capital Financing Account were transferred to the Capital Adjustment Account.

In addition, the SORP 2007 incorporated the requirements of FRS 26 *Financial Instrument: Recognition and Measurement*, FRS 25 *Financial Instruments: Presentation* and FRS 29 *Financial Instruments: Disclosures*.

c) Basis of accounting

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

The accounts have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments. The principal accounting policies adopted are set out below.

d) Basis of preparation of group accounts

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

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

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.

Statement of Accounting Policies

d) Basis of preparation of group accounts continued

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 income and expenditure account from the date of acquisition until the date of disposal.

e) Revenue recognition 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.

f) Grants and other funding

The main source of grant is 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 in to 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; and
- The element used to finance capital expenditure in the subsidiaries, which is not accounted for in the Corporation's income and expenditure account, but is shown in the Corporation's cash flow statement under Capital activities.

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 income and expenditure 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 over the useful life of the asset to match the depreciation on the asset to which it relates. These amounts are deducted from depreciation on the face of the income and expenditure accounts.

Statement of Accounting Policies

g) Borrowings

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

The Corporation is required to make a minimum revenue provision (MRP) for the repayment of outstanding debt determinable under the Local Government Act 2003.

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. London Underground (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 (e.g. offices). These properties were valued at open market value at 31 March 2008 (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 revaluation reserve.

Non-operational assets

These assets consist of investment properties commercially let and capable of being separated from operational property (e.g. offices, shops, residential property and disused operational property awaiting disposal), property awaiting disposal and assets under construction. The investment properties and 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.

Statement of Accounting Policies

h) Tangible fixed assets continued

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	up to 100 years	Bridges and viaducts	up to 100 years
Track	up to 50 years	Road pavement	up to 15 years
Road foundations	up to 50 years	Signalling	15-40 years
Stations	up to 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 Public Private Partnership is described in paragraph s) 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 uncollectible debts are written off to the net cost of services.

k) Provisions and contingencies

Provisions are recognised in respect of liabilities which exist at the balance sheet date where the amount or date of payment is uncertain. They are charged to net cost of services in the year that they are recognised.

The Group has a number of uncertainties surrounding projects, including claims in the course of negotiations, which may affect the financial outcome. Where it is possible but not probable that a liability exists at the balance sheet date, or where the liability cannot be reliably estimated, no provision is made and a contingent liability is disclosed in the accounts. Contingent liabilities 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 Statement of Accounts includes provisions based on management's best estimate of the outcome of these uncertainties (see Note 18).

l) Financial liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the income and expenditure account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

Statement of Accounting Policies

l) Financial liabilities continued

Instruments entered into before 1 April 2006

There are a number of financial guarantees, referred to in Note 29, that are not required to be accounted for as financial instruments. They are reflected in the statement of accounts to the extent that provisions are required or a contingent liability note is needed under the policies set out in paragraph k).

m) Financial assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the income and expenditure account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. All loans and receivables are shown in the balance sheet at the outstanding principal receivable plus the difference between interest credited to the income expenditure account and interest received.

Where loans and receivables are impaired, arising from a past event, they are written down and a charge made to the income and expenditure account.

Any losses/gains that arise on the derecognition of the asset are debited/credited to the income and expenditure account. Derecognition arises when the asset is sold or otherwise disposed of.

Available-for-sale assets

Available-for-sale assets are initially measured and carried at fair value. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses). Where the asset has fixed or determinable payments, annual credits to the income and expenditure account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg, dividends) is credited to the income and expenditure account when it becomes receivable.

Assets recorded in the balance sheet at fair value are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – the total value of the discounted cash flows.
- equity shares with no quoted market prices – independent appraisal of company valuations.

Increases/decreases in fair value are recognised in the statement of total recognised gains and losses (STRGL) and transferred to the Available-for-sale Reserve. The exception is where impairment losses have been incurred or the asset has been derecognised – these are debited/credited to the income and expenditure account together with earlier losses less the gains for the asset previously accumulated in the Available-for-sale Reserve.

Statement of Accounting Policies

n) Reserves

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

- The revaluation reserve, previously known as the fixed asset restatement account, which represents the net gain arising on the periodic revaluation of fixed assets.
- The capital adjustment account, previously know as the capital financing account, which reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them. The capital adjustment account also contains the reclassified balance from the old fixed asset revaluation account and the capital financing account, as described in b).

The depreciation charge to the income and expenditure account in the Corporation on current value of fixed assets is met by an appropriation from the Capital Adjustment Account. Revaluation gains are depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account. These two reserve account balances do not form part of the resources available to the Group and Corporation.

Transport for London sets aside specific amounts as earmarked reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the General Fund. When expenditure to be financed from earmarked reserves is incurred, it is charged to the income and expenditure account in that year and included in Net Cost of Services. A corresponding amount is then appropriated back into the General Fund from earmarked reserves so that there is no net impact on the General Fund surplus or deficit for the year.

The accounting requirements for financial instruments are similar to those for fixed assets, in that financial assets are required to be carried at fair value (unless they have fixed or determinable payments but are not quoted in an active market) and the outcome of proper accounting practices for the Income and Expenditure Account is different from that required for assessing the impact on local taxes.

Two reserves are required to be maintained:

- the Available-for-Sale Financial Instruments Reserve – records unrealised revaluation gains arising from holding available-for-sale investments, plus any unrealised losses that have not arisen from impairment of the assets
- the Financial Instruments Adjustment Account – provides a balancing mechanism between the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under the SORP and are required by statute to be met from the General Fund.

These reserves are matched by borrowings and investments within the Balance Sheet and do not represent resources available to the Corporation.

o) 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.

Statement of Accounting Policies

p) 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 income and expenditure 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 income and expenditure 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 total recognised gains and losses 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.

q) 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.

r) 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.

Statement of Accounting Policies

s) London Underground Public Private Partnership (PPP)

London Underground Limited ('LUL') has three Public Private Partnership (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. LUL pays service charges to the PPP Contractors.

LUL 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 LUL 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 income and expenditure account.

Service charges paid by LUL to the PPP Contractors are allocated to the income and expenditure 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 charged to revenue.

Notes to the accounts

1 Segmental analysis

	Gross revenue 2007/08 £m	Gross revenue 2006/07 £m	**Gross services expenditure 2007/08 £m**	Gross services expenditure 2006/07 £m	**Net expenditure 2007/08 £m**	Net expenditure 2006/07 £m
London Streets	**418.7**	314.0	**(905.7)**	(781.0)	**(487.0)**	(467.0)
Other	**24.1**	23.2	**(71.4)**	(228.4)	**(47.3)**	(205.2)
Corporation	**442.8**	337.2	**(977.1)**	(1,009.4)	**(534.3)**	(672.2)
Subsidiary operations						
Bus operations	**1,079.8**	1,026.8	**(1,739.1)**	(1,643.4)	**(659.3)**	(616.6)
London Underground	**1,654.5**	1,534.3	**(2,136.2)**	(2,087.2)	**(481.7)**	(552.9)
Docklands Light Railway	**63.1**	48.7	**(73.5)**	(72.0)	**(10.4)**	(23.3)
Rail for London	**14.9**	-	**(59.4)**	-	**(44.5)**	-
Other	**23.7**	18.6	**(132.5)**	(58.5)	**(108.8)**	(39.9)
Joint venture						
Cross London Rail Links	**-**	-	**(52.5)**	(47.5)	**(52.5)**	(47.5)
Group	**3,278.8**	2,965.6	**(5,170.3)**	(4,918.0)	**(1,891.5)**	(1,952.4)

Gross services expenditure includes depreciation net of amortisation of deferred capital grants, but excludes for the Corporation grant funding of subsidiaries and joint venture. It also excludes exceptional items.

Net expenditure represents net cost of services for the Group, and net cost of services excluding exceptional items, grant funding of subsidiaries and joint venture for the Corporation i.e. net cost of services for those services provided directly by the Corporation.

