

Transport for London



**Statement of Accounts**  
for year ended 31 March 2004

## Explanatory foreword

### Activities

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

TfL's role is to implement the Mayor's Transport Strategy and manage the transport operations for which the Mayor is responsible. These include London Underground, London Rail and Surface Transport.

The Underground services are operated directly by London Underground Limited (LUL). On 4 April 2003 the final two of three Public Private Partnerships were signed, under which private sector consortia maintain and upgrade the railway infrastructure. Each weekday over 3 million passenger journeys are made over the network's 408km route, calling at 275 stations of which 253 are owned by LUL. Passenger journeys during the year increased by six million to 948 million. On 15 July 2003 London Underground became part of TfL having reached agreement on future funding and management of the network.

Surface Transport includes the following services:

- Street Management, which is responsible for operating and improving conditions for all road users, including pedestrians and cyclists, on a 580km network of London's main roads. It is also responsible for congestion charging which was introduced in central London in 2003.
- Public Carriage Office, which is responsible for regulating the taxi and private hire trades, which range from minicabs to executive and chauffeur driven cars.
- London Buses, which manages bus services in London. It plans routes, specifies service levels and monitors service quality. The bus services are operated by private companies,

which work under contract to TfL except for a small number of routes run by TfL's own operating company.

- Dial-a-Ride, which provides door-to-door transport for Londoners with disabilities.
- Croydon Tramlink, which is operated by a concessionaire, serves seven mainline stations and 55 bus routes in south London.
- Victoria Coach Station, which is the capital's coach travel 'hub', handling more than 90% of central London's long-distance coach travel.
- London River Services, which is responsible for the management and operation of eight piers on the Thames and the licensing of boat services using those piers.

London Rail includes Docklands Light Railway and Cross London Rail Links. The Docklands Light Railway, which is also operated by a concessionaire, provides a highly accessible and reliable service. It is playing a key role in the regeneration of Docklands and southeast London and is fully integrated with other public transport modes. Cross London Rail Links, a joint venture formed with the Strategic Rail Authority, is tasked with promoting and developing two new rail routes through London.

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

A full business review for the Group is included in the Annual Report which will be available on our website ([www.tfl.gov.uk](http://www.tfl.gov.uk)) in October.

## Explanatory foreword

### Legal structure

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

- the Corporation which contains Street Management, the Public Carriage Office and the corporate centre and constitutes, for legal and accounting purposes, TfL;
- the TfL Group which is made up of the Corporation and its subsidiaries as set out in Note 21.

### Accounting statements

Under the Greater London Authority Act 1999, the Corporation is treated as a local authority for accounting purposes and the Statement of Accounts, which includes the individual financial statements of the Corporation, has been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain 2003: A Statement of Recommended Practice ('the SORP').

TfL's subsidiaries are subject to the accounting requirements of the Companies Act 1985 and separate statutory accounts are prepared for each subsidiary and for the Transport Trading Limited Group ('the TTL Group'). The financial information for the TfL Group, which combines the accounts of the Corporation and its subsidiaries on the basis set out on page 14 paragraph d, is also presented as financial information in this Statement of Accounts.

The Statement of Accounts comprises the following:

- the Corporation revenue account, which shows the income and expenditure on the provision of transport services and how the resultant net expenditure has been financed by Government grants and council taxpayers;
- the Corporation balance sheet, which shows the financial position as at 31 March 2004;
- the Corporation statement of movements in reserves, which summarises the movements in the fixed asset restatement reserve, the

- capital financing reserve, earmarked reserves and the general fund;
- the combined Group financial information, comprising the revenue account, balance sheet and statement of movements in reserves, which is presented alongside the Corporation's financial statements;
- the Group cash flow statement summarising the inflows and outflows of cash for the Group;
- the statement of accounting policies - the Group has adopted FRS 17 and the comparatives in the pro forma information have been re-stated to reflect the prescribed changes; and
- the notes to the Corporation's financial statements and to the combined Group financial information.

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

### Financial position

Government and the GLA provided transport grant funding of £2,554 million (2002/03 £1,791 million) and total revenue from fares and other services increased to £2,321 million (2002/03 £1,941 million). This increase included the effect of a full year of Congestion Charging income which contributed an additional £168 million, while income from bus fares has increased by £80 million. Analysis of change in Group net debt is set out in Note 23.

The Group's revenue expenditure increased to £3,937 million from £3,178 million in 2002/03. This increase is primarily due to rises in bus contract payments and increased spend on maintaining and renewing the London Underground network. Capital expenditure has increased to £863 million (2002/03 £681 million), largely due to amounts provided under the London Underground PPP contracts.

## Explanatory foreword

### **Responsibilities for the Statement of Accounts**

The Corporation is required to:

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

The Chief Finance Officer is responsible for the preparation of the Corporation's Statement of Accounts which, in the terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to present fairly the financial position of the Corporation at the accounting date and its income and expenditure for the year ended 31 March.

In preparing this Statement of Accounts he has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code;
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

# The Statement of Corporate Governance Assurance

## Scope of Responsibility

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

TfL is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. TfL also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised having regard to a combination of economy, efficiency and effectiveness. In discharging this accountability, board members and senior managers are responsible for putting in place proper arrangements for the governance of TfL's affairs and the stewardship of the resources at its disposal, including arrangements for the management of risk. To this end, TfL has approved and adopted a Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE framework and the requirements of the Accounts and Audit Regulations 2003. A copy of TfL's Code is on our website ([www.tfl.gov.uk](http://www.tfl.gov.uk)) or can be obtained from TfL Company Secretariat, Windsor House, 42-50 Victoria Street, London, SW1H 0TL.

## Purpose of the system of Corporate Governance Assurance

TfL has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is both adequate and effective in practice. Specifically, it has an established system of internal control. This is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies,

aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of TfL's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

## Corporate governance in TfL

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

Using the nationally recognised CIPFA/SOLACE framework, TfL developed and published a Code of Corporate Governance in 2002 tailored to its own circumstances which is designed to make its adopted practices in this area open and explicit. On an annual basis it agreed to undertake a wide-ranging review of its relevant activities involving all senior managers to determine the degree to which TfL's methodologies conform to the Code's requirements. Where they have been found wanting, action plans are being developed to identify and implement remedial action.

## TfL's Governance Structure

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

The Board has four committees:

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

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

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

The Commissioner of TfL, advised by his Chief Officers, is responsible and accountable for the delivery of the day to day operations of TfL.

There are three advisory panels, drawn from the Board members, who provide strategic advice to the Commissioner on the development and the carrying out of policy in TfL:

- Rail Transport
- Surface Transport
- London Underground

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

Surface Transport and Street Management operations.

## The dimensions of corporate governance

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

- Public focus
- Structures and processes
- Risk management and internal control
- Service delivery arrangements
- Standards of conduct

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

Within the public focus dimension:

- ✓ the Mayor has published his transport strategy that clearly sets out where TfL wants to be;
- ✓ TfL regularly publishes public reports on its performance;
- ✓ TfL has developed and implemented numerous strategies to consult with all interested parties and has processes in place to ensure the results are given due weight in decision taking;
- ✓ the public has easy access to TfL board papers and meetings.

Within the structures and processes dimension:

- ✓ the roles and responsibilities of board members and staff managers are well defined;
- ✓ TfL has procedures to ensure its activities are properly planned, implemented, monitored and reviewed.

Within the risk management and internal control dimension:

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

Within the service delivery arrangements dimension:

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

Within the standards of conduct dimension:

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

#### **Responsibilities and review of effectiveness**

TfL's General Counsel has the responsibility for:

- overseeing the implementation and monitoring the operation of the Code;
- reviewing the operation of the Code in practice;
- reporting annually to the Audit Committee on compliance with the Code and any changes that may be necessary to maintain it and ensure its effectiveness in practice.

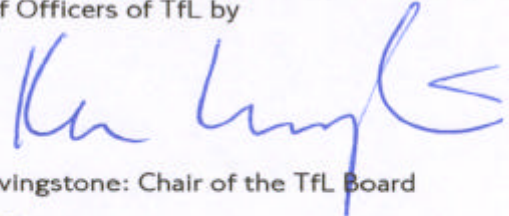
In addition, TfL's Director of Internal Audit has been given the responsibility to independently review the adequacy and effectiveness of the Code and the extent of TfL's compliance with it. The Director of Internal Audit reports annually on these matters to the Audit Committee.