2 Group revenue

	Note	**2007/08 £m**	**% of total**	2006/07 £m	% of total
Fares		**2,445.8**	**74.5**	2,269.4	76.6
Revenue in respect of free travel for elderly and disabled people		**211.5**	**6.5**	197.5	6.7
Congestion charging	*27*	**328.2**	**10.0**	252.4	8.5
Charges to London Boroughs		**12.7**	**0.4**	12.5	0.4
Charges to transport operators		**8.6**	**0.3**	8.3	0.3
Bus enforcement		**67.9**	**2.1**	48.3	1.6
Commercial advertising receipts		**72.9**	**2.2**	61.3	2.1
Rents receivable		**57.5**	**1.8**	54.0	1.8
Taxi licensing		**17.2**	**0.5**	16.0	0.5
Museum income		**2.8**	**0.1**	1.1	-
Other		**53.7**	**1.6**	44.8	1.5
Total revenue		**3,278.8**	**100.0**	2,965.6	100.0

Notes to the accounts

3 Expenditure (before exceptional items)

	Note	Group 2007/08 £m	Group 2006/07 £m	Corporation 2007/08 £m	Corporation 2006/07 £m
Staff costs:					
Wages and salaries		**760.4**	670.3	**137.2**	120.2
Social security costs		**64.0**	57.6	**12.2**	11.2
Pension costs	*20a*	**173.3**	152.5	**34.4**	34.3
		997.7	880.4	**183.8**	165.7
Operating leases and PFI charges		**327.7**	293.0	**27.0**	12.6
Financial assistance	*28*	**197.4**	178.5	**197.4**	178.5
Supplies and services		**5,663.1**	5,146.5	**786.1**	787.8
		7,185.9	6,498.4	**1,194.3**	1,144.6
Capital expenditure	*10a, b*	**(2,163.7)**	(1,863.7)	**(175.9)**	(233.4)
Expenditure charged to revenue		**5,022.2**	4,634.7	**1,018.4**	911.2

	Group 2007/08 Number	Group 2006/07 Number	Corporation 2007/08 Number	Corporation 2006/07 Number
Average number of employees				
Permanent employees (including those on fixed term contracts)	**20,030**	18,715	**3,276**	2,969
Agency staff	**1,463**	1,574	**739**	752
Average number of employees	**21,493**	20,289	**4,015**	3,721

	Group 2007/08 £m	Group 2006/07 £m	Corporation 2007/08 £m	Corporation 2006/07 £m
The cost of services include the following amounts:				
Auditors' remuneration for statutory audit services	**1.0**	0.9	**0.4**	0.4
Auditors' remuneration for non-statutory audit services	**0.1**	0.1	**0.1**	0.1
Auditors' remuneration for non-audit services	**0.2**	0.1	**-**	-
	1.3	1.1	**0.5**	0.5

The Group leases certain properties on short-term and long-term leases. The rents payable on these leases were £46.4 million (2006/07 £39.8 million). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays all insurance, maintenance and repairs of these properties.

Total other operating lease rentals for the Group included in the income and expenditure account were £281.3 million (2006/07 £253.2 million). Payments under these lease agreements, which include the cost of routine maintenance and repairs, are charged to revenue over the period of the leases from the time the assets become operational.

Notes to the accounts

4 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 the employer, fell within the following bands:

£	**Group 2007/08 Number**	Group 2006/07 Number	**Corporation 2007/08 Number**	Corporation 2006/07 Number
50,000 - 59,999	**1,110**	761	**255**	215
60,000 - 69,999	**369**	267	**144**	106
70,000 - 79,999	**184**	147	**69**	67
80,000 - 89,999	**105**	89	**47**	51
90,000 - 99,999	**63**	35	**30**	18
100,000 - 109,999	**42**	34	**25**	20
110,000 - 119,999	**20**	17	**13**	8
120,000 - 129,999	**14**	14	**6**	8
130,000 - 139,999	**8**	14	**1**	7
140,000 - 149,999	**7**	8	**3**	2
150,000 - 159,999	**6**	6	**4**	4
160,000 - 169,999	**4**	2	**2**	1
170,000 - 179,999	**4**	-	**1**	-
180,000 - 189,999	**3**	1	**2**	-
190,000 - 199,999	**2**	2	**-**	2
200,000 - 209.999	**-**	1	**-**	1
210,000 - 219,999	**3**	4	**2**	3
220.000 - 229,999	**2**	1	**1**	1
230,000 - 239,999	**2**	-	**2**	-
240,000 - 249,999	**1**	-	**1**	-
250,000 - 259,999	**-**	2	**-**	1
260,000 - 269,999	**-**	1	**-**	1
270,000 - 279,999	**-**	1	**-**	-
300,000 - 309,999	**1**	-	**1**	-
350,000 - 359,999	**-**	1	**-**	-
430,000 - 439,999	**1**	-	**1**	-
440,000 - 449,999	**1**	-	**-**	-
450,000 - 459,999	**-**	1	**-**	1
460,000 - 469,999	**1**	-	**-**	-
500,000 - 509,999	**-**	1	**-**	-
540,000 - 549,999	**1**	-	**1**	-
550,000 - 559,999	**-**	1	**-**	1
Total	**1,954**	1,411	**611**	518

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

Notes to the accounts

5 Exceptional items

	Note	**Group 2007/08 £m**	Group 2006/07 £m	**Corporation 2007/08 £m**	Corporation 2006/07 £m
Provision against the loan receivable from the Metronet Infracos following the exercise of the put option		**1,748.8**	-	**-**	-
Provision against loan receivable from the Metronet Infracos	*13*	**209.9**	-	**209.9**	-
Total exceptional items included in expenditure		**1,958.7**	-	**209.9**	-

Metronet Rail BCV Limited and Metronet Rail SSL Limited (together 'the Metronet Infracos') were principally financed by bank debt and debt securities. This debt was raised by specific finance companies in the Metronet Groups (Metronet Fincos) and the proceeds on-lent to the Metronet Infracos.

The PPP contracts with the Metronet Infracos included Put Option Agreements which enabled the lenders to the Metronet Fincos to receive repayment from LUL of 95% of the approved debt in certain defined circumstances. One of these was upon a period of PPP Administration exceeding 6 months.

The Metronet Infracos were placed in PPP Administration on 18 July 2007. On 5 February 2008, the Put Options were exercised and on 12 February 2008, LUL paid £1,748.8 million in settlement of its obligations hereunder.

In order to settle the Put Options, TfL received a revenue grant from the Department for Transport of £1.7 billion. TfL used some of its cash reserves to fund the difference and provided LUL with grant funding of £1,748.8 million.

Following the exercise of the Put Options the amounts owed to the Metronet Fincos by the Metronet Infracos under the on-lending referred to above were assigned to LUL.

No amounts will be ultimately recoverable by LUL in relation to this debt and it has been fully provided against. The debt provision charge is shown as an exceptional item in the Group Income and Expenditure Account and is matched by additional grant received from the Department for Transport.

As at 31 March 2008, the outstanding balance lent to the Metronet Infracos amounted to £241.8 million, and cash of £31.9 million remained in the Infracos' ring-fenced Trust bank accounts at 31 March 2008. A provision of £209.9 million was therefore made and charged to the Income and Expenditure Account as a deferred charge within Exceptional items.

Notes to the accounts

6 Grant

a) Allocation of transport grant receivable

	Note	Group 2007/08 £m	Group 2006/07 £m	Corporation 2007/08 £m	Corporation 2006/07 £m
Grant from Department for Transport applied to fund revenue expenditure		**2,220.2**	1,979.8	**2,220.2**	1,979.8
Grant from Department for Transport for the exercise of Metronet's put option	*5*	**1,700.0**	-	**1,700.0**	-
		3,920.2	1,979.8	**3,920.2**	1,979.8
Grant from Department for Transport taken to deferred grants	*19*	**462.2**	410.5	**201.5**	64.6
Grant from Department for Transport used to fund capital expenditure in subsidiaries and joint venture		**-**	-	**260.7**	345.9
Total transport grant receivable		**4,382.4**	2,390.3	**4,382.4**	2,390.3

b) Other revenue grant receivable and Group's share of grant received by joint venture

	Group 2007/08 £m	Group 2006/07 £m	Corporation 2007/08 £m	Corporation 2006/07 £m
Share of grant received by joint venture from Department for Transport	**52.5**	28.4	**-**	-
Other revenue grant receivable	**67.5**	15.8	**67.5**	15.8
Total other revenue grant	**120.0**	44.2	**67.5**	15.8

7 Loss/(profit) on disposal or retirement of assets

	Note	Group 2007/08 £m	Group 2006/07 £m	Corporation 2007/08 £m	Corporation 2006/07 £m
Net proceeds		**(96.8)**	(18.1)	**(79.6)**	(2.3)
Capital grant released	*19*	**(73.6)**	(47.4)	**(2.0)**	-
		(170.4)	(65.5)	**(81.6)**	(2.3)
Less net assets at net book value	*10a, b*	**199.9**	89.1	**103.5**	1.8
Loss/(profit) on disposal of assets		**29.5**	23.6	**21.9**	(0.5)

Notes to the accounts

8 Financial Instruments gains and losses

The gains and losses recognised in the Income and Expenditure Account and Statement of Total Recognised Gains and Losses in relation to financial instruments are made up as follows:

	Group 2007/08 £m	Group 2006/07 £m	**Corporation 2007/08 £m**	Corporation 2006/07 £m
Interest income on bank deposits	**(113.5)**	(70.4)	**(113.0)**	(69.4)
Interest income on loans to subsidiaries	**-**	-	**(30.9)**	-
Interest receivable and investment income	**(113.5)**	(70.4)	**(143.9)**	(69.4)
Imputed interest on finance lease creditors	**215.7**	162.3	**-**	-
Interest expense on financial liabilities measured at amortised cost	**73.6**	37.1	**73.7**	37.1
Interest payable and similar charges	**289.3**	199.4	**73.7**	37.1
Net losses/(gains) on financial instruments recognised in Income and Expenditure Account	**175.8**	129.0	**(70.2)**	(32.3)

9 Taxation

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

At 31 March 2008 the Group had a deferred tax asset in respect of capital allowances of £95.9 million (2007 £57.5 million). No deferred tax asset is accounted for, as it is not believed that such an asset would be recoverable in the foreseeable future. The full potential liability for deferred taxation in respect of potential capital gains on revalued fixed assets has not been quantified as no tax liability is expected to arise due to the availability of rollover relief.

Notes to the accounts

10 Tangible fixed assets

a) Group

	Note	Infrastructure and other property £m	Rolling stock £m	Plant and equipment £m	Non-operational assets £m	Total £m
Gross cost or valuation						
Balance at 1 April 2007		20,445.1	3,316.3	1,057.1	1,003.1	25,821.6
Additions to fixed assets		1,295.6	94.4	144.6	629.1	2,163.7
Disposals and retirements		(292.9)	(61.1)	(74.3)	(1.9)	(430.2)
Transfers and adjustments		37.2	58.8	(27.2)	(68.8)	-
Revaluation		(3.5)	-	-	11.1	7.6
Gross cost or valuation at 31 March 2008		**21,481.5**	**3,408.4**	**1,100.2**	**1,572.6**	**27,562.7**
Depreciation						
Balance at 1 April 2007		7,959.2	1,949.7	563.4	-	10,472.3
Disposals and retirements		(179.9)	(2.9)	(47.5)	-	(230.3)
Depreciation charge	*10c*	429.0	87.1	90.5	-	606.6
Transfers and adjustments		2.3	-	(2.3)	-	-
Revaluation		(1.8)	-	-	-	(1.8)
Balance at 31 March 2008		**8,208.8**	**2,033.9**	**604.1**	**-**	**10,846.8**
Net book value at 31 March 2008		**13,272.7**	**1,374.5**	**496.1**	**1,572.6**	**16,715.9**
Net book value at 31 March 2007		12,485.9	1,366.6	493.7	1,003.1	15,349.3

PPP assets and leased assets

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

	Infrastructure and other property £m	Rolling stock £m	Plant and equipment £m	Non-operational assets £m	Total £m
Gross cost					
PPP assets	15,169.2	3,285.4	356.3	355.9	19,166.8
Leased assets	147.0	45.3	228.5	-	420.8
	15,316.2	**3,330.7**	**584.8**	**355.9**	**19,587.6**
Depreciation					
PPP assets	5,656.7	1,992.8	170.2	-	7,819.7
Leased assets	10.2	18.7	38.5	-	67.4
	5,666.9	**2,011.5**	**208.7**	**-**	**7,887.1**
Net book value at 31 March 2008	**9,649.3**	**1,319.2**	**376.1**	**355.9**	**11,700.5**
Net book value at 31 March 2007	8,871.2	1,309.9	348.9	260.9	10,790.9

Notes to the accounts

10 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 2007		3,841.6	284.2	180.7	4,306.5
Additions to fixed assets		38.1	50.8	87.0	175.9
Disposals and retirements		(35.4)	(36.6)	(79.5)	(151.5)
Transfers and adjustments		(13.5)	4.1	7.9	(1.5)
Revaluation		(0.5)	-	(2.5)	(3.0)
Gross cost or valuation at 31 March 2008		**3,830.3**	**302.5**	**193.6**	**4,326.4**
Depreciation					
Balance at 1 April 2007		1,715.1	121.7	-	1,836.8
Disposals and retirements		(34.7)	(13.3)	-	(48.0)
Depreciation charge	*10c*	116.4	48.0	-	164.4
Transfers and adjustments		-	(0.2)	-	(0.2)
Revaluation		(0.4)	-	-	(0.4)
Balance at 31 March 2008		**1,796.4**	**156.2**	**-**	**1,952.6**
Net book value at 31 March 2008		**2,033.9**	**146.3**	**193.6**	**2,373.8**
Net book value at 31 March 2007		2,126.5	162.5	180.7	2,469.7

c) Depreciation charge

	Note	**Group 2007/08 £m**	Group 2006/07 £m	**Corporation 2007/08 £m**	Corporation 2006/07 £m
Depreciation for the period:					
- on the historical cost of depreciated fixed assets		**142.8**	96.0	**164.4**	163.1
- on the revalued element of depreciated fixed assets		**96.6**	143.1	**-**	-
- on assets allocated to PPP contractors		**356.0**	348.0	**-**	-
- on assets held under finance leases		**11.2**	13.9	**-**	-
Total depreciation charge	*10a, b*	**606.6**	601.0	**164.4**	163.1
Less: release of deferred grants	*19*	**(361.0)**	(365.2)	**(55.7)**	(64.9)
Depreciation net of release of deferred grants		**245.6**	235.8	**108.7**	98.2

Notes to the accounts

10 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 2008 £m	Group 2007 £m	**Corporation 2008 £m**	Corporation 2007 £m
Infrastructure and other property	**16,852.8**	15,702.0	**3,829.4**	3,840.1
Rolling stock	**2,212.1**	2,117.7	**-**	-
Plant and equipment	**1,018.8**	967.3	**302.5**	284.2
Non-operational assets	**1,275.4**	717.0	**168.0**	152.5
Gross cost	**21,359.1**	19,504.0	**4,299.9**	4,276.8
Less accumulated depreciation	**(5,863.3)**	(5,444.2)	**(1,955.0)**	(1,838.8)
Net written down cost	**15,495.8**	14,059.8	**2,344.9**	2,438.0

e) Group assets

	Group 2008 Number	Group 2007 Number
Railway carriages	**4,164**	4,164
Track route length (kilometres)	**430**	437
Railway stations	**287**	290
Bridges and viaducts	**1,961**	1,992
Roads (kilometres)	**580**	580
Car ferries	**3**	3
Buses	**535**	543
Bus stations and stands	**106**	105
Bus shelters	**10,414**	10,261
Offices	**164**	144
Piers	**9**	9

f) Capital expenditure analysed by source of finance

	Note	**Group 2008 £m**	Group 2007 £m	**Corporation 2008 £m**	Corporation 2007 £m
Analysis by source of finance:					
Transport capital grants		**74.9**	84.5	**51.5**	64.6
Prudential borrowing		**674.6**	465.0	**12.9**	157.9
Finance leases – PPP		**1,093.1**	1,123.1	**-**	-
Third party contributions	*19*	**139.1**	152.1	**4.7**	7.9
Capital receipts		**106.8**	18.0	**106.8**	2.4
Revenue contributions		**75.2**	21.0	**-**	0.6
	10a, b	**2,163.7**	1,863.7	**175.9**	233.4

Notes to the accounts

11 Investment in subsidiaries and joint venture

	Note	**Group 2008 £m**	Group 2007 £m	**Corporation 2008 £m**	Corporation 2007 £m
Balance at 1 April		**-**	-	**22.5**	22.5
Share of gross assets of joint venture		**22.0**	14.9	**-**	-
Share of gross liabilities of joint venture		**(22.0)**	(14.9)	**-**	-
Balance at 31 March	*17a*	**-**	-	**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
Rail for London 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
LUL Nominee BCV Limited	Dormant
LUL Nominee SSL Limited	Dormant

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% 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 the subsidiary companies for the year ended 31 March 2008 all received unqualified audit opinions. The two Nominee companies did not require an audit because of they were dormant.