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

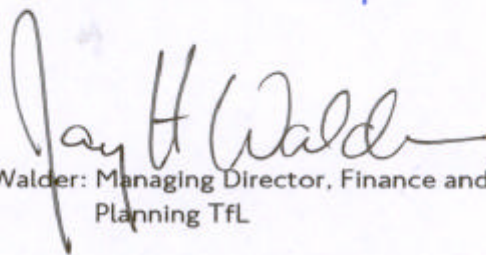
The aspect of the Code of Corporate Governance where further work is needed to ensure satisfactory levels of compliance is:

- the development of pan-TfL Human Resources policies which is ongoing, but not yet complete. This work is linked to the development and implementation of a "shared service" approach to the delivery of HR which is currently well advanced. This approach is also being adopted for finance. Progress is going according to plan, but it should be noted that this will be a significant change during the coming year that has the potential to be disruptive within TfL, and that it will be monitored closely to ensure it does not impact on the operation of effective governance.

Signed on behalf of the Board members and the Chief Officers of TfL by



K. Livingstone: Chair of the TfL Board



J. Walder: Managing Director, Finance and Planning TfL



# Independent Auditor's report to Transport for London

We have audited the individual financial statements ('the financial statements') of Transport for London ('the Corporation') on pages 1 to 3 and 9 to 41.

This report is made solely to the Corporation in accordance with Section 2 of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the Corporation 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 the Corporation for our audit work, for this report, or for the opinions we have formed.

## Respective Responsibilities of the Chief Finance Officer and the Auditor

As described on page 3, the Chief Finance Officer is responsible for the preparation of the financial statements in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2003: A Statement of Recommended Practice. Our responsibilities, as independent auditors, are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

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

We review the statement of assurance on pages 4 to 6 and report if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider whether the statement covers all risks and controls, or to form an opinion on the effectiveness of the authority's corporate governance arrangements or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

## Basis of audit opinion

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

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

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



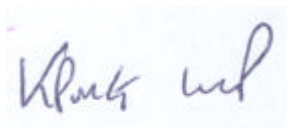
# Independent Auditor's report to Transport for London

## Opinion

In our opinion the financial statements present fairly the financial position of the Corporation as at 31 March 2004 and its income and expenditure for the year then ended.

## Certificate

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

A handwritten signature in blue ink, appearing to read 'KPMG LLP', is written over a light blue rectangular background.

**KPMG LLP**  
**Chartered Accountants**  
**London**

**15 October 2004**

## Revenue accounts

	Note	Group 2003/04 £m	Group 2002/03 restated £m	Corporation 2003/04 £m	Corporation 2002/03 restated £m
<b>Highways, roads and transport services</b>					
Expenditure	3	<b>3,937.2</b>	3,178.1	<b>664.7</b>	450.5
Revenue	1	<b>(2,320.8)</b>	(1,941.0)	<b>(228.7)</b>	(50.2)
Depreciation net of release of deferred grants	9d	<b>240.0</b>	241.6	<b>115.1</b>	125.8
Capital financing charges		<b>82.2</b>	126.8	<b>82.2</b>	126.8
<b>Net cost of services</b>		<b>1,938.6</b>	1,605.5	<b>633.3</b>	652.9
Losses of joint venture company before grant	1	<b>15.6</b>	12.6	-	-
Depreciation net of release of deferred grants - reversal		<b>(115.1)</b>	(125.8)	<b>(115.1)</b>	(125.8)
Capital financing charges - reversal		<b>(82.2)</b>	(126.8)	<b>(82.2)</b>	(126.8)
Finance lease charges		<b>33.6</b>	23.3	-	-
Net interest and investment income		<b>2.2</b>	(31.4)	<b>(15.1)</b>	(8.4)
<b>Net operating expenditure</b>	1	<b>1,792.7</b>	1,357.4	<b>420.9</b>	391.9
Transfer to/(from) earmarked reserves		<b>433.7</b>	(9.2)	<b>433.7</b>	(9.2)
Appropriations to/(from) pensions reserve		<b>(44.4)</b>	7.2	<b>0.1</b>	0.1
Other transfers to/(from) reserves		<b>(93.7)</b>	(123.0)	<b>0.1</b>	0.1
Capital expenditure financed from revenue	7	<b>430.8</b>	581.9	<b>260.9</b>	204.1
Grant funding of subsidiaries and joint venture		-	-	<b>1,396.2</b>	1,230.2
<b>Total amount to be met from government grant and local taxation</b>		<b>2,519.1</b>	1,814.3	<b>2,511.9</b>	1,817.2
Transport grant		<b>(2,553.9)</b>	(1,791.1)	<b>(2,553.9)</b>	(1,791.1)
Other revenue grant		<b>(5.7)</b>	(5.1)	<b>(5.7)</b>	(5.1)
Precept		<b>(57.8)</b>	(35.8)	<b>(57.8)</b>	(35.8)
<b>Surplus in the year</b>		<b>(98.3)</b>	(17.7)	<b>(105.5)</b>	(14.8)

## Balance sheets

as at 31 March 2004

		Group 2004	Group 2003 restated	Corporation 2004	Corporation 2003 restated
	Note	£m	£m	£m	£m
<b>Tangible fixed assets</b>					
Infrastructure and other property		9,844.8	9,777.1	2,097.1	2,160.9
Rolling stock		1,230.2	1,190.1	-	-
Plant and equipment		472.1	468.2	92.0	59.4
Non-operational assets		619.2	508.9	74.0	104.5
Total tangible fixed assets	9	12,166.3	11,944.3	2,263.1	2,324.8
Investment in subsidiaries and joint venture	10	-	-	22.5	22.5
<b>Total fixed assets</b>		<b>12,166.3</b>	<b>11,944.3</b>	<b>2,285.6</b>	<b>2,347.3</b>
<b>Current assets</b>					
Stocks	11	5.7	5.2	3.7	3.9
Debtors	12	367.4	409.2	41.9	44.0
Short-term investments		852.6	162.6	832.2	148.3
Cash at bank and in hand	13	22.2	17.2	1.9	-
<b>Total current assets</b>		<b>1,247.9</b>	<b>594.2</b>	<b>879.7</b>	<b>196.2</b>
<b>Current liabilities</b>					
Short-term borrowings		-	(20.0)	-	(20.0)
Creditors	14a	(1,104.0)	(871.2)	(243.6)	(166.2)
Bank overdrafts		-	(34.3)	-	(26.3)
<b>Total current liabilities</b>		<b>(1,104.0)</b>	<b>(925.5)</b>	<b>(243.6)</b>	<b>(212.5)</b>
<b>Net current assets/(liabilities)</b>		<b>143.9</b>	<b>(331.3)</b>	<b>636.1</b>	<b>(16.3)</b>
<b>Total assets less current liabilities</b>					
Creditors: due after more than one year	14b	(403.6)	(231.4)	(6.9)	(6.4)
Provisions for liabilities and charges	17	(136.5)	(152.1)	(86.3)	(100.9)
<b>Net assets excluding grants</b>	1	<b>11,770.1</b>	<b>11,229.5</b>	<b>2,828.5</b>	<b>2,223.7</b>
Deferred grants	16	(6,337.5)	(6,309.4)	(62.3)	(61.5)
<b>Net assets excluding pension and other post-retirement liabilities</b>		<b>5,432.6</b>	<b>4,920.1</b>	<b>2,766.2</b>	<b>2,162.2</b>
Pension and other post-retirement liabilities	5b&c	(882.7)	(924.5)	(2.7)	(4.4)
<b>Total net assets</b>		<b>4,549.9</b>	<b>3,995.6</b>	<b>2,763.5</b>	<b>2,157.8</b>
<b>Capital and reserves</b>					
Capital financing reserve		584.5	345.5	584.5	345.5
Fixed asset restatement reserve		3,740.2	3,998.8	1,648.8	1,823.1
Other reserves		99.8	(375.8)	404.2	(31.3)
General fund		125.4	27.1	126.0	20.5
<b>Total capital employed</b>		<b>4,549.9</b>	<b>3,995.6</b>	<b>2,763.5</b>	<b>2,157.8</b>

These accounts were signed on 22 July 2004 by



Stephen Critchley  
Chief Finance Officer

## Statement of movements in reserves

### Corporation

	Note	Capital financing reserve £m	Fixed asset restatement reserve £m	General fund £m	Other reserves £m	Total £m
Balance at 1 April 2003 as previously stated		345.5	1,823.1	18.1	-	2,186.7
Prior year adjustment for transfer of LRT net assets		-	-	2.0	(26.9)	(24.9)
Prior year adjustment for FRS 17		-	-	0.4	(4.4)	(4.0)
Balance at 1 April 2003 as restated		345.5	1,823.1	20.5	(31.3)	2,157.8
Adjustment to net assets acquired	9c	-	(50.2)	-	-	(50.2)
Transfers from/(to) revenue account		-	-	105.5	433.9	539.4
Capital expenditure financed from revenue		260.9	-	-	-	260.9
Actuarial gains/losses relating to pensions		-	-	-	1.6	1.6
Disposal of tangible fixed assets		13.5	(13.2)	-	-	0.3
Depreciation charge	9b	(36.7)	(80.8)	-	-	(117.5)
Release of deferred grants	16	1.3	1.1	-	-	2.4
Revaluation of tangible fixed assets	9b	-	(31.2)	-	-	(31.2)
Balance at 31 March 2004		<b>584.5</b>	<b>1,648.8</b>	<b>126.0</b>	<b>404.2</b>	<b>2,763.5</b>