12 Stocks

	Group 2008 £m	Group 2007 £m	**Corporation 2008 £m**	Corporation 2007 £m
Maintenance stores	**3.6**	3.8	**2.1**	1.9
Goods purchased for resale	**0.6**	0.5	**-**	-
	4.2	4.3	**2.1**	1.9

Notes to the accounts

13 Debtors

	Note	Group 2008 £m	Group 2007 £m	Corporation 2008 £m	Corporation 2007 £m
Amount falling due after one year					
Amounts due from subsidiary companies – loans	*17a*	**-**	-	**1,322.2**	-
		-	-	**1,322.2**	-
Amount falling due within one year					
Trade debtors		**247.4**	271.6	**66.9**	56.9
Other debtors		**174.7**	-	**174.7**	-
Loan agreement with the Metronet Infracos		**31.9**	-	**31.9**	-
Amounts due from subsidiary companies - loans	*17a*	**-**	-	**-**	687.9
Prepayments and accrued income		**108.0**	31.1	**66.7**	6.9
		562.0	302.7	**340.2**	751.7

TfL formalised its loan agreements with its subsidiary companies during the year. With effect from 1 April 2007, all outstanding loans became interest bearing. They also became repayable on demand after a two year notice period. Therefore, they have been re-classified as long-term debtors from the start of the year.

TfL entered into a Loan Agreement with the PPP Administrators and the Metronet Infracos on 18 July 2007. The Loan Agreement makes funds available to the PPP Administrator to meet Administration Expenses. As at 31 March 2008, the outstanding balance on the loan amounted to £241.8 million, of which £209.9 million was provided against.

14 Cash at bank and in hand

	Note	Group 2008 £m	Group 2007 £m	Corporation 2008 £m	Corporation 2007 £m
Cash at bank		**10.1**	8.9	**3.2**	3.1
Cash in hand and in transit		**23.0**	14.6	**0.2**	0.2
	16b, 17	**33.1**	23.5	**3.4**	3.3

Notes to the accounts

15 Creditors

	Note	Group 2008 £m	Group 2007 £m	Corporation 2008 £m	Corporation 2007 £m
a) Amounts falling due within one year					
Trade creditors		**906.2**	845.1	**248.5**	247.3
Capital works		**347.1**	277.3	**76.8**	85.1
Amounts due to subsidiary companies		**-**	-	**138.9**	119.4
Finance lease obligations repayable within one year	*16a*	**556.5**	527.8	**-**	-
Salaries and wages	*17a*	**23.5**	16.3	**6.3**	5.1
Receipts in advance for travelcards and bus passes		**91.8**	87.3	**-**	-
		1,925.1	1,753.8	**470.5**	456.9
b) Amounts falling due after more than one year					
Retentions on capital contracts	*17a*	**0.7**	0.2	**0.6**	0.2
Accruals and deferred income	*17a*	**25.4**	21.9	**5.7**	5.5
Finance lease obligations	*16b, 30*	**2,754.1**	2,042.0	**-**	-
		2,780.2	2,064.1	**6.3**	5.7

16 Borrowings

The carrying value of debt is as follows:

	Note	Group 2008 £m	Group 2007 £m	Corporation 2008 £m	Corporation 2007 £m
a) Amounts falling due within one year					
Finance lease obligations	*15a*	**556.5**	527.8	-	-
b) Amounts falling due after more than one year					
Finance lease obligations	*15b,17a, 30*	**2,754.1**	2,042.0	**-**	-
Other external borrowing	*17*	**1,950.0**	1,349.8	**1,950.0**	1,349.8
		4,704.1	3,391.8	**1,950.0**	1,349.8
Total borrowings		**5,260.6**	3,919.6	**1,950.0**	1,349.8
Short-term investments	*17*	**(1,870.0)**	(2,004.3)	**(1,832.7)**	(1,970.6)
Cash at bank and in hand	*14*	**(33.1)**	(23.5)	**(3.4)**	(3.3)
Net borrowing/(funds)		**3,357.5**	1,891.8	**113.9**	(624.1)

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

Notes to the accounts

17 Financial instruments

a) Financial Instrument balances

The borrowings and investments disclosed in the balance sheet are made up of the following categories of financial instruments:

Group	Note	**Long Term**		**Short Term**	
		31 March 2008 £m	31 March 2007 £m	**31 March 2008 £m**	31 March 2007 £m
Financial liabilities at amortised cost:					
- Borrowings	*16b*	**1,950.0**	1,349.8	**-**	-
- Obligations under finance leases	*16a, b, 30*	**2,754.1**	2,042.0	**556.5**	527.8
- Other creditors greater than one year	*15b*	**26.1**	22.1	**-**	-
Total borrowings		**4,730.2**	3,413.9	**556.5**	527.8
Loans and receivables	*13*	**-**	-	**31.9**	-
Available-for-sale financial assets:					
- Cash at bank and in hand	*14*	**-**	-	**33.1**	23.5
- Short-term investments	*16b*	**-**	-	**1,870.0**	2,004.3
Total investments		**-**	-	**1,935.0**	2,027.8

Corporation	Note	**Long Term**		**Short Term**	
		31 March 2008 £m	31 March 2007 £m	**31 March 2008 £m**	31 March 2007 £m
Financial liabilities at amortised cost:					
- Borrowings	*16b*	**1,950.0**	1,349.8	**-**	-
- Other creditors greater than one year	*15b*	**6.3**	5.7	**-**	-
Total borrowings		**1,956.3**	1,355.5	**-**	-
Loans and receivables	*13*	**1,322.2**	-	**31.9**	687.9
Available-for-sale financial assets:					
- Cash at bank and in hand	*14*	**-**	-	**3.4**	3.3
- Short-term investments	*16b*	**-**	-	**1,832.7**	1,970.6
Investment in subsidiaries	*11*	**22.5**	22.5	**-**	-
Total investments		**1,344.7**	22.5	**1,868.0**	2,661.8

Short term investments represent deposits invested with banks and institutions for less than one year in accordance with the Treasury Management Strategy approved by the Board. Obligations under finance leases carry an imputed weighted average interest charge of 6.8%. The average effective interest rate ranges between 4.2% and 5.15% for all external borrowings.

Notes to the accounts

17 Financial instruments continued

b) Fair value of assets and liabilities carried at amortised cost

Financial liabilities and financial assets represented by loans and receivables are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- no early repayment or impairment is recognised
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2008		31 March 2007	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial liabilities	**5,260.6**	**5,270.0**	3,919.6	3,875.1

At 31 March 2008 the average middle market value, from four leading financial institutions, of the group's quoted debt was £550.2 million (2007 £577.5 million) and fair value for the Public Works Loan Board debt provided by the Debt Management Office was £1,215.1 million (2007 £645.7 million). The fair value is more or less than the carrying amount because the Corporation's portfolio of loans consists exclusively of fixed rate loans where the interest rate payable may be greater or lower than the rates available for similar loans at the balance sheet date. All other financial liabilities have fair values equal to their book value. All financial assets have fair values equal to their book value. Loans bear a market rate of interest at the time of borrowings.

c) Nature and extent of risks arising from financial instruments

The Group's activities involve a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the Group
- liquidity risk – the possibility that the Group might not have funds available to meet its debts as they become due
- market risk – the possibility that financial loss might arise as a result of changes in interest rates

In managing these financial risks, the Corporation has taken account of the CIPFA recommendations contained in the Code of Practice and Cross-Sectoral Guidance Notes (The Treasury Management Code) issued in January 2002 for Treasury Management in the Public Services, the Local Government Act 2003, the Capital Finance and Accounts Regulations 2003 and the CIPFA Prudential Code (The Prudential Code).

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. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services and capital investment.

Notes to the accounts

17 Financial instruments continued

The TfL Board has therefore approved a Treasury Management Policy Statement, which requires the Board, prior to the commencement of the financial year, to approve a Borrowing and Investment Strategy. On a daily basis, a central treasury and corporate finance team monitor interest rates and performance against the approved strategies. A quarterly report on performance against the approved strategies is considered by the Finance Committee (a committee of the Board).

In accordance with the Local Government Act 2003 the Mayor sets an affordable borrowing limit. By Regulation, the Mayor and the Corporation are required to have regard to the Prudential Code. Accordingly, the Board annually approves 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 are its cash and investments, its borrowings and its obligations under finance leases (mainly the PPP arrangements). These financial assets and liabilities 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 financial assets and liabilities, the annual Treasury Management Strategy has the following objectives:

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

Credit risk

Credit risk arises from deposits with banks and financial institutions and from the Group's customers. Deposits are made with banks and financial institutions if they are rated by Moodys, an independent credit rating agency. Banks and institutions are required to have good investment-grade ratings and investment limits ranging between £60 million and £200million are attached to ratings ranging from a minimum of A1 to a maximum of AAA.

The Group does not expect any losses from non-performance of any of its counterparties in relation to deposits made with banks and financial institutions.

Notes to the accounts

17 Financial instruments continued

Liquidity risk

As long as the affordable borrowing limit set by the Mayor is not exceeded, the Group is able to borrow from the Public Works Loans Board (PWLB), raise debt on the capital markets through its established Medium Term Note (MTN) programme and is eligible to apply for project funding at competitive interest rates from the European Investment Bank (EIB). There is therefore no significant risk that it will be unable to raise finance to meet its planned capital commitments.

Further protection is provided to the Group by

i) borrowing only for capital expenditure and for periods that equate broadly to the lives of the assets being acquired

ii) fixing interest at historically low long-term rates and

iii) making annual provision that ensures that sufficient resources are retained to repay borrowings at maturity. Revenue expenditure is funded by cash fares from customers, cash-backed reserves and cash-backed grant from Government, agreed for the forthcoming ten years. As revenue budgets are required by law to be balanced, there is therefore no significant liquidity risk attached to revenue expenditure.

The maturity analysis of financial liabilities is as follows:

	Group 2008 £m	Group 2007 £m	**Corporation 2008 £m**	Corporation 2007 £m
Within one year	**556.5**	527.8	**-**	-
Between one and two years	**2,405.4**	1,687.5	**-**	-
Between two and five years	**29.7**	24.1	**-**	-
Between five and ten years	**96.6**	82.5	**25.8**	-
Over ten years	**2,172.4**	1,597.7	**1,924.2**	1,349.8
	5,260.6	3,919.6	**1,950.0**	1,349.8

All trade and other payables are due to be paid in less than one year.

The following represents the maturity analysis for each source of borrowing for the Group and the Corporation as at 31 March 2008:

	EIB £m	**Loan Notes £m**	**PWLB £m**	**Amount £m**	**Interest Rate %**
Between five and ten years	25.8	-	-	25.8	4.293
Between ten and fifteen years	64.5	-	-	64.5	4.293
Between fifteen and twenty years	64.9	80.0	-	144.9	4.293-4.500
Between twenty and twenty-five years	39.0	340.0	122.5	501.5	4.250-5.000
Between twenty-five and thirty years	-	80.0	531.2	611.2	4.200-5.000
Between thirty and thirty-five years	-	100.0	136.5	236.5	4.450-4.650
Between thirty-five and forty years	-	-	178.0	178.0	4.550-4.850
Between forty and forty-five years	-	-	195.1	195.1	4.500-4.800
Total principal repayable	**194.2**	**600.0**	**1,163.3**	**1,957.5**	

Notes to the accounts

17 Financial instruments continued

The financial liabilities analysed by sources are as follows:

	Group 2008 £m	Group 2007 £m	Corporation 2008 £m	Corporation 2007 £m
Finance lease				
- PPP	**2,946.8**	2,204.5	**-**	-
- Others	**363.8**	365.3	**-**	-
Other external borrowings				
- European Investment Bank	**194.2**	82.1	**194.2**	82.1
- Public Works Loan Board	**1,162.9**	675.1	**1,162.9**	675.1
- Loan Notes	**592.9**	592.6	**592.9**	592.6
	5,260.6	3,919.6	**1,950.0**	1,349.8

During the year the Corporation borrowed £487.9 million from the Public Works Loan Board and £112.1 million third tranche of a £450 million project finance facility from the European Investment Bank. Total borrowings do not exceed the £2 billion limit set by the Mayor for 2007/08.

The Group policy in relation to financial risk management is discussed above.

Market risk

Interest rate risk

Due to its policy of fixing interest rates at historically low levels, the Group is not exposed to significant risk in interest rate movement on its borrowings. However, because the Group currently has £1,870.0 million and the Corporation £1,832.7 million invested with banks and institutions for terms that do not exceed 364 days, there is a risk to the estimated investment income assumed in the budget. Such variation is immaterial to the gross revenue expenditure.

The impact of a one per cent movement in interest rates over the year is £20 million.

Price risk

The Group does not generally invest in equity shares. It has shareholdings to the value of £22.5 million in a joint venture and a number of subsidiaries. The Corporation owns all of the ordinary share capital of its subsidiaries and therefore, is not exposed to losses arising from movements in the prices of the shares. In addition, the Group holds 50% of the share capital of a joint venture referred to in Note 11 with the Department for Transport. The shares have no market value and the Group is therefore not exposed to price movements.

Foreign exchange risk

The Corporation and the Group have no financial assets or liabilities denominated in foreign currencies and thus has no exposure to gains or losses arising from movements in exchange rates.

Notes to the accounts

18 Provisions for liabilities and charges

	Note	At 1 April 2007 £m	Payments in year £m	Increase/ (decrease) in provision £m	**At 31 March 2008 £m**
Group					
Claims for compensation		173.7	(25.0)	39.0	**187.7**
Capital investment activities		13.3	(4.7)	0.1	**8.7**
Unfunded pension liabilities	*20e*	42.9	(3.9)	3.8	**42.8**
Other		18.3	(7.0)	(0.8)	**10.5**
		248.2	(40.6)	42.1	**249.7**
Corporation					
Claims for compensation		43.8	(5.8)	8.4	**46.4**
Capital investment activities		12.6	(4.2)	-	**8.4**
Unfunded pension liabilities		25.1	(2.9)	3.3	**25.5**
Other		8.9	(6.3)	(2.3)	**0.3**
		90.4	(19.2)	9.4	**80.6**

Claims for compensation include provisions in respect of disputes in the ordinary course of business relating to projects and contracts for which the outcome is uncertain. Whilst a claim is ongoing TfL is unable to disclose the quantum or timing of any 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 20e.

19 Deferred grants

	Note	**Group 2008 £m**	Group 2007 £m	**Corporation 2008 £m**	Corporation 2007 £m
Balance at 1 April		**6,845.1**	6,695.1	**419.1**	411.5
Transport grant	*6*	**462.2**	410.5	**201.5**	64.6
Third party contributions and other grant funding	*10f*	**139.1**	152.1	**4.7**	7.9
Release of deferred grant:					
- to meet the depreciation charge	*10c*	**(361.0)**	(365.2)	**(55.7)**	(64.9)
- to meet the deferred charges	*5*	**(150.0)**	-	**(150.0)**	-
- on disposal of tangible fixed assets	*7*	**(73.6)**	(47.4)	**(2.0)**	-
Balance at 31 March		**6,861.8**	6,845.1	**417.6**	419.1

Notes to the accounts

20 Pensions

a) Summary of pension totals for the year

Total pension service cost for the year

	Note	Group 2007/08 £m	Group 2006/07 £m	Corporation 2007/08 £m	Corporation 2006/07 £m
TfL Pension Fund	*20b*	**150.6**	135.3	**27.9**	22.0
Local Government Pension Scheme	*20b*	**2.3**	2.7	**2.3**	2.7
Principal Civil Service Pension Scheme	*20c*	**1.3**	2.3	**1.2**	2.3
Unfunded pensions	*20e*	**3.6**	9.0	**3.1**	6.6
Other schemes		**15.5**	3.2	**(0.1)**	0.7
Amount included in net cost of services	*3*	**173.3**	152.5	**34.4**	34.3

Total pensions interest cost and expected return on pensions assets

	Note	Group 2007/08 £m	Group 2006/07 £m	Corporation 2007/08 £m	Corporation 2006/07 £m
TfL Pension Fund		**(18.9)**	(24.1)	**-**	-
Local Government Pension Scheme		**0.1**	0.2	**0.1**	0.2
Amount included in net operating expenditure	*20b*	**(18.8)**	(23.9)	**0.1**	0.2

Total pension deficit at end of year

	Note	Group 2007/08 £m	Group 2006/07 £m	Corporation 2007/08 £m	Corporation 2006/07 £m
TfL Pension Fund		**(596.7)**	(934.0)	**-**	-
Local Government Pension Scheme		**(10.1)**	(14.2)	**(10.1)**	(14.2)
Deficit recognised as a liability in the balance sheet	*20b*	**(606.8)**	(948.2)	**(10.1)**	(14.2)

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

b) TfL Pension Schemes

TfL Pension Fund

The TfL Pension Fund, to which the Group contributes, is a final salary scheme established under trust. The Fund's Trustee is the TfL Trustee Company Limited, a wholly owned subsidiary of TfL. Under the rules of the Fund, its 18 Trustee Directors are nominated in equal numbers by TfL and on behalf of the Fund's membership. 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 2006 by the Actuary, a partner of consulting actuaries Watson Wyatt, using the projected unit method.