### Analysis of other reserves

	Earmarked reserve £m	Pensions reserve £m	Other reserves £m	Total £m
Balance at 1 April 2003 as previously stated	-	-	-	-
Prior year adjustment for transfer of LRT net assets	-	-	(26.9)	(26.9)
Prior year adjustment for FRS 17	-	(4.4)	-	(4.4)
Balance at 1 April 2003 as restated	-	(4.4)	(26.9)	(31.3)
Transfers from/(to) revenue account	433.7	0.1	0.1	433.9
Actuarial gains/losses relating to pensions	-	1.6	-	1.6
Balance at 31 March 2004	<b>433.7</b>	<b>(2.7)</b>	<b>(26.8)</b>	<b>404.2</b>

Earmarked reserves represent resources available to finance future capital and revenue expenditure.

The pensions reserve represents the FRS 17 pension fund deficit, as set out further in note 5 to these accounts.

The other reserves arise as a result of the transfer of LRT and LUL to TfL Group in 2003. These represent those net assets of LRT which were transferred to the Corporation.

## Statement of movements in reserves

### Group

<i>Note</i>	Capital financing reserve £m	Fixed asset restatement reserve £m	General fund £m	Other reserves £m	Total £m
Balance at 1 April 2003 as previously stated	345.5	1,851.2	20.9	-	2,217.6
Prior year adjustment for transfer of LRT net assets	-	2,147.6	5.4	548.7	2,701.7
Prior year adjustment for FRS 17	-	-	0.8	(924.5)	(923.7)
Balance at 1 April 2003 as restated	345.5	3,998.8	27.1	(375.8)	3,995.6
Adjustment to net assets acquired	-	(50.2)	-	-	(50.2)
Transfers from/(to) revenue account	-	(93.8)	98.3	389.4	393.9
Capital expenditure financed from revenue	260.9	-	-	-	260.9
Actuarial gains/losses relating to pensions	-	-	-	86.2	86.2
Disposal of tangible fixed assets	13.5	(13.2)	-	-	0.3
Depreciation charge	(36.7)	(80.8)	-	-	(117.5)
Release of deferred grants	1.3	1.1	-	-	2.4
Revaluation of tangible fixed assets	-	(21.7)	-	-	(21.7)
Balance at 31 March 2004	<b>584.5</b>	<b>3,740.2</b>	<b>125.4</b>	<b>99.8</b>	<b>4,549.9</b>

### Analysis of other reserves

	Earmarked reserve £m	Pensions reserve £m	Merger reserve £m	Other reserves £m	Total £m
Balance at 1 April 2003 as previously stated	-	-	-	-	-
Prior year adjustment for transfer of LRT net assets	-	-	466.1	82.6	548.7
Prior year adjustment for FRS 17	-	(924.5)	-	-	(924.5)
Balance at 1 April 2003 as restated	-	(924.5)	466.1	82.6	(375.8)
Transfers from/(to) revenue account	433.7	(44.4)	-	0.1	389.4
Actuarial gains and losses relating to pensions	-	86.2	-	-	86.2
Balance at 31 March 2004	<b>433.7</b>	<b>(882.7)</b>	<b>466.1</b>	<b>82.7</b>	<b>99.8</b>

The pensions reserve represents the FRS 17 pension fund deficits, as set out further in note 5 to these accounts.

The merger reserve arises as a result of the transfer of the net assets of London Regional Transport, including the share capital of London Underground Limited, to TfL in 2003. It represents the share capital of London Underground Limited and is taken as a credit to reserves as no consideration was given by TfL in respect of the transfer.

The other reserves also arise as a result of the transfer of LRT and LUL to TfL in 2003. These represent the remaining net assets of LRT.

## Group cash flow statement

### Reconciliation of net operating expenditure to net cash outflow from operating activities

	2003/04	2002/03
	£m	restated £m
<b>Net cost of services</b>	<b>(1,938.6)</b>	(1,605.5)
Losses of joint venture company before grant	(15.6)	(12.6)
Depreciation net of release of deferred grants	240.0	241.6
Capital financing charges	82.2	126.8
(Increase)/decrease in stocks	(0.5)	2.2
(Increase) in debtors	(27.8)	(150.6)
Increase in creditors due within one year	87.7	130.5
Increase in creditors due after more than one year	15.4	0.2
(Decrease) in provisions for liabilities and charges	(4.4)	(77.9)
Increase in pension and other post-retirement liabilities	23.9	16.2
Third-party contributions transferred from provisions	-	84.0
<b>Net cash outflow from operating activities</b>	<b>(1,537.7)</b>	(1,245.1)

### Group cash flow statement

	2003/04	2002/03
	£m	£m
<b>Net cash outflow from operating activities</b>	<b>(1,537.7)</b>	(1,245.1)
<b>Net interest and investment income</b>		
Finance lease charges	(33.6)	(23.3)
Interest and investment income	18.3	8.1
	(15.3)	(15.2)
<b>Capital expenditure and disposals</b>		
Capital expenditure	(374.3)	(705.7)
Receipts from sale of fixed assets	45.4	28.2
	(328.9)	(677.5)
<b>Net cash outflow</b>	<b>(1,881.9)</b>	(1,937.8)
<b>Financing and management of liquid resources</b>		
Transport grant	2,553.9	1,791.1
Other revenue grant	5.7	5.1
Precept	57.8	35.8
Third-party contributions and other grant funding	157.9	147.3
Finance lease obligations	(144.1)	(19.2)
Investments	(690.0)	(54.0)
Short-term borrowings	(20.0)	20.0
<b>Net cash inflow</b>	<b>1,921.2</b>	1,926.1
<b>Increase/(decrease) in cash</b>	<b>39.3</b>	(11.7)

## Statement of accounting policies

### **a) Code of practice**

The accounts have been prepared in accordance with the 2003 Code of Practice on Local Authority Accounting in Great Britain, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and approved by the Accounting Standards Board.

### **b) Changes in accounting policies**

The accounts now fully conform with Financial Reporting Standard No.17 (FRS17), relating to pension fund liabilities. The Revenue Accounts and the Balance Sheets for the Corporation and Group reflect the effects of the new requirements. Prior year comparatives have been restated to reflect the effects of fully implementing FRS17.

### **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.

### **d) Basis of preparation of Group financial information**

The SORP requires local authorities with, in aggregate, material interests in subsidiary and associated companies and joint ventures, to prepare, as supplementary information, summarised group accounts. Where it is judged necessary for fair presentation, the assets and liabilities of subsidiaries should be consolidated on a line-by-line basis. As the majority of the operational activities of the Group are carried out through the medium of subsidiary companies, the Group financial information is presented, not as supplementary information in a note to the accounts, but alongside the financial statements of the Corporation.

The Group financial information presented with the Corporation's financial statements combines the individual financial statements of Transport for London (TfL) and its subsidiary undertakings and incorporates the results of its share its joint venture, made up to 31 March.

The individual accounts of each subsidiary are re-stated prior to being combined with the financial statements of the Corporation and intra-group transactions and balances are eliminated. The adjustments that are made to the accounts of the subsidiaries prior to combination bring into alignment the accounting policies of the subsidiaries with the Corporation, except where the accounting policies required by the SORP differ from UK GAAP. As set out in paragraph g below, no capital financing charge is included in the accounts of the subsidiary companies. The local authority capital accounting system described in paragraph l below results in a difference in the treatment of the disposal of assets. Capital grants to the subsidiaries are shown as deferred capital grants, as set out in paragraph f below, but under the SORP these grants are classified as capital financing reserve.

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

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



## Statement of accounting policies

### **d) Basis of preparation of Group financial information cont.**

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

### **e) Revenue and expenditure**

The accounts reflect the accruals concept whereby debtors and creditors are included in the balance sheet for goods and services supplied but not paid for at 31 March. Sales revenue on trading activities comprises the value of sales of services or goods in the normal course of business, exclusive of Value Added Tax. Revenue earned by franchises, or contractors, providing transport services on behalf of the Group is only taken into account to the extent that the Group shares the risk of changes in the level of income earned by them.

### **f) Grants and other funding**

The main source of grant is in the form of Transport grant, which is non-specific in that it is applied to both maintaining services and to fund capital expenditure. Once grant has been fully applied to meet the revenue and capital requirements of the Corporation the remainder is transferred to the subsidiaries. Capital grants transferred to the subsidiaries are taken to the deferred grants account in the Group balance sheet and are amortised to match the depreciation charge. Third party contributions towards capital expenditure are similarly treated. The Corporation has no long term borrowing and thus does not have a credit ceiling or a minimum revenue provision for the repayment of outstanding debt.

### **g) Capital financing charges**

This interest charge recognises the cost of acquiring and holding assets (an opportunity cost) and is charged at a rate set annually by CIPFA (currently 3.5% on assets held at current cost and 4.625% on assets held at historic cost). Capital financing charges are not levied on assets under construction. In order to nullify the impact on local taxpayers, these charges are reversed by crediting the revenue account below the net cost of services. Subsidiaries do not levy capital financing charges. Given that the Corporation is a single service authority, which is debt free, the Corporation does not have an asset management revenue account.

### **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).

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

## Statement of accounting policies

### **i) Stocks**

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

### **j) Debts outstanding**

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

### **k) Provisions**

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

### **l) Reserves**

Appropriations to reserves, if any, are shown in the revenue account. Expenditure on items for which the reserves were originally created is shown as service expenditure, whilst the corresponding contribution from the reserves is shown separately in the revenue account.

The system of capital accounting used by local authorities requires the establishment of two accounting reserves, namely the fixed asset restatement reserve and the capital financing reserve. They do not represent sums available to fund future expenditure.

Receipts over £6,000 from sale of property, plant and equipment are defined by law as capital receipts. Capital receipts are used to fund new capital expenditure in the year in which they are received. Capital receipts of the Corporation (not subsidiaries) are only recorded in the capital financing reserve when cash is received rather than when they are contractually committed. The remaining net book value (net of any unamortised grant) is charged to the fixed asset restatement reserve. Subsidiaries recognise capital receipts on exchange of contracts and the profit or loss after charging any remaining net book value (net of any unamortised grant) is taken to their profit and loss account.

The Corporation transfers the depreciation charge on assets acquired from predecessor bodies, net of amortised grant, to its fixed asset restatement reserve. The remaining depreciation charge is transferred to the capital financing reserve. The revaluation of property is credited to the fixed asset restatement reserve.

### **m) Insurance**

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

## Statement of accounting policies

### **n) Pensions**

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

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

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

### **o) Deferred taxation**

Provision is made 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.

### **p) Leases**

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

Rentals payable under operating leases (including PFI agreements) have been accounted for in the period to which they relate.

### **q) London Underground Public Private Partnership (PPP)**

During the year, London Underground reached financial close on the remaining two of the three Public Private Partnership (PPP) contracts. Under these contracts, existing LUL property is allocated to the PPP Contractors for a 30 year period during which the PPP Contractors maintain, enhance and replace the aforementioned property. LUL pays a service charge to the PPP Contractors.

LUL retains the risks and rewards of ownership of the property allocated to the PPP Contractors during the contract term. This property continues to be recorded as fixed assets in the Group accounts. Similarly, new property acquired or constructed by the PPP Contractors for LUL is recorded as fixed asset additions in the Group accounts and a corresponding liability is recorded within creditors in the Group accounts. An imputed finance charge on this liability is included in interest payable in the Group revenue account.

Service charges paid by LUL to the PPP Contractors are applied to amortise this liability over the contract term and the balance of the service charge is recorded as an operating cost in the Group revenue account. Performance adjustments to the service charge are also recorded within operating costs.

## Notes to the accounts

### 1 Segmental analysis

	Sales revenue 2003/04	Sales revenue 2002/03 restated	Net operating expenditure 2003/04	Net operating expenditure 2002/03 restated	Net assets excluding grants 2003/04	Net assets excluding grants 2002/03 restated
	£m	£m	£m	£m	£m	£m
<b>Corporation</b>						
Streets and enforcement	220.5	37.6	(289.9)	(293.2)	1,963.1	2,076.0
Borough partnerships	-	-	(76.8)	(24.3)	-	-
Public Carriage Office	2.6	4.4	(6.9)	(2.8)	0.3	6.0
Planning & corporate management	5.6	8.2	(47.3)	(71.6)	842.6	119.2
	<b>228.7</b>	<b>50.2</b>	<b>(420.9)</b>	<b>(391.9)</b>	<b>2,806.0</b>	<b>2,201.2</b>
<b>Subsidiary operations</b>						
Bus operations	786.2	643.1	(499.8)	(359.8)	124.2	134.0
London Underground	1,276.6	1,221.3	(768.4)	(556.8)	8,214.7	8,247.2
Docklands Light Railway	11.8	11.1	(31.5)	(32.7)	445.1	465.7
Victoria Coach Station	6.9	6.8	0.3	0.8	7.8	7.8
Museum	2.5	2.4	(3.7)	(3.8)	9.9	9.9
River services	1.5	1.6	(0.3)	0.3	20.9	20.6
Group services	6.6	4.5	(52.8)	(0.9)	141.5	143.1
<b>Joint venture</b>						
Cross London Rail Links	-	-	(15.6)	(12.6)	-	-
<b>Group</b>	<b>2,320.8</b>	<b>1,941.0</b>	<b>(1,792.7)</b>	<b>(1,357.4)</b>	<b>11,770.1</b>	<b>11,229.5</b>

### 2 Group sales revenue

	2003/04	% of total	2002/03 restated	% of total
	£m		£m	
Fares	1,776.8	76.6	1,637.3	84.3
Revenue in respect of free travel for older and disabled people	165.2	7.1	137.0	7.1
Congestion charging	186.7	8.0	18.5	1.0
Charges to London Boroughs	12.7	0.5	10.3	0.5
Charges to transport operators	8.3	0.4	12.0	0.6
Bus enforcement	15.4	0.7	8.8	0.5
Commercial advertising receipts	44.6	1.9	40.0	2.1
Rents receivable	43.1	1.9	39.5	2.0
Taxi licensing	2.1	0.1	4.4	0.2
Museum income	2.5	0.1	2.4	0.1
Other	63.4	2.7	30.8	1.6
<b>Total sales revenue</b>	<b>2,320.8</b>	<b>100.0</b>	<b>1,941.0</b>	<b>100.0</b>

## Notes to the accounts

### 3 Expenditure

	Group 2003/04	Group 2002/03 restated	Corporation 2003/04	Corporation 2002/03 restated
Note	£m	£m	£m	£m
Staff costs:				
Wages and salaries	<b>535.4</b>	470.5	<b>66.7</b>	37.9
Social security costs	<b>44.5</b>	34.5	<b>5.9</b>	3.0
Pension costs	<b>88.6</b>	75.4	<b>9.6</b>	8.1
	<b>668.5</b>	580.4	<b>82.2</b>	49.0
Operating leases and PFI charges	<b>263.4</b>	263.5	<b>15.0</b>	13.4
Deferred charges	<b>133.4</b>	91.1	<b>133.4</b>	91.1
Other financial assistance	<b>77.6</b>	46.4	<b>77.6</b>	46.4
Materials and services	<b>3,657.4</b>	2,877.9	<b>506.0</b>	462.9
	<b>4,800.3</b>	3,859.3	<b>814.2</b>	662.8
Capital expenditure	<b>(863.1)</b>	(681.2)	<b>(149.5)</b>	(212.3)
Expenditure charged to revenue	<b>3,937.2</b>	3,178.1	<b>664.7</b>	450.5
	<b>Group</b>	Group	<b>Corporation</b>	Corporation
	<b>2003/04</b>	2002/03	<b>2003/04</b>	2002/03
	£m	restated	£m	restated
	£m	£m	£m	£m
The cost of operations include the following amounts:				
Auditor's remuneration for statutory audit services	<b>0.8</b>	0.8	<b>0.4</b>	0.4
Auditor's remuneration for non-statutory audit services	<b>0.1</b>	-	-	-
Auditor's remuneration for non-audit services	<b>0.1</b>	0.1	-	-
	<b>1.0</b>	0.9	<b>0.4</b>	0.4
Auditor's remuneration for work awarded by LUL prior to transfer of LUL to TfL	<b>0.5</b>	0.6	-	-
	<b>1.5</b>	1.5	<b>0.4</b>	0.4

## 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 pensions contributions paid by employer and employee, fell within the following bands:

£	<b>Corporation 2003/04 Number</b>	Corporation 2002/03 Number
50,000 - 59,999	<b>59</b>	35
60,000 - 69,999	<b>38</b>	15
70,000 - 79,999	<b>16</b>	9
80,000 - 89,999	<b>11</b>	5
90,000 - 99,999	<b>8</b>	2
100,000 - 109,999	<b>5</b>	4
110,000 - 119,999	<b>4</b>	2
120,000 - 129,999	<b>3</b>	-
130,000 - 139,999	<b>1</b>	1
140,000 - 149,999	<b>2</b>	-
150,000 - 159,999	<b>1</b>	-
160,000 - 169,999	<b>1</b>	1
170,000 - 179,999	<b>1</b>	-
180,000 - 189,999	<b>1</b>	-
190,000 - 199,999	-	-
240,000 - 249,999	-	2
250,000 - 259,999	-	-
260,000 - 269,999	<b>1</b>	-
270,000 - 279,999	-	1
280,000 - 289,999	<b>1</b>	-
360,000 - 369,999	-	1
700,000 - 709,999	<b>1</b>	-
<b>Total</b>	<b>154</b>	<b>78</b>

## Notes to the accounts

### 5 Pensions

#### a) Total pension service cost for the year

		<b>Group</b> <b>2003/04</b>	Group 2002/03 restated £m	<b>Corporation</b> <b>2003/04</b>	Corporation 2002/03 restated £m
	<i>Note</i>	<b>£m</b>	£m	<b>£m</b>	£m
LRT Pension Fund	<i>5b</i>	<b>82.0</b>	67.4	<b>5.2</b>	1.9
Local Government Pension Scheme	<i>5c</i>	<b>1.6</b>	1.5	<b>1.6</b>	1.5
Principal Civil Service Pension Scheme		<b>1.2</b>	0.8	<b>1.2</b>	0.8
Other schemes and unfunded pensions		<b>3.8</b>	5.7	<b>1.6</b>	3.9
Amount included in net cost of services	<i>3</i>	<b>88.6</b>	<b>75.4</b>	<b>9.6</b>	<b>8.1</b>

The Group has fully implemented FRS 17 'Retirement benefits' for the year ended 31 March 2004, representing a change in accounting policy from prior years. The comparative amounts shown in these accounts for the year ended 31 March 2003 have been restated as a prior year adjustment.

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

#### b) LRT Pension Fund

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

Every 3 years, the LRT Pension Fund's actuary makes valuations and recommends the level of contributions to be made by the participating employers to ensure the long-term solvency of the Fund. The latest valuation of the Fund was carried out as at 31 March 2003 by the Actuary, a partner of consulting actuaries Watson Wyatt, using the projected unit method.

A separate valuation has been prepared for accounting purposes on a FRS 17 basis as at 31 March 2004. 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 are 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. However, in accordance with the standard, the Corporation treats contributions to the LRT Pension Fund as if they were contributions to a defined contribution plan. This is because the underlying assets and liabilities of the LRT scheme cover a number of Group entities and cannot be readily split between each undertaking on a consistent and reliable basis. The pension cost recognised in the Corporation's accounts for the LRT Pension Fund is the amount of contributions payable to the scheme during the year.



## Notes to the accounts

### 5 Pensions continued

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

	<b>FRS 17 valuation at 31 Mar 2004</b>	FRS 17 valuation at 31 Mar 2003	FRS 17 valuation at 31 Mar 2002
	%	%	%
Inflation	<b>2.9</b>	2.5	2.5
Rate of increase in salaries	<b>4.4</b>	4.0	4.0
Rate of increase of pensions in payment and deferred pensions	<b>2.9</b>	2.5	2.5
Discount rate	<b>5.7</b>	5.6	5.8
Investment return	<b>7.0</b>	7.0	7.1

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

	<b>Expected return</b>	<b>Value at 31 Mar 2004</b>	Expected return	Value at 31 Mar 2003	Expected return	Value at 31 Mar 2002
	%	£m	%	£m	%	£m
Equities	<b>8.2</b>	<b>1,700</b>	8.6	1,306	8.2	1,823
Bonds	<b>5.0</b>	<b>988</b>	4.9	976	5.1	950
Cash, property and other assets	<b>4.1</b>	<b>37</b>	4.2	38	4.9	48
Total market value of assets		<b>2,725</b>		2,320		2,821
Actuarial valuation of Section liabilities		<b>(3,605)</b>		(3,240)		(3,048)
Deficit in the scheme recognised as a liability in the balance sheet		<b>(880)</b>		(920)		(227)

## Notes to the accounts

### 5 Pensions continued

Analysis of amounts charged to cost of services:	<b>Group</b>	Group
	<b>2003/04</b>	2002/03
		restated
	£m	£m
Current service cost	<b>82.0</b>	67.4
Past service cost	-	-
Total charged to cost of services	<b>82.0</b>	67.4
Analysis of the amount charged to interest and investment income:		
Interest on Section liabilities	<b>180.3</b>	175.4
Expected return on Section assets	<b>(159.9)</b>	(198.9)
Net charge/(credit) to interest and investment income	<b>20.4</b>	(23.5)
Total amount included in net operating expenditure in Revenue Account	<b>102.4</b>	43.9
Movement on pensions reserve	<b>(44.5)</b>	7.1
Amount to be met from government grant and local taxation	<b>57.9</b>	51.0
Analysis of the movement in surplus/(deficit) in the Section during the year:	<b>Group</b>	Group
	<b>2003/04</b>	2002/03
		restated
	£m	£m
Surplus/(deficit) in the Section at start of year	<b>(920.1)</b>	(227.1)
Contributions paid	<b>57.9</b>	51.0
Current service cost	<b>(82.0)</b>	(67.4)
Interest and investment income/(charge)	<b>(20.4)</b>	23.5
Actuarial gain/(loss)	<b>84.6</b>	(700.1)
Surplus/(deficit) in the Section at end of year	<b>(880.0)</b>	(920.1)

The present value of scheme liabilities have been discounted using the return on high quality corporate bonds of 5.7% (2002/03 5.6%) in accordance with FRS 17 – ‘Retirement Benefits’. However, the Code of Practice on Local Authority Accounting uses the return on index-linked gilts of 6.5% (2002/03 6.1%) to discount the liabilities, which currently being slightly higher than the return on corporate bonds reduces the deficit in the scheme to £496 million (2002/03 £704 million). Following the recent actuarial valuation for funding purposes, it has been decided to increase the rate of contributions paid by the employers from 1 April 2004 to from 15.25% to 30.5% of pensionable pay.

## Notes to the accounts

### 5 Pensions continued

#### c) Local Government Pension Scheme

The Local Government Pension Scheme is a funded multi-employer defined benefit scheme. The Corporation is, however, able to identify its share of the assets and liabilities of the scheme and this scheme has therefore been accounted for as a defined benefit scheme under FRS 17. Employers' contributions were payable at the rate of 13.2% (2002/03 13.2%) of pensionable pay. The Corporation's share of the underlying assets and liabilities resulted in a deficit of £2.7 million (2002/03 £4.4 million). The annual report and accounts for the whole scheme can be found on the London Pensions Fund Authority website ([www.lpfa.org.uk](http://www.lpfa.org.uk)).

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

	<b>FRS 17 valuation at 31 Mar 2004</b>	FRS 17 valuation at 31 Mar 2003	FRS 17 valuation at 31 Mar 2002
	%	%	%
Inflation	<b>2.9</b>	2.5	2.8
Rate of increase in salaries	<b>4.4</b>	4.0	4.3
Rate of increase of pensions in payment and deferred pensions	<b>2.9</b>	2.5	2.8
Discount rate	<b>6.5</b>	6.1	6.4
Investment return	<b>7.3</b>	7.4	7.2

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

	<b>Expected return</b>	<b>Value at 31 Mar 2004</b>	Expected return	Value at 31 Mar 2003	Expected return	Value at 31 Mar 2002
	%	£000	%	£000	%	£000
Equities	<b>7.7</b>	<b>11.5</b>	8.0	7.5	7.5	8.1
Bonds	<b>5.1</b>	<b>1.8</b>	4.8	1.3	5.5	1.2
Cash, property and other assets	<b>5.8</b>	<b>0.7</b>	4.0	0.3	4.0	0.3
Total market value of assets		<b>14.0</b>		9.1		9.6
Actuarial valuation of liabilities		<b>(16.7)</b>		(13.5)		(10.9)
Deficit in the scheme recognised as a liability in the balance sheet		<b>(2.7)</b>		(4.4)		(1.3)