Notes to the accounts

20 Pensions continued

A revised Schedule of Contributions was agreed between the Trustee and TfL following the 2006 formal funding valuation of the Public Sector Section. The recovery plan states that the expectation is that the funding shortfall will be eliminated by 31 March 2017.

Employers' contributions for the period 1 September 2007 to 31 March 2010 are increased to 31.0% (from 30.5%), and contributions from 1 April 2010 until 31 March 2017 will reduce to 22.5%. The actual contributions payable from 1 April 2010 may differ from this, dependent on the outcome of the 2009 triennial valuation.

A separate valuation of the Public Sector Section has been prepared for accounting purposes on an FRS 17 basis as at 31 March 2008. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, whilst the present value of the scheme's liabilities is derived from cash flow projections. Due to the timescale covered, neither the assumptions nor the cash flow projections may necessarily be borne out in practice.

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 liabilities for the TfL Pension Fund have been calculated using the mortality assumptions adopted for the latest funding valuation as at 31 March 2006. Standard mortality tables were used, adjusted to reflect the recent mortality experience of the Fund's pensioners at that date. An allowance was made for future mortality improvements in line with the medium cohort projections.

Local Government Pension Scheme

The Local Government Pension Scheme is a funded multi-employer defined benefit scheme. The Corporation is able to identify its share of the assets and liabilities of the scheme and this scheme has therefore been accounted for as a defined benefit scheme under FRS 17. Employer's contributions were payable at the rate of 14.1% (2006/07 14.1%) of pensionable pay. The Corporation's share of the underlying assets and liabilities resulted in a deficit of £10.1 million (2006/07 £14.2 million). A full actuarial valuation was carried out at 31 March 2007. The annual report and accounts for the whole scheme can be found on the London Pensions Fund Authority website (www.lpfa.org.uk).

The main actuarial assumptions used for the Public Sector Section of the TfL Pension Fund and the Local Government Pension Scheme (together 'the Schemes') were:

	FRS 17 valuation at 31 March 2008 %	FRS 17 valuation at 31 March 2007 %	FRS 17 valuation at 31 March 2006 %
Inflation	**3.6**	3.1 - 3.2	3.0 - 3.1
Rate of increase in salaries	**5.1**	4.6 - 4.7	4.5 - 4.6
Rate of increase of pensions in payment and deferred pensions	**3.6**	3.1 - 3.2	3.0 - 3.1
Discount rate	**6.8 – 6.9**	5.35 - 5.4	4.9 - 5.1
Investment return	**6.8 – 7.0**	6.9 - 7.2	6.7 - 6.8

Notes to the accounts

20 Pensions continued

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

	Expected return %	**Value at 31 March 2008 £m**	Expected return %	Value at 31 March 2007 £m	Expected return **%**	Value at 31 March 2006 £m
Equities	**8.2**	**2,332.3**	8.1	2,600.2	8.1	2,371.9
Bonds	**4.9**	**1,614.1**	4.9	1,430.1	4.5	1,266.4
Cash, property and other assets	**5.3**	**178.3**	4.7	107.6	4.1	155.9
Total market value of assets		**4,124.7**		4,137.9		3,794.2
Actuarial valuation of Section liabilities		**(4,731.5)**		(5,086.1)		(4,564.1)
Deficit in the Schemes recognised as a liability in the balance sheet		**(606.8)**		(948.2)		(769.9)

Analysis of amounts charged to net cost of services	**Group 2007/08 £m**	Group 2006/07 £m	**Corporation 2007/08 £m**	Corporation 2006/07 £m
Current service cost	**152.9**	137.9	**2.3**	2.6
Past service cost	**-**	0.1	**-**	0.1
Total charged to net cost of services	**152.9**	138.0	**2.3**	2.7
Analysis of pensions interest cost and expected return on assets				
Interest on Schemes liabilities	**272.4**	233.7	**2.8**	2.5
Expected return on Schemes assets	**(291.2)**	(257.6)	**(2.7)**	(2.3)
Total (credited)/charged to net operating expenditure	**(18.8)**	(23.9)	**0.1**	0.2
Total amount included in net operating expenditure in Group income and expenditure account	**134.1**	114.1	**2.4**	2.9
Contribution to pensions reserve	**29.6**	32.6	**-**	(0.5)
Amount to be met from government grant and local taxation	**163.7**	146.7	**2.4**	2.4
Analysis of amount recognised in statement of total recognised gains and losses (STRGL)				
Actual return less expected return on Schemes assets	**(329.7)**	72.3	**(3.6)**	0.3
Experience gains and losses arising on Schemes liabilities	**(164.0)**	(185.3)	**(1.8)**	-
Changes in assumptions underlying the present value of Schemes liabilities	**805.5**	(97.9)	**9.5**	3.7
Actuarial gain/(loss) recognised in STRGL	**311.8**	(210.9)	**4.1**	4.0

Notes to the accounts

20 Pensions continued

Analysis of the movement in deficit in the Section during the year	**Group 2007/08 £m**	Group 2006/07 £m	**Corporation 2007/08 £m**	Corporation 2006/07 £m
Deficit in the Schemes at start of year	**(948.2)**	(769.9)	**(14.2)**	(17.7)
Contributions paid	**223.3**	146.7	**2.4**	2.4
Contributions prepayment	**(59.6)**	-	**-**	-
Current service cost	**(152.9)**	(138.0)	**(2.3)**	(2.7)
Interest and investment income/(charge)	**18.8**	23.9	**(0.1)**	(0.2)
Actuarial gain/(loss)	**311.8**	(210.9)	**4.1**	4.0
Deficit in the Schemes at end of year	**(606.8)**	(948.2)	**(10.1)**	(14.2)

c) 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 as permitted by the multi-employer exemption in 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 2007. Details can be found in the Civil Service Superannuation Resource Accounts (www.civilservice-pensions.gov.uk).

Employers' contributions were payable to the PCSPS at one of four rates in the range 17.1% to 24.6% of pensionable pay, based on salary bands. Rates will change as of 1 April 2009, 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

20 Pensions continued

d) Analysis of movements in pensions reserve

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

The Schemes	Group only				
	2007/08	2006/07	2005/06	2004/05	2003/04
Difference between the expected and actual return on assets gain/(loss)					
amount (£ million)	**(329.7)**	72.3	473.7	97.9	305.7
percentage of scheme assets	**8.0%**	1.7%	12.5%	3.2%	11.2%
Differences between actuarial assumptions about liabilities and actual experience gain/(loss)					
amount (£ million)	**(164.0)**	(185.3)	59.8	(99.0)	(8.9)
percentage of the present value of the scheme liabilities	**3.5%**	3.6%	1.3%	2.5%	0.2%
Changes in the demographic and financial assumptions used to estimate liabilities gain/(loss)					
amount (£ million)	**805.5**	(97.9)	(354.8)	(92.4)	(210.6)
percentage of the present value of the scheme liabilities	**17.0%**	1.9%	7.8%	2.3%	5.8%
Total amount recognised in statement of total recognised gains and (losses)					
amount (£ million)	**311.8**	(210.9)	178.7	(93.5)	86.2
percentage of the present value of the scheme liabilities	**6.6%**	4.1%	3.9%	2.3%	2.4%

e) Unfunded pension costs

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

In addition, the Group bears the cost of:

- ex-gratia payments which are made to certain former employees who retired more than ten years ago in respect of service prior to the establishment of pension funds for those employees;
- supplementary pensions, which are made to certain former employees who retired more than ten years ago and prior to index linking of pensions;
- pensions of LU and London Regional Transport (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 2008 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 2008 was £42.8 million (2007 £42.9 million) and is fully provided for in these accounts.