## Notes to the accounts

### 5 Pensions continued

	<b>Corporation and Group</b>	
	<b>2003/04</b>	2002/03 restated
	£m	£m
Analysis of amounts charged to cost of services:		
Current service cost	<b>1.6</b>	1.5
Past service cost	-	-
Total charged to cost of services	<b>1.6</b>	1.5
Analysis of the amount charged to interest and investment income:		
Interest on Section liabilities	<b>0.9</b>	0.7
Expected return on Section assets	<b>(0.8)</b>	(0.6)
Net charge/(credit) to interest and investment income	<b>0.1</b>	0.1
Total amount included in net operating expenditure in Revenue Account	<b>1.7</b>	1.6
Movement on pensions reserve	<b>0.1</b>	0.1
Amount to be met from government grant and local taxation	<b>1.8</b>	1.7
Analysis of the movement in surplus/(deficit) during the year:		
Surplus/(deficit) in the Section at start of year	<b>(4.4)</b>	(1.3)
Contributions paid	<b>1.8</b>	1.7
Current service cost	<b>(1.6)</b>	(1.5)
Interest and investment income/(charge)	<b>(0.1)</b>	(0.1)
Actuarial gain/(loss)	<b>1.6</b>	(3.2)
Surplus/(deficit) in the Section at end of year	<b>(2.7)</b>	(4.4)

## Notes to the accounts

### 5 Pensions continued

#### d) Principal Civil Service Pension Scheme

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. The Group is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis, and in accordance with FRS 17 the Group treats contributions to the PCSPS as if they were contributions to a defined contribution plan. A full actuarial valuation was carried out at 31 March 1999. Details can be found in the Civil Superannuation resource accounts ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

Employers' contributions were payable to the PCSPS at one of four rates in the range 12% to 18.5% of pensionable pay, based on salary bands. Rates will remain the same for next year, subject to salary band changes. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

#### e) analysis of movements in pensions reserve

The actuarial gains and losses identified as movements on the pensions reserve in 2003/04 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2004:

	Group only		Corporation and Group	
	LRT Pension Fund		Local Government Pension Scheme	
	£m	%	£m	%
Difference between the expected and actual return on assets	<b>(304.1)</b>	<b>11.16%</b>	<b>(1.6)</b>	<b>11.43%</b>
Differences between actuarial assumptions about liabilities and actual experience	<b>8.9</b>	<b>0.25%</b>	-	<b>0.00%</b>
Changes in the demographic and financial assumptions used to estimate liabilities	<b>210.6</b>	<b>5.84%</b>	-	<b>0.00%</b>
Actuarial (gain)/loss recognised in reserves	<b>(84.6)</b>		<b>(1.6)</b>	
Comparative totals for 2002/03	700.1		3.2	

## Notes to the accounts

### 5 Pensions continued

#### f) Unfunded pension costs

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

In addition, the group bears the cost of:

- ex-gratia payments which are made to certain former employees who retired more than ten years ago in respect of service prior to the establishment of pension funds for those employees;
- supplementary pensions, which are made to certain former employees who retired more than ten years ago and prior to index linking of pensions;
- pensions of LUL and LRT former board members who retired more than five years ago and who did not qualify to join the LRT Pension Fund.

The Director of Pensions carried out a valuation as at 1 April 2003 of the above unfunded pension liabilities, using a basis consistent with that adopted by the Actuary to the LRT Pension Fund in his last valuation. Full provision of £37.7 million (2003 £36.5 million) for unfunded pension liabilities is made in these accounts.

### 6 Publicity

	<b>Group 2003/04</b>	Group 2002/03 restated	<b>Corporation 2003/04</b>	Corporation 2002/03 restated
	<b>£m</b>	£m	<b>£m</b>	£m
Staff advertisements	<b>0.9</b>	2.5	<b>0.7</b>	1.9
Other publications	<b>1.6</b>	0.2	<b>0.8</b>	0.2
Other publicity	<b>3.2</b>	1.0	<b>1.8</b>	0.7
Total cost included within materials and services	<b>5.7</b>	3.7	<b>3.3</b>	2.8

## Notes to the accounts

### 7 Capital financing

		<b>Group</b> <b>2003/04</b>	Group 2002/03 restated	<b>Corporation</b> <b>2003/04</b>	Corporation 2002/03 restated
	<i>Note</i>	<b>£m</b>	£m	<b>£m</b>	£m
Additions to fixed assets	<i>9a &amp; b</i>	<b>863.1</b>	681.2	<b>149.5</b>	212.3
Provision for credit liabilities		<b>127.0</b>	0.4	<b>127.0</b>	0.4
Settlement of prior years' liabilities		<b>14.3</b>	31.4	<b>14.3</b>	31.4
Funded by:					
Creditors & other working capital movements		<b>(382.3)</b>	5.5	<b>(14.2)</b>	(27.6)
Third-party contributions & other grant funding	<i>22 &amp; 16</i>	<b>(157.9)</b>	(147.3)	<b>(2.2)</b>	(8.2)
Disposal of tangible fixed assets		<b>(33.4)</b>	10.7	<b>(13.5)</b>	(4.2)
Capital expenditure financed from revenue		<b>430.8</b>	581.9	<b>260.9</b>	204.1

### 8 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 2004 the Group had a deferred tax asset in respect of capital allowances of £31.3 million (2002/03 £30.8 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

### 9 Tangible fixed assets

<b>a) Group</b>	<i>Note</i>	Infrastructure and other property £m	Rolling stock £m	Plant and equipment £m	Non- operational assets £m	Total £m
<b>Gross valuation</b>						
Balance at 1 April 2003 (restated)		16,752.4	2,883.9	843.7	509.1	20,989.1
Additions to fixed assets		523.9	106.7	82.7	149.8	863.1
Disposals		(126.8)	(18.2)	(34.4)	(9.2)	(188.6)
Transfers & adjustments	<i>9c</i>	(100.7)	-	0.6	(8.7)	(108.8)
Revaluation		(0.1)	-	-	(21.6)	(21.7)
<b>Gross valuation at 31 March 2004</b>		<b>17,048.7</b>	<b>2,972.4</b>	<b>892.6</b>	<b>619.4</b>	<b>21,533.1</b>
<b>Depreciation</b>						
Balance at 1 April 2003 (restated)		6,975.3	1,693.8	375.5	0.2	9,044.8
Disposals		(74.8)	(18.2)	(28.3)	-	(121.3)
Depreciation charge	<i>9d</i>	362.0	66.6	73.3	-	501.9
Transfers & adjustments	<i>9c</i>	(58.6)	-	-	-	(58.6)
<b>Balance at 31 March 2004</b>		<b>7,203.9</b>	<b>1,742.2</b>	<b>420.5</b>	<b>0.2</b>	<b>9,366.8</b>
<b>Net book value at 31 March 2004</b>		<b>9,844.8</b>	<b>1,230.2</b>	<b>472.1</b>	<b>619.2</b>	<b>12,166.3</b>
Net book value at 31 March 2003 (restated)		9,777.1	1,190.1	468.2	508.9	11,944.3
<b>PPP assets and leased assets</b>						
The net book value above includes the following amounts in respect of leased assets and assets allocated to PPP contractors						
PPP assets		6,310.5	1,152.3	168.6	378.5	8,009.9
Leased assets		199.5	35.6	-	-	235.1
<b>Net book value at 31 March 2004</b>		<b>6,510.0</b>	<b>1,187.9</b>	<b>168.6</b>	<b>378.5</b>	<b>8,245.0</b>

## NOTES TO THE ACCOUNTS

### 9 Tangible fixed assets continued

	Infrastructure and other property	Rolling stock	Plant and equipment	Non- operational assets	Total
<i>Note</i>	£m	£m	£m	£m	£m
<b>b) Corporation</b>					
Gross valuation					
Balance at 1 April 2003 (restated)	3,613.5	-	83.9	104.7	3,802.1
Additions to fixed assets	95.7	-	45.0	8.8	149.5
Disposals	(16.4)	-	-	(8.6)	(25.0)
Transfers & adjustments	(107.6)	-	-	-	(107.6)
Revaluation	(0.5)	-	-	(30.7)	(31.2)
Gross valuation at 31 March 2004	<b>3,584.7</b>	-	<b>128.9</b>	<b>74.2</b>	<b>3,787.8</b>
Depreciation					
Balance at 1 April 2003 (restated)	1,452.6	-	24.5	0.2	1,477.3
Disposals	(11.7)	-	-	-	(11.7)
Depreciation charge	<i>9d</i> 105.1	-	12.4	-	117.5
Transfers & adjustments	(58.4)	-	-	-	(58.4)
Balance at 31 March 2004	<b>1,487.6</b>	-	<b>36.9</b>	<b>0.2</b>	<b>1,524.7</b>
Net book value at 31 March 2004	<b>2,097.1</b>	-	<b>92.0</b>	<b>74.0</b>	<b>2,263.1</b>
Net book value at 31 March 2003 (restated)	2,160.9	-	59.4	104.5	2,324.8

# Notes to the accounts

## 9 Tangible fixed assets continued

### c) Tangible fixed assets - valuation and depreciation

#### Operational assets

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

A condition survey supported the fair value of assets transferred to the Corporation by the Highways Agency, but the records provided in respect of the assets transferred from the London Borough Councils were incomplete. Their fair values were thus initially estimated, but were amended last year following the completion of a condition survey. Further work during the current year has resulted in a reduction in gross book value and accumulated depreciation of £108.8 million and £58.6 million respectively, giving a reduction in net book value of £50.2 million. This adjustment has been charged to the fixed asset restatement reserve.