Notes to the accounts

21 Movements in reserves

This statement shows the movements on the Group and Corporation's reserves. It distinguishes between movements resulting from the gains and losses for the year and movements resulting from transfers between reserves, most of which the Corporation is required to make in accordance with statute or non-statutory proper practice.

Group	Balance at 1 April 2007	Adjustment to the opening balance	Balance at 1 April 2007 as restated	Gains/ (losses) for the year	Transfers between reserves	**Balance at 31 March 2008**
	£m	£m	£m	£m	£m	**£m**
General fund	147.8	-	147.8	77.9	(64.1)	**161.6**
Earmarked reserves	1,299.8	-	1,299.8	-	143.0	**1,442.8**
Capital adjustment account	-	1,439.4	1,439.4	0.4	(80.1)	**1,359.7**
Capital financing account	31.5	(31.5)	-	-	-	**-**
Fixed asset restatement account	1,445.6	(1,445.6)	-	-	-	**-**
Fixed asset revaluation reserve	1,900.6	37.7	1,938.3	9.1	(77.7)	**1,869.7**
Group profit and loss reserve	25.5	-	25.5	(62.4)	67.0	**30.1**
Capital reserves in subsidiaries	23.6	-	23.6	(0.1)	(17.7)	**5.8**
Group pensions reserve	(948.2)	-	(948.2)	311.8	29.6	**(606.8)**
Merger reserve	466.1	-	466.1	-	-	**466.1**
Other reserves	82.6	-	82.6	-	-	**82.6**
	4,474.9	-	4,474.9	336.7	-	**4,811.6**

Notes to the accounts

21 Movements in reserves continued

Corporation	Balance at 1 April 2007 £m	Adjustment to the opening balance £m	Balance at 1 April 2007 as restated £m	Gains/ (losses) for the year £m	Transfers between reserves £m	**Balance at 31 March 2008 £m**
General fund	147.8	-	147.8	77.9	(64.1)	**161.6**
Earmarked reserves	1,299.8	-	1,299.8	-	143.0	**1,442.8**
Capital adjustment account	-	1,439.4	1,439.4	(0.8)	(78.9)	**1,359.7**
Fixed asset revaluation reserve	-	37.7	37.7	(3.0)	-	**34.7**
Capital financing account	31.5	(31.5)	-	-	-	**-**
Fixed asset restatement account	1,445.6	(1,445.6)	-	-	-	**-**
Pensions reserve in Corporation	(14.2)	-	(14.2)	4.1	-	**(10.1)**
Other Corporation reserves	(26.9)	-	(26.9)	-	-	**(26.9)**
	2,883.6	-	2,883.6	78.2	-	**2,961.8**

The Balance Sheet figures for 31 March 2007 have been restated as the 2007 Statement of Recommended Practice (SORP) requires the Fixed Asset Restatement Account (FARA) and Capital Financing Account (CFA) to be replaced with a Revaluation Reserve and a Capital Adjustment Account. The SORP states that the opening balance on the Revaluation Reserve should be set to nil with the closing balance on the FARA and CFA as at 31 March 2007 equating to the opening balance on the Capital Adjustment Account.

However, the Corporation has identified specific assets of £37.7 million from the total of £1,445.6 million on the previous fixed asset restatement account that it considers should be disclosed in the revaluation reserve's opening balance. This change in presentation is not considered to be a material departure from the SORP and has been made to present fairly the amounts in the statement of accounts and to ensure consistency with the treatment in the subsidiaries.

Notes to the accounts

21 Movements in reserves continued

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 20 to these accounts. The merger reserve of £466.1 million arose as a result of the transfer of the net assets of LRT, including the share capital of London Underground Limited (LUL), to TfL in 2003. It represents the share capital of London Underground Limited and was 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 LUL to the TfL group in 2003.

Group	Balance at 1 April 2006	Gains/ (losses) for the year	Transfers between reserves	Balance at 31 March 2007
	£m	£m	£m	£m
General fund	147.5	27.3	(27.0)	147.8
Earmarked reserves	1,198.9	-	100.9	1,299.8
Capital financing account	31.8	-	(0.3)	31.5
Fixed asset restatement account	1,499.6	19.1	(73.1)	1,445.6
Fixed asset revaluation reserve	1,891.5	84.2	(75.1)	1,900.6
Group profit and loss reserve	(12.1)	(72.4)	110.0	25.5
Capital reserves in subsidiaries	90.9	0.7	(68.0)	23.6
Group pensions reserve	(769.9)	(210.9)	32.6	(948.2)
Merger reserve	466.1	-	-	466.1
Other reserves	82.6	-	-	82.6
	4,626.9	(152.0)	-	4,474.9

Corporation	Balance at 1 April 2006	Gains/ (losses) for the year	Transfers between reserves	Balance at 31 March 2007
	£m	£m	£m	£m
General fund	147.5	27.3	(27.0)	147.8
Earmarked reserves	1,198.9	-	100.9	1,299.8
Capital financing account	31.8	-	(0.3)	31.5
Fixed asset restatement account	1,499.6	19.1	(73.1)	1,445.6
Pensions reserve in Corporation	(17.7)	4.0	(0.5)	(14.2)
Other Corporation reserves	(26.9)	-	-	(26.9)
	2,833.2	50.4	-	2,883.6

Notes to the accounts

22 Reconciliation of the surplus for the year on the Income and Expenditure Account to the surplus for the year on the General Fund

The surplus for the year on the General Fund was £64.1 million (2006/07 £27.0 million) less than the Income and Expenditure Account result for the Corporation. This is explained as follows:

The Income and Expenditure Account discloses the income received and expenditure incurred in operating the Corporation's services for the year and is equivalent to the profit and loss account of a business. Income and expenditure and the resulting surplus or deficit for the year is measured in accordance with the SORP which is essentially the same as UK GAAP.

There are, however, certain items which the Corporation is required to charge or credit to its General Fund when determining the balance on that Fund which are laid down in statute and non-statutory "proper practices" rather than being UK GAAP based. An example of this is that depreciation of fixed assets is charged to the Income and Expenditure Account in accordance with UK GAAP but then excluded from the General Fund in accordance with statute.

The surplus or deficit on the Income and Expenditure Account is the best measure of the Corporation and Group's operating financial performance for the year. However, the surplus or deficit on the General Fund is also important since it indicates whether the Corporation added to or drew on its General Fund balances during the year. This in turn affects the amount of General Fund balance that the Corporation can take into account when determining its spending plans for the following year.

The table below gives a detailed breakdown of the differences between the income and expenditure included in the Corporation's Income and Expenditure Account in accordance with the SORP, and the amounts that statute and non-statutory proper practice required the Corporation to charge and credit to the General Fund Balance.

Notes to the accounts

22 Reconciliation of the surplus for the year on the Income and Expenditure Account to the surplus for the year on the General Fund continued

	Note	Corporation 2008 £m	Corporation 2007 £m
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the General Fund surplus or deficit for the year			
Depreciation and amortisation of fixed assets	*10c*	**(164.4)**	(163.1)
Government grants deferred amortisation matching depreciation		**55.7**	64.9
Net (loss)/profit on disposal or retirement of fixed assets	*7*	**(21.9)**	0.5
Amount by which pension costs are different from the contributions paid		**-**	(0.5)
		(130.6)	(98.2)
Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the General Fund surplus or deficit for the year			
Statutory provision for repayment of debt	*23*	**51.7**	24.3
		51.7	24.3
Transfers to/ from the General Fund that are required by statute to be taken into account when determining the General Fund surplus/deficit for the year			
Transfers made at the discretion of the Corporation to or from reserves that have been earmarked for specific purposes	*21*	**143.0**	100.9
		143.0	100.9
Amount by which the surplus on the General Fund for the year was less than the Income and Expenditure Account result for the year		**64.1**	27.0

Notes to the accounts

23 Minimum revenue provision

	Note	**Corporation 2007/08 £m**	Corporation 2006/07 £m
Minimum revenue provision at 4%		**51.7**	24.3
Amount charged as depreciation	*10c*	**164.4**	163.1
Amortisation of deferred capital grant against depreciation		**(55.7)**	(64.9)
Appropriation of capital adjustment account		**(57.0)**	-
Appropriation of fixed asset restatement account		**-**	(71.2)
Appropriation of capital financing account		**-**	(2.7)
	22	**51.7**	24.3

The Local Government and Housing Act 1989 require a Minimum Revenue Provision (MRP) to be set aside for the redemption of external debt. This amount is calculated as a percentage (currently 4%) of the Authority's Capital Financing Requirement of £1,293.2 million (2006/07 £607.7 million). New MRP regulations were approved by the Secretary of State in February 2008. They do not affect the calculation of the provision for the current financial year. In future the TfL Board is required to approve an Annual MRP Statement determining the amount of MRP which it considers to be prudent.

The SORP requires that the provision for depreciation be regarded as part of MRP, with the difference being a charge or credit to the General Fund. This ensures that the General Fund 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 General Fund. The transfer from the capital adjustment account reduces the charge in the General Fund to the statutory minimum.

24 Capital commitments

	Group 2008 £m	Group 2007 £m	**Corporation 2008 £m**	Corporation 2007 £m
In respect of contracts placed for:				
Road projects	**67.4**	71.1	**67.4**	71.1
London Underground projects	**320.5**	615.9	**-**	-
Rail projects	**484.8**	340.3	**-**	-
Other projects	**78.5**	32.1	**7.1**	24.5
	951.2	1,059.4	**74.5**	95.6

Notes to the accounts

25 Financial commitments

a) Operating leases

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

	Group 2008 £m	Group 2007 £m	**Corporation 2008 £m**	Corporation 2007 £m
Property leases which expire:				
Within one year	**2.2**	2.7	**-**	-
Between one and five years	**19.3**	19.1	**-**	-
Thereafter	**27.6**	20.9	**-**	-
	49.1	42.7	**-**	-
PFI agreements and other leases which expire:				
Within one year	**3.9**	0.4	**-**	-
Between one and five years	**5.2**	1.0	**0.4**	-
Thereafter	**276.2**	315.0	**28.6**	30.4
	285.3	316.4	**29.0**	30.4

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 every 7.5 years. The amount payable to the PPP contractors is dependent upon their performance. The capital element of the contracts over the 30 year period is estimated to be between £15 billion and £20 billion.

The two Metronet Infracos responsible for maintenance and upgrade of two-thirds of the Underground network went in PPP Administration on 18 July 2007. This followed Metronet's application for an Extraordinary Review for the BCV contract and the PPP Arbiter's subsequent draft award of a much lower interim increase in the Infrastructure Service Charge than Metronet had sought. On 27 May 2008, the business, assets and certain liabilities of the Metronet Infracos were transferred to two TfL nominee companies. Further details are disclosed in Note 30.

Notes to the accounts

25 Financial commitments continued

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).

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

26 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 TfL 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.

On 3 October 2007 the Commissioner purchased an obsolete vehicle from London Bus Services Ltd which was surplus to requirements. The vehicle was sold at market value of £11,158.98 inclusive of VAT.

Notes to the accounts

26 Related parties continued

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 Income and Expenditure Accounts and Cash Flow Statements and are therefore not included in this note.

During 2007/08 there were no other material related party transactions except as disclosed below.

	Total income during the year £m	Total expenditure during the year £m	Outstanding balance at 31 March 2008 £m
Greater London Authority (GLA)	0.2	(6.3)	(0.4)
Metropolitan Police Authority (MPA)	0.2	(86.3)	(6.9)
London Development Agency (LDA)	2.0	-	0.2
London Fire and Emergency Planning Authority (LFEPA)	-	-	-

27 Congestion charging

		Note	Group and Corporation **2007/08** **£m**	 2006/07 £m
Revenue		*2*	**328.2**	252.4
Direct expenditure:	- Toll facilities and traffic management		**(171.7)**	(130.4)
			156.5	122.0
Other expenditure:	- Financial assistance		**(2.8)**	(2.5)
	- Administration, support services & depreciation		**(16.7)**	(18.2)
	- Western extension start-up costs		**-**	(12.2)
Net income on congestion charging			**137.0**	89.1

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 2006. The net revenues from the congestion charge are spent on improving transport in line with the Mayor's Transport Strategy. The western extension zone of the Congestion Charge came into effect on 19 February 2007.

Notes to the accounts

28 Financial Assistance

TfL may give financial assistance to any body or person in respect of expenditure incurred or to be incurred by that body or person in doing anything which, in the opinion of TfL, is conducive to the provision of safe, integrated, efficient and economic transport facilities of services to, from or within Greater London.
Financial assistance given under section 159 of the Greater London Authority Act 1999 is outlined below:

	Note	**Corporation 2007/08 £m**	Corporation 2006/07 £m
Financial assistance to subsidiaries and joint venture			
Transport Trading Limited		**129.3**	114.3
London Underground Limited		**2,951.4**	1,094.4
London Bus Services Limited		**692.2**	662.2
London Buses Limited		**0.1**	0.2
Docklands Light Railway Limited		**182.9**	98.3
Rail for London Limited		**192.2**	-
London River Services Limited		**-**	5.1
Cross London Rail Links Limited		**-**	19.1
		4,148.1	1,993.6
Financial assistance to London Boroughs and other third parties			
London Investment Programme		**179.4**	163.7
Taxicard		**10.8**	9.4
Prescott Channel Lock		**2.8**	-
One Railway		**-**	0.9
Southern Railway Ltd		**-**	0.4
First Great Western		**-**	0.5
South Eastern Trains		**-**	0.4
Silverlink		**2.1**	1.0
Others		**2.3**	2.2
	3	**197.4**	178.5

Notes to the accounts

29 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:

	£m
Agreement with Tube Lines	1,803
Agreement with CityLink	502
Agreement with WARE	218
Agreement with TranSys	197
Agreement with PADCo and EDF Energy Powerlink Ltd	168
Agreement with CARE	164
Agreement with Pittville Leasing Limited	51
Agreement with APSLL	4

Whilst the guarantees in relation to the PPP Contract of Tube Lines noted above is the significant guarantees issued on behalf of LUL, it should also be noted that TfL guarantees LUL termination obligations under a further two contracts relating to the Northern Line Train Service Contracts and the Jubilee Line Agreement. Rail for London Ltd, a TfL subsidiary, have entered into an operating lease for London Overground rolling stock with QW Rail Leasing Ltd. TfL have guaranteed Rail for London's payment obligations and undertaken to support the debt finance provided to Lessor QW Rail Leasing Ltd. 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.

Notes to the accounts

30 Events after the balance sheet date

a) Metronet acquisition

During 2007/08, Transport Trading Limited created two new subsidiaries, namely, LUL Nominee BCV Limited and LUL Nominee SSL Limited. In April 2008, the Mayor gave his approval to the schemes which transfer the business, assets and certain liabilities of the Metronet Infracos to two TfL nominee companies (the Transfer Schemes). Following court approval on 23 May 2008, the Transfer Schemes were effected on 27 May 2008 for total cash consideration of £50 million. The consideration received by the Metronet Infracos was applied by the PPP Administrator in part repayment of the loan from TfL, described in Note 13. This means that no part of the cash consideration will remain with the Metronet Infracos and the net effect for TfL as a whole was cash neutral.

Effective as of the acquisition date, LUL and the two Nominee companies entered into an agreement in principle to reduce the Infrastructure Service Charge paid by LUL to reflect the debt free status of the two Nominee companies. As a result, Metronet's finance lease creditor will be released into Income in 2008/09 by LUL. The finance lease creditor balance as at 31 March 2008 was £1,595.9 million.

b) London Transport Museum Limited (LTM)

Until recently, the London Transport Museum (LTM) was run as part of Transport Trading Limited's operational activities. However, following the TfL board decision to operate the Museum as a charity, LTM was incorporated as a company with charitable status with effect from 1 April 2008.

LTM has a wholly owned subsidiary, London Transport Museum (Trading) Limited. As LTM is a company with charitable status, it is severely constrained in terms of the commercial activities it can undertake and consequently, London Transport Museum (Trading) Limited was incorporated to undertake activities intended to turn a profit for the benefit of LTM.

c) Tramtrack Croydon Limited (TCL) acquisition

On the 25 June, Transport Trading Limited acquired the entire issued share capital of Tramtrack Croydon Limited (TCL) and its net assets for the total cash consideration of £98 million.

TCL operates the Croydon Tramlink system under a concession agreement with TfL and has two wholly owned subsidiaries. These subsidiaries are Tramtrack Leasing Limited, who holds and rents out assets relating to the concession agreement and Tramtrack Lease Financing Limited, who acts as the intra-group lessor in respect of the finance leases for tram and track assets relating to the operation of the Tramlink system.

The acquisition of TCL will provide better control and more benefits for TfL through the wider network integration of the passenger transportation system across the Great London area.