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 2004 (on an existing use basis) by the Director of TfL's Group Property and Facilities function and by suitably qualified TfL staff. The revaluation is charged to the fixed asset restatement reserve.

#### Non-operational assets

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

#### Depreciation

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

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

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

## Notes to the accounts

### 9 Tangible fixed assets continued

#### d) Depreciation charge

		<b>Group</b> 2003/04	Group 2002/03 restated	<b>Corporation</b> 2003/04	Corporation 2002/03 restated
	<i>Note</i>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Depreciation for the period:					
- on the historical cost of depreciated fixed assets		<b>102.4</b>	395.1	<b>117.5</b>	127.7
- on the revalued element of depreciated fixed assets		<b>93.8</b>	70.1	-	-
- on assets allocated to PPP contractors		<b>298.9</b>	32.0	-	-
- on assets held under finance leases		<b>6.8</b>	6.8	-	-
Total depreciation charge	<i>9a &amp; b</i>	<b>501.9</b>	504.0	<b>117.5</b>	127.7
Less: release of deferred grants	<i>16</i>	<b>(261.9)</b>	(262.4)	<b>(2.4)</b>	(1.9)
Depreciation net of release of deferred grants		<b>240.0</b>	241.6	<b>115.1</b>	125.8

#### e) Historical cost of assets

The historical cost of assets is the original cost to the subsidiary that acquired the assets, together with the fair value of the assets transferred to the Corporation on 3 July 2000 and the cost of subsequent additions. For LUL assets, the historic cost comprises all investment expenditure since 1970 and the book value transferred when the predecessor to London Regional Transport was formed.

	<b>Group</b> 2004	Group 2003 restated	<b>Corporation</b> 2004	Corporation 2003 restated
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Infrastructure and other property	<b>12,175.2</b>	11,842.0	<b>3,587.2</b>	3,615.5
Rolling stock	<b>1,761.6</b>	1,660.5	-	-
Plant and equipment	<b>796.8</b>	745.9	<b>129.0</b>	83.9
Non-operational assets	<b>457.3</b>	325.1	<b>44.0</b>	43.9
Gross cost	<b>15,190.9</b>	14,573.5	<b>3,760.2</b>	3,743.3
Less accumulated depreciation	<b>(4,306.9)</b>	(4,000.4)	<b>(1,524.7)</b>	(1,477.3)
Net written down cost	<b>10,884.0</b>	10,573.1	<b>2,235.5</b>	2,266.0

## Notes to the accounts

### 9 Tangible fixed assets continued

#### f) Group assets

	<b>Group 2004</b>	Group 2003 restated
	<b>Number</b>	Number
Railway carriages	<b>4,077</b>	4,077
Track route length (kilometres)	<b>434</b>	434
Railway stations	<b>287</b>	287
Bridges and viaducts	<b>1,991</b>	1,991
Roads (kilometres)	<b>580</b>	580
Car ferries	<b>3</b>	3
Buses	<b>524</b>	483
Bus stations and stands	<b>98</b>	92
Bus shelters	<b>8,475</b>	8,174
Offices	<b>124</b>	128
Piers	<b>8</b>	8

### 10 Investment in subsidiaries and joint venture

	<b>Group 2004</b>	Group 2003	<b>Corporation 2004</b>	Corporation 2003
	<b>£m</b>	£m	<b>£m</b>	£m
Balance at 1 April 2003	-	-	<b>22.5</b>	22.5
Share of gross assets of joint venture	<b>4.5</b>	2.4	-	-
Share of gross liabilities of joint venture	<b>(4.5)</b>	(2.4)	-	-
Balance at 31 March 2004	-	-	<b>22.5</b>	22.5

In common with other local authorities, the Corporation does not account for the profits or losses of subsidiary companies in its own books.

## Notes to the accounts

### 11 Stocks

	Group 2004	Group 2003 restated	Corporation 2004	Corporation 2003 restated
	£m	£m	£m	£m
Maintenance stores	5.2	4.7	3.7	3.9
Goods purchased for resale	0.5	0.5	-	-
	<b>5.7</b>	<b>5.2</b>	<b>3.7</b>	<b>3.9</b>

### 12 Debtors

	Group 2004	Group 2003 restated	Corporation 2004	Corporation 2003 restated
	£m	£m	£m	£m
Trade debtors	230.5	227.5	32.8	33.4
Amounts due from group companies	-	-	8.4	7.3
Prepayments and accrued income	136.9	181.7	0.7	3.3
	<b>367.4</b>	<b>409.2</b>	<b>41.9</b>	<b>44.0</b>

### 13 Cash at bank and in hand

	Group 2004	Group 2003 restated	Corporation 2004	Corporation 2003 restated
	£m	£m	£m	£m
Cash at bank	9.5	6.6	1.8	-
Cash in hand and in transit	12.7	10.6	0.1	-
	<b>22.2</b>	<b>17.2</b>	<b>1.9</b>	<b>-</b>

Note 23

### 14 Creditors

#### a) amounts falling due within one year

	Group 2004	Group 2003 restated	Corporation 2004	Corporation 2003 restated
	£m	£m	£m	£m
Trade creditors	694.3	590.7	164.8	101.3
Capital works	147.1	174.5	77.5	64.3
Finance lease obligations repayable within one year	173.5	1.0	-	-
Salaries and wages	7.8	25.4	1.3	0.6
Receipts in advance for travelcards and bus passes	81.3	79.6	-	-
Total creditors falling due within one year	<b>1,104.0</b>	<b>871.2</b>	<b>243.6</b>	<b>166.2</b>

Note 15

## Notes to the accounts

### 14 Creditors continued

	Group 2004	Group 2003 restated	Corporation 2004	Corporation 2003 restated
	£m	£m	£m	£m
b) amounts falling due after more than one year				
Retentions on capital contracts	4.1	6.2	4.0	5.5
Accruals and deferred income	18.8	3.5	2.9	0.9
Finance lease obligations	380.7	221.7	-	-
	<b>403.6</b>	<b>231.4</b>	<b>6.9</b>	<b>6.4</b>

### 15 Finance leases

	Group 2004	Group 2003 restated	Corporation 2004	Corporation 2003 restated
	£m	£m	£m	£m
Obligations repayable:				
Within one year	14a 173.5	1.0	-	-
Between one and five years	14b 174.4	10.9	-	-
Thereafter	14b 206.3	210.8	-	-
	23 554.2	222.7	-	-

### 16 Deferred grants

	Group 2004	Group 2003 restated	Corporation 2004	Corporation 2003 restated
	£m	£m	£m	£m
Balance at 1 April 2003	6,309.4	5,992.3	61.5	55.2
Transport grant	189.8	362.9	-	-
Third-party contributions and other grant funding	135.1	152.3	2.2	8.2
Third-party contributions transferred from provisions	-	84.0	-	-
Transfer from subsidiary	-	-	1.0	-
Release of deferred grant:				
- to meet the depreciation charge	9d (261.9)	(262.4)	(2.4)	(1.9)
- on disposal of tangible fixed assets	(34.9)	(19.7)	-	-
Balance at 31 March 2004	<b>6,337.5</b>	<b>6,309.4</b>	<b>62.3</b>	<b>61.5</b>



## Notes to the accounts

### 17 Provisions for liabilities and charges

	Note	At 1 April 2003 restated £m	Unused amounts reversed £m	Payments in year £m	Increase in provision £m	At 31 Mar 2004 £m
<b>Group</b>						
Claims for compensation	19c	22.7	(6.5)	(4.9)	11.6	22.9
Capital investment activities		76.4	(0.3)	(14.0)	3.0	65.1
Unfunded pension liabilities		36.5	-	(2.5)	3.7	37.7
Other		16.5	(2.3)	(7.8)	4.4	10.8
		<u>152.1</u>	<u>(9.1)</u>	<u>(29.2)</u>	<u>22.7</u>	<u>136.5</u>
<b>Corporation</b>						
Capital investment activities		71.6	(0.3)	(14.0)	-	57.3
Unfunded pension liabilities		25.0	-	(1.6)	1.6	25.0
Other		4.3	(0.1)	(1.6)	1.4	4.0
		<u>100.9</u>	<u>(0.4)</u>	<u>(17.2)</u>	<u>3.0</u>	<u>86.3</u>

Claims for compensation includes compulsory purchases, claims in respect of structural damage or diminution in value of properties affected by transport schemes, and other third party claims. Details of unfunded pension liabilities are given in note 5. Other provisions include the long term charges to Train Operating Companies and dilapidations on full repairing leases.

### 18 Capital commitments

	<b>Group 2004 £m</b>	Group 2003 restated £m	<b>Corporation 2004 £m</b>	Corporation 2003 restated £m
In respect of contracts placed for:				
Road projects	<b>81.3</b>	45.3	<b>81.3</b>	45.3
London Underground projects	<b>51.7</b>	60.8	-	-
Docklands Light Railway projects	<b>158.2</b>	157.2	-	-
Other projects	<b>37.7</b>	12.3	<b>6.3</b>	-
	<u><b>328.9</b></u>	<u>275.6</u>	<u><b>87.6</b></u>	<u>45.3</u>

## Notes to the accounts

### 19 Financial commitments

#### a) Operating leases

As at 31 March 2004, the Group and the Corporation were committed to making the following payments during the next year in respect of operating leases:

	<b>Group 2004</b>	Group 2003 restated	<b>Corporation 2004</b>	Corporation 2003 restated
	£m	£m	£m	£m
Property leases which expire :				
Within one year	<b>2.3</b>	10.6	<b>0.3</b>	0.5
Between one and five years	<b>0.5</b>	0.6	-	-
Thereafter	<b>29.8</b>	15.4	<b>1.2</b>	5.1
	<b>32.6</b>	26.6	<b>1.5</b>	5.6
PFI agreements and other leases which expire:				
Within one year	<b>2.6</b>	1.8	-	-
Between one and five years	<b>0.5</b>	0.8	-	-
Thereafter	<b>205.8</b>	149.8	<b>21.8</b>	13.9
	<b>208.9</b>	152.4	<b>21.8</b>	13.9

The Group leases certain properties on short-term and long-term leases. The rents payable on these leases were £33.7 million (2002/03 £26.2 million). The rents payable under these leases are subject to re-negotiation at various intervals specified in the leases. The Group pays all insurance, maintenance and repairs of these properties.

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

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

Total operating lease rentals for the Group included in the Revenue account were £229.7 million (2002/03 £237.3 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

### 19 Financial commitments continued

#### b) PPP

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

#### c) Contingencies

There are a number of uncertainties surrounding projects, including claims in the course of negotiations, which may affect the financial outcome. The financial statements include management's best estimate of the outcome of these uncertainties (see Note 17).

### 20 Related parties

The Transport for London Board members are appointed by the Mayor of London.

The Corporation had no material transactions during the year with related parties other than with group companies. The Corporation is exempt from disclosing transactions with other group companies.

### 21 Principal subsidiaries and joint ventures

#### Subsidiaries

Transport Trading Limited	Holding company
London Underground Limited	Passenger transport by underground train
London Bus Services Limited	Passenger transport by bus
Docklands Light Railway Limited	Passenger transport by rail
Victoria Coach Station Limited	Coach station
London River Services Limited	Pier operator
London Buses Limited	Bus operator and Dial-a-Ride
London Transport Insurance (Guernsey) Limited	Insurance

#### Joint venture

Cross London Rail Links Limited	Passenger transport by rail
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The Corporation owns all the ordinary share capital of its subsidiaries and 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.

On 15 July 2003, London Regional Transport transferred the entire share capital of London Underground to Transport Trading Limited. This transfer has been accounted for as a merger under FRS 6 (see note 26).

## Notes to the accounts

### 22 Group cash flow statement: reconciliation with the accounts

#### a) Capital expenditure

	2004	2003 restated
	£m	£m
Amounts included in the accounts	(863.1)	(681.2)
(Increase)/decrease in debtors	35.2	(42.3)
Increase/(decrease) in creditors due within one year	(8.6)	44.7
Increase/(decrease) in creditors due after one year	(2.2)	(20.2)
PPP assets	475.6	20.1
Decrease in provisions	(11.2)	(26.8)
Group cash flow statement	<b>(374.3)</b>	<b>(705.7)</b>

#### b) Contributions from third parties for capital expenditure

	2004	2003 restated
	£m	£m
Amounts included in the accounts	135.1	152.3
(Increase)/decrease in debtors	22.8	(5.0)
Group cash flow statement	<b>157.9</b>	<b>147.3</b>

### 23 Analysis of change in group net debt

	At 1 April 2003 restated £m	Movement £m	At 31 Mar 2004 £m
Cash at bank and in hand	17.2	5.0	22.2
Bank overdrafts	(34.3)	34.3	-
Total cash	(17.1)	39.3	22.2
Investments	162.6	690.0	852.6
Short-term borrowings	(20.0)	20.0	-
Finance lease obligations	(222.7)	(331.5)	(554.2)
Total of net debt	<b>(97.2)</b>	<b>417.8</b>	<b>320.6</b>

## Notes to the accounts

### 24 Congestion charging

Congestion charging was introduced on 17 February 2003 in central London at a daily rate of £5 per car or goods vehicle. 2003/04 represents a full year's operating revenue and expenditure reflecting the net proceeds from charges.

	<i>Note</i>	Group and Corporation 2003/04 £m	Group and Corporation 2002/03 £m
Revenue	2	<b>186.7</b>	18.5
Expenditure - toll facilities		<b>(120.9)</b>	(58.2)
- traffic management		<b>(2.0)</b>	(4.2)
Deferred charges	25	<b>(17.2)</b>	(14.0)
Depreciation		<b>(1.1)</b>	(0.3)
Capital financing charges		<b>(0.2)</b>	(0.1)
Interest		-	-
Net income/(expenditure)		<b>45.3</b>	(58.3)

### 25 Deferred charges

Contributions towards the following projects undertaken by the London Boroughs or assets constructed on their land, have been treated as deferred charges. These contributions have been charged to revenue expenditure.

	<i>Note</i>	Group and Corporation 2004 £m	Group and Corporation 2003 £m
Balance at 1 April 2003		-	-
Bus priority		<b>21.8</b>	20.5
Safety schemes		<b>22.5</b>	19.5
Cycle network		<b>10.3</b>	5.9
Congestion charging	24	<b>17.2</b>	14.0
Trafalgar Square		<b>6.3</b>	9.7
Bridge strengthening		<b>15.9</b>	13.3
Local traffic and pedestrian improvements		<b>5.9</b>	5.1
Parking control and enforcement		<b>1.1</b>	1.7
Other Borough projects		<b>32.4</b>	1.4
Charged to expenditure	3	<b>(133.4)</b>	(91.1)
Balance at 31 March 2004		-	-

## Notes to the accounts

### 26 Transfers from predecessor bodies

On 15 July 2003, as the final stage in a statutory Transfer Scheme, the entire share capital of London Underground Limited (LUL) was transferred to Transport Trading Limited, a wholly-owned subsidiary of TfL, from London Regional Transport, a statutory corporation controlled by the Secretary of State for Transport. There was no consideration payable for this transfer.

Although TfL now directs the day to day operations of LUL, the latter remains dependent on transport grant receivable from the Department for Transport to fund its operations and capital programmes, to the extent that the required funding cannot be generated from net ticket revenues. In addition, the Public Private Partnership contracts put in place prior to the transfer of LUL significantly restrict TfL's ability to vary the operating and financial policies of LUL.

The Board considers that the extent of influence retained by the Secretary of State for Transport over the operating and financial policies of LUL is such that the group reorganisation provisions of *Financial Reporting Standard 6 – Acquisitions and mergers* apply to the transfer. TfL has therefore applied merger accounting to the transfer.

In accordance with FRS 6 the financial information for the current period has been presented, and that for prior periods restated, as if LUL had been owned by Transport Trading Limited throughout the current and prior accounting periods.

### 27 Sale of Infracos by London Underground Limited

At 31 March 2003 London Underground Limited (LUL) owned 100% of the issued shared capital of £10 of Infraco BCV Limited and Infraco Sub-Surface Limited. On 4 April 2003 LUL disposed of £9 of the share capital of both these companies. The net assets of the two companies at 31 March 2003 and 4 April 2003 were £nil. The companies were sold for net asset value and no profit or loss arose in the books of London Underground Limited on the disposals.

LUL retains a non-voting special share of £1 in Tube Lines Limited (formerly Infraco JNP Ltd), Metronet Rail BCV Limited (formerly Infraco BCV Limited) and Metronet Rail SSL Limited (formerly Infraco Sub-Surface Limited).